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

2019 ANNUAL REPORT

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

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

Stock Code: 3768

臻於至善　源遠流長
CONSUMMATION & SUSTAINABILITY

Contents

CHAPTER ONE

CORPORATE INFORMATION

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

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

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

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

WEBSITE OF THE COMPANY
www.kmdcwt.com

STOCK CODE
03768

LEGAL REPRESENTATIVE OF THE COMPANY
Ms. Guo Yumei

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

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

INDEPENDENT AUDITOR
Mazars CPA Limited
Certified Public Accountants
42/F, Central Plaza
Wan Chai, Hong Kong

HONG KONG LEGAL ADVISER TO THE COMPANY
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Kunming, Yunnan Province
PRC

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

BOARD OF DIRECTORS

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

Non-executive Directors
Ms. Song Hong
Ms. Zhao Zhu

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

BOARD COMMITTEES

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

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

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

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

BOARD OF SUPERVISORS

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

PRINCIPAL BANKS

China Everbright Bank

Kunming Dianchi Road Sub-branch
Project & Design Unit Building
No. 1177 Dianchi Road Kunming, Yunnan Province
PRC

Industrial Bank

Kunming Branch
Jinbi Road Yuntong Times Square 2nd Floor
Kunming
Yunnan Province
PRC

China Construction Bank

Kunming Dianchi National Tourist Resort Sub-branch
No. 32 Building, Xigong Wharf, Qi gongli, Dianchi Road, Kunming, Yunnan Province
PRC

China Minsheng Bank

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

Agricultural Bank of China

Kunming Resort Sub-branch
Qianfu Road No. 1, Kunming
Yunnan Province
PRC

Bank of Communications

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

Bank of China

Kunming Guandu Sub-branch
No. 432 Minhang Road
Kunming
Yunnan Province
PRC

China Merchants Bank

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

China Postal Savings Bank

Kunming Chenggong Sub-branch
No. 888 Chun Rong Street
Chenggong District, Kunming
Yunnan Province
PRC

In 2019, under the impact of unilateralism and protectionism, the world's economic growth continued to decelerate, in particular the chain impact of the Sino-US trade war, oil price war, outbreak of novel coronavirus pneumonia infection ("**Novel Coronavirus Pneumonia Epidemic**") on the global economy. Sources of global turbulence and risk points had increased significantly, adding uncertain risk factors to the global macroeconomic situation. However, under heavy pressure, under the general tone of achieving progress with stability of the PRC and adhering to the new development concept, the Company persisted in the main line of supply-side reform, promoted high-quality development with continuous victories in the "three critical missions" to ameliorate the overall quality of the ecological environment. The belief in ecological civilization is unwavering. Facing the challenges brought by the complex economic environment, formation of a large-scale regulatory pattern for the environmental protection industry, the opening era of refining of the environmental protection industry and opportunities brought by new trends of the whole river basin of integration of full protection and governance, in an environment where challenges and opportunities coexisted, Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**" or "**Dianchi Water**") positioned as a comprehensive service provider of ecological environmental protection management with international operation, took technological innovation as the lead and took steady progress in standardization management as the focus to accurately grasp national strategies and new environmental protection policies, pinpoint the combination of macroeconomic and ecological protection and governance dividends and make use of dual-platform advantages of international and domestic financing to ensure its steady growth and comprehensively promote healthy and sustainable development of the Company's business.

PERFORMANCE REVIEW:

In 2019, the Company's revenue was approximately RMB1,834 million, representing an increase of 28.2% over 2018. The net profit attributable to shareholders of the Company was approximately RMB368 million, representing an increase of 5.7% over 2018.

In the context of increasingly complex internal and external environments, the Company adhered to the strategic guideline of "unitary domination with diversified development" and persisted in "self-invigoration through science and technology, talent and culture". After years of hard work, the Company extended the industrial chain, from wastewater treatment to reclaimed water utilization, sludge resource utilization, running water supply, aquatic biotechnology, pharmacy, and other related sectors, with operations gradually expanding to atmospheric pollution treatment, soil restoration, clean energy development and other areas of "Macro Environmental Protection". There had been a certain accumulation in technology, talent, management and funds.

In terms of main business, the Company's wastewater treatment output and capacity utilization rate maintained a steady increase in 2019. Businesses of reclaimed water and running water grew steadily and operation management has always remained advanced in the industry. The Company has 30 years of operation and management experience and has an experienced management and operation team. For a long time, the quality of effluent water from wastewater treatment plants has been leading in the country. The energy consumption per ton of water was 20% lower than national average level of the industry and the per capita wastewater treatment capacity was approximately three times the industry average. The Company is the largest wastewater treatment enterprise in Yunnan Province in terms of capacity with outstanding competitive advantages in brand reputation in the region.

In terms of technological innovation, the Company's leading role in technological innovation has become increasingly prominent and application of innovation results has accelerated. The Company adhered to "self-invigoration through science and technology, talent and culture". Through technological innovation leadership, the number of participants in innovation maintained an increase of more than 90% in the past two years and the vitality of innovation was strong. Direct economic benefits generated showed explosive growth in 2018 and doubled in 2019 with significant innovation results. Benefited from transformation and application of innovative achievements, the Company continuously and steadily promoted its comprehensive ability to build ecological civilization on the basis of saving production costs and improving efficiency and maintained the industry's advanced operation management and sound service reputation in the market.

In terms of investment and financing, the Company integrated international and domestic financing dual platform advantages, continuously optimized capital structure, innovated financing methods and controlled financing costs to provide sufficient capital guarantee for the Company's business development and maintained the Company's financial stability, good credit and deep development potential for financing. In terms of investment, the Company adhered to the principles of steady progress and prudent investment to closely follow national environmental protection policies, seize development opportunities and accelerate the vertical layout and development of the environmental protection industry chain as well as horizontal and epitaxial business expansion. The Company accelerated integrated and coordinated development of wastewater treatment, reclaimed water and running water supply, sludge disposal, resources utilization and solid waste industry to achieve maximum utilization of resources, further promote the rapid development of the Company's second venture.

At the beginning of the new year of 2020, Novel Coronavirus Pneumonia Epidemic broke out in China and neighboring countries. The Chinese government has taken strong measures in a timely manner and the situation of epidemic prevention and control continues to improve. The Company in the first time studied and deployed epidemic prevention and control, purchased protective supplies to ensure safe and stable production and operation and the health and safety of employees in various areas to endeavor to mitigate the adverse impact of the epidemic on the Company. The Company further strengthened process management to ensure that water quality met discharge standards to guarantee water safety for residents in the territories. The normal operation of each wastewater treatment plant, reclaimed water supply facility and running water supply facility was also assured so that the quality of wastewater treatment, reclaimed water and running water supply during the epidemic reached and exceeded national effluent standards. Meanwhile, during the epidemic, the Company coordinated the application for resumption of construction projects and the construction of the project remained basically normal. The Company will still pay close attention to the development of the epidemic and actively take safeguard measures to seize the policy dividends and development opportunities of the recovery of the epidemic to ensure the safety of employees, the stable operation and advancement of construction projects. After this epidemic, the government and society will attach more importance to the development of environmental protection industries including sewage treatment. People will also pay more attention to hygiene and health which will be conducive to better development of the environmental protection industry in the long term, thereby generating new development opportunities and markets to environmental protection enterprises.

PROSPECTS

In 2020, following the formal signing of the first phase of the Sino-US trade agreement, the Sino-US trade war has gradually eased. Meanwhile, through the country's rapid, active and effective anti-epidemic measures, the prevention and control of Novel Coronavirus Pneumonia Epidemic continues to improve. 2020 is a year for the country to fully build a modestly prosperous society and a final year of the "13th Five-Year Plan". It is a decisive year for victories in the "three critical missions" and a foundation year of smooth sailing of the "14th Five-Year Plan". Following stabilization of international trade conditions, improvement of China 's relations with neighboring countries and promotion of the "Belt and Road" Initiative, the basic trend of China's stable economy and long-term improvement has not changed. For Dianchi Water, it is a significant year for the Company to continue to cultivate its internal skills and steadily grasp the steady development of policy dividends brought by accelerated development of the environmental protection industry in the "refining era" and the integration and innovation of environmental protection and other industries.

Facing the uncertainties of the global economy and the policy dividends of the environmental protection industry, the Company will continue to take advantage of capital advantages, technological and management innovation advantages of regional industry leading enterprise, deepen its endogenous potential, expand market share and lay a solid foundation for development. On the basis of sound risk prevention and internal control, the Company will continue to take policy, innovation and market driven as the engines, promote the innovation-driven development strategy to advance deeper and fully activate the core competitiveness of enterprises and teams. The Company will adjust investment strategies, optimize investment structure, establish a diversified investment system, extend the industrial chain, strengthen post-investment management and achieve rapid investment growth. In terms of financing and financial control, the Company will continue to strengthen management of receivables. While preventing risks, in accordance with business development, the Company will seek financing if necessary and continue to release financing potential of the Company to escort the Company's business development.

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

Guo Yumei
Chairperson

"Board" or "Board of Directors"	the Board of Directors of the Company
"China" or "PRC"	the People's Republic of China
"Company" or "Issuer"	Kunming Dianchi Water Treatment Co., Ltd.* (昆明滇池水務股份有限公司), a joint stock company established in Yunnan Province, the PRC with limited liability on 23 December 2010 in accordance with PRC laws, and, if the context requires, including its predecessors and subsidiaries
"Controlling Shareholder"	has the meaning ascribed thereto in the Listing Rules and refers to Kunming Dianchi Investment Co. Ltd.* (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004
"Dianchi Water (Laos)"	Dianchi Water (Laos) Sole Proprietorship Co., Ltd.* (滇池水務(老撾)獨資有限公司), a subsidiary owned by the Company
"Director(s)"	director(s) of the Company
"Domestic Shares"	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC incorporated entities
"Group", "we", "us" or "our" or "our Group"	the Company and its subsidiaries
"H Share"	overseas listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

* *For identification purpose only*

"Hongyu Thermal Power"	Liuyang Hongyu Thermal Power Co., Ltd.* (瀏陽市宏宇熱電有限公司), a limited liability company incorporated in the PRC and a subsidiary directly owned by the Company
"Kunming Bus"	Kunming Bus Group Co., Ltd.* (昆明公交集團有限責任公司), formerly known as Kunming Bus Corporation, a wholly state-owned limited liability company incorporated in China, and a third party independent from the Company and its connected person(s)
"Kunming Dianchi Investment"	Kunming Dianchi Investment Co., Ltd.* (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004, which is the Controlling Shareholder of the Company
"Kunming DIG"	Kunming Development Investment Group Co., Ltd.* (昆明發展投資集團有限公司), a company with limited liability incorporated in the PRC on 27 January 2010, which is a shareholder of the Company
"Kunming SASAC"	the State-owned Assets Supervision and Administration Commission of the Kunming People's Government (昆明市人民政府國有資產監督管理委員會), a government agency that performs investor's responsibilities, supervises and manages the state-owned assets of the enterprises under the supervision of the Kunming municipal government (excluding financial enterprises), shoulders the responsibility of supervising the preservation and increment of the value of the state-owned assets of the supervised enterprises, and is responsible for drafting local laws and regulations on the management of the state-owned assets
"Latest Practicable Date"	9 April 2020, being the latest practicable date for the inclusion of certain information and data in this annual report prior to its publication
"Listing"	Listing of the H Shares on the Hong Kong Stock Exchange
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time

* *For identification purpose only*

"Non-competition Agreement"	the non-competition agreement entered into between the Controlling Shareholder and the Company dated 25 April 2016
"Prospectus"	the prospectus of the Company dated 24 March 2017 in relation to the initial public offering and the Listing of H Shares on the Stock Exchange
"Reporting Period"	the year of 2019 (1 January 2019 to 31 December 2019)
"RMB" or "Renminbi"	the lawful currency of the PRC
"Shareholder(s)"	holder(s) of the shares of the Company
"Xindu Investment"	Kunming Xindu Investment Co., Ltd.* (昆明新都投資有限公司), a wholly state-owned limited liability company incorporated in China on 27 May 2005, and a third party independent from the Company and its connected person(s)
"Yunnan Reclaimed Water"	Yunnan Reclaimed Water Industry Co., Ltd.* (雲南中水工業有限公司), a limited liability company incorporated in the PRC and a subsidiary directly owned by the Company

* *For identification purposes only*

CHAPTER FOUR

GLOSSARY OF TECHNICAL TERMS

"BOO"	Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government
"BOT"	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
"BT"	Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
"CAGR"	compound annual growth rate, which is the annual growth rate over a specified period of time longer than one year
"COD"	Chemical Oxygen Demand, the corresponding mass concentration of oxygen for the amount of oxidant consumed when strong oxidant is used to deal with a given water sample and is measured with mg/L. It has different ways according to the oxidizing agent, such as potassium permanganate (expressed as COD, also known as CODmn) and potassium dichromate (expressed as CODcr)

"pre-trial operation"	a stage in the project construction process as prescribed by the PRC government in accordance with the Provisions on Municipal Projects Design Budget Estimate Making, Jian Biao [2011] No. 1) issued by the Ministry of Housing and Urban- Rural Development where a facility under construction is tested for its operational functionality and further developed to qualify for regulatory approvals and enter commercial operation
"TOO"	Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns according to the concession agreement entered into by the enterprise and the government
"TOT"	Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
"utilization rate"	the actual volume of water supplied, or wastewater treated divided by the designed volume of water supplied or wastewater treated for a given period
"wastewater treatment"	use of physical, chemical and biological methods to remove pollutants from wastewater or to turn pollutants into innoxious substances before discharging it into a water body or reclaiming it for reuse

CHAPTER FIVE

SUMMARY OF OPERATING AND FINANCIAL DATA

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

SUMMARY OF OPERATING DATA

	As at 31 December				
	2019	2018	2017	2016	2015
Capacity *('000 m^3 per day)*					
Wastewater treatment	**1,830**	1,827	1,807	1,544	1,165
Reclaimed water supply	**52**	52	52	44	44
Running water supply	**116**	116	64	56	46

	For the year ended 31 December				
	2019	2018	2017	2016	2015
Volume *('000 m^3 per period indicated)*					
Wastewater treatment	**622,842**	616,844	550,872	517,911	454,159
Reclaimed water supply	**11,736**	8,825	6,883	5,846	5,790
Running water supply	**14,801**	12,957	8,998	4,749	1,627

	For the year ended 31 December				
	2019	2018	2017	2016	2015
Utilization Rate					
Wastewater treatment	**93.7%**	92.9%	93.9%	92.8%	109.4%
Reclaimed water supply	**61.8%**	46.5%	36.3%	36.3%	36.1%
Running water supply	**35.0%**	30.6%	38.5%	26.7%	23.1%

SUMMARY OF OPERATING RESULTS BY SEGMENT

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Wastewater treatment					
– Revenue	**1,213,810**	1,159,075	1,037,163	765,906	702,666
– Gross profit	**514,145**	480,070	446,773	386,938	343,366
– Gross profit margin	**42.4%**	41.4%	43.1%	50.5%	48.9%
Water supply					
– Revenue	**304,857**	115,254	68,520	62,366	42,244
– Gross profit	**57,622**	8,372	4,233	3,292	4,679
– Gross profit margin	**18.9%**	7.3%	6.2%	5.3%	11.1%
Others					
– Revenue	**314,875**	155,458	118,142	86,653	80,197
– Gross profit	**66,157**	40,592	49,484	35,251	30,095
– Gross profit margin	**21.0%**	26.1%	41.9%	40.7%	37.5%

SUMMARY OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,833,542**	1,429,787	1,223,825	914,925	825,107
Operating profit	**569,692**	469,723	443,317	390,621	312,168
Profit before income tax	**438,150**	415,221	372,425	326,871	267,742
Income tax expense	**(68,072)**	(65,494)	(58,336)	(51,193)	(30,131)
Profit for the year	**370,078**	349,727	314,089	275,678	237,611
Other comprehensive income/(loss)	**871**	3,282	(1,847)	–	–
Total comprehensive income for the year	**370,949**	353,009	312,242	275,678	237,611

SUMMARY OF CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Total assets	**9,576,255**	7,442,063	6,024,811	4,603,491	4,860,939
LIABILITY					
Total liabilities	**5,481,834**	3,541,142	2,318,610	2,104,081	2,641,624
EQUITY					
Total equity	**4,094,421**	3,900,921	3,706,201	2,499,410	2,219,315
Total equity and liabilities	**9,576,255**	7,442,063	6,024,811	4,603,491	4,860,939

A. OPERATING ENVIRONMENT

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

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

1. Overview of Wastewater Treatment Industry

The report of the 19th National Congress of the Communist Party of China put forward that ecological culture construction is a strategy that affects the Chinese people for a millennium to come and that we must uphold and practise the philosophy of "Lucid waters and lush mountains are invaluable assets". We must resolutely fight the battle against pollution. The PRC government introduced the "13th Five-Year" National Urban Wastewater Treatment and Recycling Facilities Construction Plan (《"十三五"全國城鎮污水處理及再生利用設施建設規劃》) which deems wastewater treatment as an important part for the improvement of urban water ecology and environment and required that urban wastewater treatment facilities achieve full coverage by the end of 2020. Water is an indispensable and important resource for production and living. With continuous expansion of resources and water-quality scarcity areas in the country and globally, how to use and effectively protect water resources has become an important factor restricting social and economic development. In this context, a "water market" is being formed, accompanied by a "water business". The entire industrial chain is a closed loop of water circulation, from raw water to running water, to running water supplying customers, and discharges into wastewater treatment plants which enters the natural water body after production and final treatment in which water is always present.

China's per capita water resources are only a quarter of the global average which is a country with a relatively low per capita water resource. In addition, China's water resources are unevenly distributed, showing a situation of "the east is abundant but the west is scarce and the south is more than the north". As of the end of 2018, China's total water resources were 2.796 billion m^3 and per capita water resources were 2,004 m^3 per person which was only a quarter of the world average. In recent years, the number and treatment capacity of China's urban wastewater treatment plants have accelerated. It is estimated that by 2020, China's urban wastewater treatment capacity is expected to reach 218 million m^3 per day and the annual treatment capacity may reach 70 billion m^3.

The market space for environmental governance of river basin in the "13th Five-Year Plan" period is approximately RMB1.8 trillion. The comprehensive treatment of river water environment mainly includes constructions such as wastewater treatment, upgrade and renovation, recycling, construction and renovation of wastewater pipe network, river water environment treatment project and shoreline landscape engineering. We sought multi-level and all-round strategic cooperation by focusing on water environment governance and related environmental protection industries, from municipal wastewater treatment to rural micro-polluted water and industrial wastewater, from upstream water resources protection, running water supply and downstream reclaimed water, sludge disposal to derived business areas such as solid waste industry and thermal power gas supply to build a complete water treatment industrial chain and provide better environmental products and environmental services to cater for the environmental needs of the people and the economic development of the country.

2. Overview of Reclaimed Water Industry

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

3. Overview of Municipal Water Supply Industry

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

B. DEVELOPMENT STRATEGY AND PROSPECTS

After experiencing the lowest global economic growth rate in 10 years in 2019, in 2020, factors such as the spread of the Novel Coronavirus Pneumonia Epidemic globally, oil price wars, prevail of trade protectionism, increase in downward pressure on the global economy and pessimism in the market, the lack of confidence on risks and investment in international financial markets and deeply affected by social turmoil in some countries, etc. will affect future world economic trends.

However, on the premise that the international trade situation has stabilized, as the world's second largest economy, the basic trend of China's stable economy and long-term improvement in 2020 has not changed. As China 's relations with neighboring countries improves, promoting the "Belt and Road" Initiative will become a positive factor for the stable development of domestic and foreign economies. East Asia will remain the region with the fastest global economic growth and the largest contribution to global economic growth. Emerging economies are expected to become the main engine of the world's economic growth in 2020 and the role of "stabilizer" and "promoter" of China's economy is particularly exciting.

At present, the environmental protection industry has entered a period of intensive policy, a period of accelerated industrial integration, a period driven by technological innovation and a period of market differentiation. At the same time, the year of 2020 will be the key year for the Company to be responsible for the "three-year tackling" governance project of Dianchi Lake. The Company will be based in Kunming, Yunnan, to focus on international operation. Market positioning is committed to becoming a comprehensive service provider of ecological environmental protection governance by relying on domestic ecological environmental protection governance market, integrated extension and overseas capital markets. The Company will learn advanced environmental protection technologies in developed countries and optimized iteration will be further applied to industrialization. The Company will also actively participate in global ecological environmental protection governance market competition to strive to become a multinational environmental protection listed company with certain international influence.

Facing the opportunities and challenges brought by new trends, the Company will focus on advancing the research on industry benchmarks within the framework of the five-year strategic plan, promote the Company's comprehensive innovation and acceleration and optimize human resources to strengthen financial control, innovate financing models and improve risk management system. The Company will also establish a diversified investment system, extend industrial chain, build environmental protection investment pattern by implementing a vertical integration strategy, deeply cultivating existing businesses and markets, taking into account horizontal integration strategies and increasing the strength of development of South and Southeast Asian markets. While conducting initial internationalization, a standardized management system has been comprehensively built to improve management efficiency. The Company will combine existing business resources through providing ecological environmental protection and treatment planning and water purification treatment project framework design, investment cooperation and eco-environmental protection and treatment comprehensive services by integrating operation and maintenance. The Company will continue to pay attention to environmental protection industry chain projects and relevant market opportunities of merger and acquisition, strive to create new profit growth points and further enhance the Company's operating performance and overall value.

C. BUSINESS REVIEW

The Group principally adopts the TOO, TOT and BOT project models, with a focus on the TOO model. For the year ended 31 December 2019, our TOO projects contributed 45.9% of our total revenue. Our TOT projects contributed 5.9% of our total revenue and our BOT projects contributed 22.1% of our total revenue. We also adopt the BOO and BT project models for some of our projects.

For the TOO and TOT models, we acquire concessions to operate existing facilities at agreed prices from the relevant local governments. For the BOT model, we finance, construct and operate our own facilities. After the expiration of the relevant concessions, we either obtained new concessions from or transferred the relevant facilities back to the relevant local governments, depending on project types. As of 31 December 2019, we had a total of 46 plants (39 wastewater treatment plants and 7 running water plants) under concession agreements, of which 39 plants were in operation and 7 plants were under construction. Among the 39 plants in operation, 14 were TOO projects, 20 were TOT projects, 3 were BOT projects and 2 were BOO projects.

During the Reporting Period, the utilization rate of our facilities was above the industry average and the volume of wastewater treated was maintained at a high level. For the year ended 31 December 2019, the total volume of wastewater treated was 622.8 million m^3 with an average facility utilization rate of 93.7%.

Wastewater Treatment Projects

As of 31 December 2019, we had a total of 34 wastewater treatment plants in operation (including 14 in Kunming and 20 in other areas of China), with a total wastewater treatment capacity of 1.83 million m^3 per day. We also had 5 wastewater treatment plants under construction in Yunnan Province, the PRC and in Laos, respectively. Additionally, our management services facilities had total designed wastewater treatment capacity of 0.4 million m^3 per day. With our technologically advanced facilities, independently developed patents and strong management skills, we were able to maintain low costs while providing high quality wastewater treatment services. As of 31 December 2019, 97% of our designed wastewater treatment capacity reached the National Class I Category A discharge standard.

During the Reporting Period, the Company continued to develop its business. On 26 September 2019, the Company entered into the Concession Agreement of the First and Second Sewage Treatment Plant Projects TOT+BOT of Zhaotong Central City (《昭通中心城市第一、二污水處理廠項目TOT+BOT特許經營協議》) (the "**Concession Agreement**") with the Zhaoyang District Housing and Urban-Rural Construction Bureau of Zhaotong City of Yunnan Province (雲南省昭通市昭陽區住房和城鄉建設局). Pursuant to the Concession Agreement, the Company intended to invest approximately RMB661 million to conduct asset revitalization, upgrade and renovation for the First Sewage Treatment Plant of Zhaotong and conduct main pipeline construction, sludge disposal project, reclaimed water reuse project and related supporting sewage pipeline network supporting project for the newly constructed Second Sewage Treatment Plant.

Reclaimed Water Business

For our reclaimed water business, as of 31 December 2019, we had 7 of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 52,000 m^3. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming. During the Reporting Period, reclaimed water supply was 11,735,808 m^3, representing an increase of approximately 33% compared with 2018. We expect this growth momentum to continue as we expand our reclaimed water business.

In recent years, with the construction of sponge cities in China, the construction of sponge cities has also commenced in Kunming City, Yunnan Province. Closely following the national policy and the demand of urban development, we actively entered into the rainwater resources utilization market on the basis of stepping up the expansion of the original reclaimed water business, and gradually formed a new development pattern of coordinated development of reclaimed water and rainwater resources utilization. During the Reporting Period, the Company entered into the Concession Service Agreement for Reclaimed Water in Kunming (《昆明市再生水特許經營服務協議》) (the "**Service Agreement**") with Kunming Water Resources Bureau. Pursuant to the Service Agreement, the Company was authorized to carry out concession service for use of reclaimed water within the urban planning areas of Wuhua, Panlong, Xishan, Guandu and Dianchi Tourist Resort as well as the areas permitted for provision of reclaimed water service by the reclaimed water supply facilities newly built, modified and expanded, acquired and managed under entrustment by the Company within the administrative districts of Kunming according to the relevant planning requirements for use of reclaimed water in Kunming which shall be valid for a term of 30 years from 23 September 2019 to 22 September 2049. During the period of the concession service, in order to achieve the target scale of reclaimed water in Kunming, the estimated amount of investment by the Company will be approximately RMB2.0 billion. At the same time, the Company carried out a number of cooperation projects in Xishuang Banna and Dali on reclaimed water and rainwater resources utilization to continuously improve urban water environment.

Running Water Business

For our running water business, as of 31 December 2019, we had 5 running water plants in the PRC, and 2 running water plant under construction. During the Reporting Period, the supply of running water increased by approximately 14% compared with the year of 2018. We expect that following the construction of urbanization and the construction of water supply facilities, the running water business will grow further.

D. MAJOR RISKS

The risks facing the Group are mainly capital-intensive characteristics of the industry, requirements of water quality standards and other force majeure events.

Capital-intensive characteristics of the industry

We are engaged in wastewater treatment, reclaimed water supply and running water supply projects, which typically require significant initial cash outlays and have long payback periods. On average, the investment payback periods for our projects range from five to ten years. If we fail to obtain financing or refinancing for such projects in the amounts required, we may need to finance these projects from our internal resources, which may strain our resources for other corporate purposes. Additionally, we may fail to properly perform our obligations in respect of these projects as a result of a funding shortage, which may lead to a reduction in our returns and may even lead to the loss of our initial capital investments.

We are required to make substantial capital investments during the initial phases of our projects. These investments are primarily dependent on the funds we raise in our global offering and bank loans and corporate bonds to finance. For the year ended 31 December 2019, our total interest expense on borrowings was RMB158.3 million, representing an increase of 18.9% from RMB133.1 million in 2018. As of 31 December 2019, our net gearing ratio, calculated as net debt divided by total capital, was 43.9%.

We expect to continue to utilize bank loans and corporate bonds to finance a portion of our investments in our projects. The interest rate of bank loans is mainly affected by the quoted market rate of RMB loans issued by the National Interbank Funding Center each month. The increase in the quoted interest rate of RMB loans in the loan market may increase our RMB total interest expense on borrowings.

Requirements of water quality standards

Our wastewater treatment, reclaimed water supply and running water supply facilities are built to treat wastewater and raw water to specified quality standards. The quality of our treated wastewater and supplied reclaimed and running water depends on the normal operation of our facilities. We are subject to risks of unknown or undiscovered defects or compatibility problems with our equipment. We cannot assure that we will always be able to timely discover and repair malfunctioning equipment or any other problems with our treatment process or facilities. In these instances, our facilities may not be able to treat wastewater or raw water in compliance with the relevant regulatory and contractual standards, which could result in us being subject to claims from our customers or governmental sanctions, and could lead to the suspension of our operations pending rectification as well as reputational damage. In addition, the incoming wastewater or raw water to be treated by our facilities may contain pollutants exceeding the types and quantity we contemplated during the design and construction of the facilities which will adversely affect our operating costs, deterioration of our facilities and effluent quality.

Force majeure events

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics may restrict business in the areas affected and adversely affect our business and results of operations. For example, at the beginning of the Chinese New Year of 2020, the Novel Coronavirus Pneumonia Epidemic was spreading rapidly in a serious condition. In this epidemic, we have adopted a series of measures for prevention and control of the epidemic to ensure production and operation. While ensuring the safety of the personnel and property of the Company, we ensured that various wastewater treatment plants, reclaimed water supply facilities and running water supply facilities were operating normally and wastewater treatment volume was basically the same as the same period of previous year so as to guarantee that, during the epidemic, the quality of wastewater treatment, reclaimed water and running water supply fulfilled relevant standards. Nevertheless, affected by the epidemic and at the request of the local government to postpone resumption of work, the Company's construction projects were postponed, directly resulting in postponement of commencement of the projects which directly affected the ability to achieve the expected construction periods of the projects. For locations of the projects requiring labor and materials, various measures were adopted such as suspension of work and production as well as restrictions on movement of personnel and materials logistics, etc. which indirectly affected the actual construction progress of the projects. Meanwhile, affected by the epidemic, there was a shortage of labor and material with a relevant increase in expenditures, resulting in an expected increase in costs. Moreover, as the business of the Company is water treatment, revenue is generated from the local governments. In light of an unremitting effort to combat against the epidemic, the fiscal expenditures of the local governments are required to be utilized as a priority to combat against the epidemic which may have an impact on the timing of settlement of receivables from local government. As of the Latest Practicable Date, as prevention and control of China's Novel Coronavirus Pneumonia Epidemic continued to improve, the Company's construction projects resumed working one by one and construction remained basically normal. At the same time, following relatively loose monetary policy and various stimulus policies on the economy gradually in place recently, the Novel Coronavirus Pneumonia Epidemic will not have a significant and adverse impact on the Company's production and operation.

E. FINANCIAL REVIEW

1. Consolidated Results of Operations

Our revenue increased by RMB403.7 million, or 28.2%, to RMB1,833.5 million for the year ended 31 December 2019, from RMB1,429.8 million for the year ended 31 December 2018. For the year ended 31 December 2018, gross profits were RMB529.0 million, which increased to RMB637.9 million for the year ended 31 December 2019 and increased by RMB108.9 million or 20.6%. During the Reporting Period, revenue from wastewater treatment services, reclaimed water supply and running water supply and management services accounted for 66%, 17% and 17% of the total revenue, respectively.

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

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue	**1,833,542**	1,429,787
Cost of sales	**(1,195,618)**	(900,753)
Gross profit	**637,924**	529,034
Selling expenses	**(13,140)**	(14,175)
Administrative expenses	**(126,082)**	(135,991)
Research and development expenses	**(5,719)**	(4,160)
Net impairment losses on financial and contract assets	**(8,829)**	(17,562)
Other income	**86,512**	110,525
Other (losses)/gains – net	**(974)**	2,052
Operating profit	**569,692**	469,723
Finance income	**61,408**	56,924
Finance costs	**(192,709)**	(111,243)
Finance costs – net	**(131,301)**	(54,319)
Share of results of associates	**(241)**	(183)
Profit before income tax	**438,150**	415,221
Income tax expense	**(68,072)**	(65,494)
Net profit	**370,078**	349,727
Other comprehensive income	**871**	3,282
Total comprehensive income	**370,949**	353,009

a. *Revenue*

Our revenue increased by RMB403.7 million, or 28.2%, to RMB1,833.5 million for the year ended 31 December 2019 from RMB1,429.8 million for the year ended 31 December 2018, primarily due to:

- Our wastewater treatment segment's revenue increased from RMB1,159.1 million for the year ended 31 December 2018 to RMB1,213.8 million for the year ended 31 December 2019, increased by RMB54.7 million or 4.7%. Due to an increase in the amount of wastewater treatment, revenue from wastewater treatment operation increased by RMB16.9 million. As environmental protection projects of Haitou Village of Qingshuihai Nature Reserve in Xundian County and the supporting facilities and pipeline network construction project of Yiliang Second Sewage Plant, etc entered repurchase period, financial income increased by approximately RMB38.7 million.

- Our water supply segment's revenue increased from RMB115.3 million for the year ended 31 December 2018 to RMB304.9 million for the year ended 31 December 2019, increased by RMB189.6 million or 164.4%, primarily due to continuous construction of BT/BOT projects of Kunming Dianchi National Tourism Resort (Haigeng Pian area) water environment comprehensive improvement demonstration project, Shuangjiang second running water plant and ecological water replenishment and sewage interception project for Wuhua District, construction revenue increased to RMB228.4 million, increased by RMB141.1 million or 161.6%. As the Yiliang Shuanghe Reservoir concession project, Xundian County Park and part of the road's reclaimed water utilization and greening improvement projects entered the repurchase period and the normal progress of the original project, financial revenue increased by approximately RMB42.0 million.

- Revenue from other segments increased from RMB155.5 million for the year ended 31 December 2018 to RMB314.9 million for the year ended 31 December 2019, increased by RMB159.4 million or 102.5%, primarily due to the consolidation of Liuyang Hongyu Thermal Power Co., Ltd. ("**Hongyu Thermal Power**") into the Group from October 2018, which increased revenue by RMB73.3 million in 2019. Due to continuous construction and construction of BT projects such as the Shipensi (including Lao Qingshan) flood storage and flood prevention construction project, the Mianshan (Sanhuan) flood interception project in Wuhua District, Kunming City, and the construction project of the municipal environmental protection infrastructure in Jiuxiang Tourist Town, Yiliang County, construction revenue increased to RMB35.3 million, representing an increase of RMB21.4 million or 154.3%. Management services revenue increased by approximately RMB50.1 million due to the increase in the business volume of management services such as the out-of-limit dephosphorization entrusted operation business and the subsidiary Yunnan Reclaimed Water Industry Co., Ltd. ("**Yunnan Reclaimed Water**")'s entrusted construction operation.

b. *Cost of sales*

Our cost of sales increased by RMB294.8 million, or 32.7%, to RMB1,195.6 million for the year ended 31 December 2019, from RMB900.8 million for the year ended 31 December 2018. Details are as follows:

- Our cost of sales for the wastewater treatment segment increased by RMB20.7 million, or 3.0%, to RMB699.70 million for the year ended 31 December 2019, from RMB679.0 million for the year ended 31 December 2018, primarily due to the increase in the amount of sewage treatment, raw material and labor costs during the Reporting Period.

- Our cost of sales for water supply segment increased by RMB140.3 million, or 131.2%, to RMB247.2 million for the year ended 31 December 2019, from RMB106.9 million for the year ended 31 December 2018, primarily due to the increase in construction cost of the Company's running water business, according to the percentage of completion method, the Longquan Road Phuket Road Greening Sprinkling Irrigation System Project in Wuhua District, Kunming Dianchi National Tourism Resort (Haigeng Pianqu) Water Environment Comprehensive Improvement Demonstration Project, Yiliang County No. 3 Running Water Plants and supporting pipe network construction projects increased construction costs by approximately RMB113.3 million. The construction cost of Shuangjiang County No. 2 Running Water Plant increased by approximately RMB4.5 million based on the percentage of completion method.

- Our cost of sales for other segments increased by RMB133.8 million, or 116.4%, to RMB248.7 million for the year ended 31 December 2019, from RMB114.9 million for the year ended 31 December 2018, primarily due to the consolidation of the subsidiary Hongyu Thermal Power into the Group from October 2018, which increased cost by RMB66.6 million during the Reporting Period. Due to continuous construction and construction of BT projects such as the Shipensi (including Lao Qingshan) flood storage and flood prevention construction project, the Mianshan (Sanhuan) flood interception project in Wuhua District, Kunming City, and the construction project of the municipal environmental protection infrastructure in Jiuxiang Tourist Town, Yiliang County, construction revenue increased to RMB33.6 million. Costs such as labor costs and raw materials, etc. increased by RMB21.9 million due to the increase in the business volume of management services such as the out-of-limit dephosphorization entrusted operation business and the subsidiary Yunnan Reclaimed Water's entrusted construction operation.

c. Gross margin

Our gross profit increased by RMB108.9 million, or 20.6%, to RMB637.9 million for the year ended 31 December 2019, from RMB529.0 million for the year ended 31 December 2018, primarily due to an increase of RMB34.1 million in gross profit from our wastewater treatment segment, an increase of RMB49.2 million in gross profit from our water supply segment, and an increase of RMB25.6 million in gross profit from our other segments.

- Our gross profit margin decreased by 2.2% to 34.8% for the year ended 31 December 2019 from 37.0% for the year ended 31 December 2018, primarily due to a decrease in gross profit margin of other segment partially offset by an increase in gross profit margin of sewage treatment and water supply segment.

- Our gross profit for the wastewater treatment segment increased by RMB34.1 million, or 7.1%, to RMB514.1 million for the year ended 31 December 2019, from RMB480.0 million for the year ended 31 December 2018. Our segment gross margin increased by 1.0% to 42.4% for the year ended 31 December 2019 from 41.4% for the year ended 31 December 2018, primarily due to Haitou Village of Qingshuihai Nature Reserve in Xundian County and the supporting facilities and pipeline network construction project of Yiliang Second Sewage Plant entered repurchase period and increase in finance income.

- Our gross profit for water supply segment increased by RMB49.2 million, or 585.7%, to RMB57.6 million for the year ended 31 December 2019, from RMB8.4 million for the year ended 31 December 2018. Our segment gross margin increased by 11.6% to 18.9% for the year ended 31 December 2019 from 7.3% for the year ended 31 December 2018, primarily because Yiliang Shuanghe Reservoir concession project, Xundian County Park and part of the road's reclaimed water utilization and greening improvement projects entered the repurchase period and settlement price of Shidian Second Running Water Plant and the subsidiary Yunnan Reclaimed Water increased.

- Our gross profit for other segments increased by RMB25.6 million, or 63.1%, to RMB66.2 million for the year ended 31 December 2019, from RMB40.6 million for the year ended 31 December 2018. Our segment gross margin decreased by 5.1% to 21.0% for the year ended 31 December 2019 from 26.1% for the year ended 31 December 2018, primarily due to the consolidation of Hongyu Thermal Power into the Group from October 2018 with the lower gross profit margin of its thermoelectric supply services. Due to the increase in construction investment of BT projects such as the Shipensi (including Lao Qingshan) flood storage and flood prevention construction project, the Mianshan (Sanhuan) flood interception project in Wuhua District, Kunming City, and the construction project of the municipal environmental protection infrastructure in Jiuxiang Tourist Town, Yiliang County with lower construction gross profit margin during construction phase, resulting in a decrease in overall gross profit margin.

d. *Selling expenses*

Our selling expenses decreased by RMB1.1 million, or 7.7%, to RMB13.1 million for the year ended 31 December 2019, from RMB14.2 million for the year ended 31 December 2018.

e. *Administrative expenses*

Our administrative expenses decreased by RMB9.9 million, or 7.3%, to RMB126.1 million for the year ended 31 December 2019, from RMB136.0 million for the year ended 31 December 2018, primarily due to a decrease in greening fees by RMB3.0 million and a decrease in professional service fee by RMB4.2 million.

f. *Research and development expenses*

Our research and development expenses increased by RMB1.5 million, or 35.7%, to RMB5.7 million for the year ended 31 December 2019, from RMB4.2 million for the year ended 31 December 2018.

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

Impairment losses on financial assets and contract assets decreased from RMB17.6 million for the year ended 31 December 2018 to RMB8.8 million for the year ended 31 December 2019, representing a decrease of RMB8.8 million, primarily due to the increase in provision for losses that need to be recognized for trade receivables and amounts due from customers for construction contracts and an impairment loss of RMB8.8 million was provided for financial assets and contract assets during the Reporting Period.

h. Other income

Our other income decreased by RMB24.0 million, or 21.7%, to RMB86.5 million for the year ended 31 December 2019, from RMB110.5 million for the year ended 31 December 2018, primarily due to the entering into of a RMB foreign exchange currency swap transaction confirmation agreement with Hang Seng Bank in December 2019 used to hedge the foreign exchange fluctuation risk arising from the repayment of foreign currency borrowings and foreign currency interest which increased fair value gains by RMB46.3 million. Tax rebates related to operating activities in government subsidies decreased by RMB65.1 million. Government grants related to fixed assets increased by RMB9.3 million and government grants related to income decreased by RMB4.4 million.

i. Other losses/(gains) – net

Our other losses/(gains) decreased by RMB3.1 million, or 147.6%, to other losses RMB1.0 million for the year ended 31 December 2019, from other gains RMB2.1 million for the year ended 31 December 2018, primarily due to the acquisition of Hongyu Thermal Power in 2018 generated a revenue of RMB3.1 million.

j. Operating profit

As a result of the foregoing factors, our operating profit increased by RMB100.0 million, or 21.3%, to RMB569.7 million for the year ended 31 December 2019, from RMB469.7 million for the year ended 31 December 2018. Our operating margins for the years ended 31 December 2019 and 2018 were 31.1% and 32.9%, respectively.

k. Finance income

Our finance income increased by RMB4.5 million, or 7.9%, to RMB61.4 million for the year ended 31 December 2019, from RMB56.9 million for the year ended 31 December 2018, primarily due to an increase in interest income from borrowings from related parties.

l. Finance costs

Our finance costs increased by RMB81.5 million, or 73.3%, to RMB192.7 million for the year ended 31 December 2019, from RMB111.2 million for the year ended 31 December 2018, primarily due to an increase in bank borrowings in 2019 which increased interest expenses by RMB25.3 million while exchange income decreased RMB55.6 million.

m. *Profit before income tax*

As a result of the foregoing factors, our profit before income tax increased by RMB23.0 million, or 5.5%, to RMB438.2 million for the year ended 31 December 2019 from RMB415.2 million for the year ended 31 December 2018.

n. *Income tax*

We incurred income tax expenses of RMB65.5 million for the year ended 31 December 2018 and RMB68.1 million for the year ended 31 December 2019 at effective tax rates of 15.8% and 15.5%, respectively. Our effective tax rates remained substantially the same as last year, primarily because our tax beneficial treatments for some of our wastewater treatment facilities expired and certain subsidiaries were not qualified for the preferential income tax rate of 15% under the "West Region Development Policy", therefore the effective tax rate was slightly higher than 15%.

o. *Total comprehensive income*

As a result of the foregoing factors, our total comprehensive income increased by RMB17.9 million, or 5.1%, to RMB370.9 million for the year ended 31 December 2019 from RMB353.0 million for the year ended 31 December 2018.

2. Liquidity and Capital Resources

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

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

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash used in operating activities	**(172,812)**	(712,895)
Net cash used in investing activities	**(1,131,514)**	(450,560)
Net cash generated from financing activities	**1,500,966**	938,058
Net increase/(decrease) in cash and cash equivalents	**196,640**	(225,397)
Effect of foreign exchange rates	**13,845**	13,941
Cash and cash equivalents at beginning of the year	**1,079,714**	1,291,170
Cash and cash equivalents at end of the year	**1,290,199**	1,079,714

a. *Net cash used in operating activities*

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

For the year ended 31 December 2019, our net cash used in operating activities was RMB172.8 million and was RMB712.9 million for the year ended 31 December 2018, representing a decrease of RMB540.1 million, primarily comprising cash generated from operations amounting to RMB52.4 million, income tax paid amounting to RMB69.1 million and interest paid amounting to RMB156.1 million. The decrease in changes in 2019 was mainly due to the increase in operating receipts in the current period compared to the previous period.

b. *Net cash used in investing activities*

Our net cash used in investing activities has principally been used to purchase property, plant and equipment, loans to related parties and other investments.

Our net cash used in investing activities increased to RMB1,131.5 million for the year ended 31 December 2019 from RMB450.6 million for the year ended 31 December 2018, primarily comprising the purchase of property, plant and equipment amounting to RMB219.7 million, loans to related parties amounting to RMB1,000.0 million and financial investment amounting to RMB200.0 million. The net cash used in investing activities in 2019 increased by RMB680.9 million compared with that of 2018, primarily because RMB1,000.0 million of loans to related parties during the year has not yet expired.

c. *Net cash generated from financing activities*

Our net cash generated from financing activities primarily represents borrowings.

Our net cash generated from financing activities was RMB938.1 million (net inflow) for the year ended 31 December 2018 and was changed to RMB1,501.0 million (net inflow) for the year ended 31 December 2019, primarily comprising the proceeds from borrowings of RMB3,409.3 million, partially offset by repayments of borrowings amounting to RMB1,676.7 million. The difference between net cash generated from financing activities for 2019 and 2018 was primarily attributable to an increase in borrowings in 2019 compared with 2018.

3. Working Capital

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current assets		
Receivables under service concession arrangements	**7,548**	15,408
Inventories	**22,636**	12,921
Amounts due from customers for construction contracts	**27,578**	18,911
Financial assets at fair value through profit or loss	**246,327**	170,000
Trade and other receivables	**2,225,415**	942,551
Cash and cash equivalents	**1,290,199**	1,079,714
Restricted cash	**67,966**	17,916
Total current assets	**3,887,669**	2,257,421
Current liabilities		
Trade and other payables	**486,848**	379,708
Income tax payables	**75,273**	84,589
Borrowings	**701,320**	1,014,505
Lease liabilities	**3,786**	–
Contract liabilities	**7,238**	11,737
Total current liabilities	**1,274,465**	1,490,539
Net current assets	**2,613,204**	766,882

We recorded net current assets of RMB2,613.2 million as of 31 December 2019 and net current assets of RMB766.9 million as of 31 December 2018. The increase in our net current assets was mainly attributable to an increase in receivables from local governments and related parties.

a. *Receivables under service concession arrangements*

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

Our receivables under service concession arrangements increased by RMB253.7 million or 22.3% from RMB1,135.8 million on 31 December 2018 to RMB1,389.5 million on 31 December 2019, primarily because our receivables under service concession arrangements that were classified as non-current assets increased by RMB261.6 million or 23.3% year-on-year from 2018 to 2019. The increase was mainly due to the receivables we obtained under the Luquan Water Concession Agreement in October 2019 of RMB35.0 million. For Kunming Dianchi National Tourism Resort (Haigeng Pianqu) Water Environment Comprehensive Improvement Demonstration Project-River Water Replenishment Project, according to the completion progress, receivables of RMB48.1 million were recognised. For Shuangjiang Dianchi Water Treatment Co., Ltd. concession arrangements' project, according to the completion progress, receivables of RMB48.1 million were recognised. For Dianchi Water Treatment (LAOS) concession arrangements' project, according to the completion progress, receivables of BOT construction revenue RMB6.6 million were recognised. For Yiliang County Rural Sewage Treatment Station and Ancillary Facilities Construction Project (Phase II), according to the completion progress, receivables of RMB40.0 million were recognised. The newly signed Yiliang County's second wastewater treatment plant and supporting pipe network construction project, Yiliang County's third running water plant and supporting pipe network construction project, receivables of RMB35.9 million were recognised according to the completion progress.

b. *Inventories*

Our total inventory balance increased by RMB9.7 million, or 75.2%, to RMB22.6 million as of 31 December 2019 from RMB12.9 million as of 31 December 2018. The balance of raw materials on 31 December 2019 was RMB4.9 million, which was basically the same as the balance on 31 December 2018. Coal increased by RMB7.1 million or 165.1%, from RMB4.3 million on 31 December 2018 to RMB11.4 million on 31 December 2019. Parts and components increased by RMB2.6 million or 70.3% from RMB3.7 million on 31 December 2018 to RMB6.3 million on 31 December 2019.

Our inventory turnover days increased from 4.1 days on 31 December 2018 to 5.4 days on 31 December 2019 (calculated as the average inventories for the relevant year divided by the cost of sales recognised for the relevant year, multiplied by 365 days. The arithmetic mean of the opening and closing balances of inventories is used for the years ended 31 December 2018 and 2019). The inventory turnover days for 2019 increased, mainly due to a 74.0% increase in inventory balance and a 32.7% increase in cost of sales.

c. *Amounts due from customers for construction contracts*

The portion of amounts due from customers for construction contracts due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets. Our total amounts due from customers for construction contracts increased by RMB233.2 million, or 75.1%, to RMB543.8 million as of 31 December 2019 from RMB310.6 million as of 31 December 2018, primarily due to new construction investment for BT projects such as Xundian County Park and part of the road reused water and greening improvement project, flood-blocking project of Shipensi (including Lao Qingshan) flood interception project in Mianshan (Sanhuan) flood blocking project of Wuhua District, Kunming, Jiuxiang tourist town in Yiliang County municipal environmental protection infrastructure construction projects and the original project proceed normally.

d. *Trade and other receivables*

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables:		
– Third parties	**80,165**	50,824
– Related parties	**123,168**	117,780
– Local government	**780,419**	434,418
– Loss allowance	**(16,294)**	(9,654)
Trade receivables – net	**967,458**	593,368
Other receivables:		
– Third parties	**57,597**	28,481
– Related parties	**1,026,202**	24,780
– Local government	**47,057**	125,367
– Loss allowance	**(3,472)**	(640)
Other receivables – net	**1,127,384**	177,988
Prepayments:		
– Related parties	**–**	60
– Local government	**3,587**	3,304
– Others	**126,990**	167,831
– Impairment loss	**(4)**	–
Prepayments – net	**130,573**	171,195
Trade and other receivables – net	**2,225,415**	942,551

Our net trade and other receivables increased by RMB1,282.8 million, or 136.1%, to RMB2,225.4 million as of 31 December 2019 from RMB942.6 million as of 31 December 2018, reflecting (i) an increase in trade receivables due from local government by RMB346.0 million, or 79.7%, to RMB780.4 million as of 31 December 2019 from RMB434.4 million as of 31 December 2018; (ii) an increase in amounts due from related parties by RMB5.4 million, or 4.6%, to RMB123.2 million as of 31 December 2019 from RMB117.8 million as of 31 December 2018, primarily due to service fees for entrusted operation which had been recognised but not yet paid; (iii) amounts due from related parties increased to RMB1,026.2 million as of 31 December 2019 from RMB24.8 million as of 31 December 2018, mainly due to the increase of RMB1,000.0 million in loans this year; (iv) the total prepayment amounts in 2019 decreased by approximately RMB40.6 million, primarily including the receipt and settlement of invoices for the Yiliang Industrial Park and Dianchi Holiday Resort projects during the current period, and the receipt and settlement of the over-limit phosphorus removal and upgrading project.

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
– Within one year	**935,027**	576,932
– Over one year and within two years	**37,300**	23,067
– Over two years	**11,425**	3,023
	983,752	603,022

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
– Within one year	**935,027**	576,932
– Over one year and within two years	**37,300**	23,067
– Over two years	**11,425**	3,023
	983,752	603,022

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

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

	As at 31 December	
	2019	2018
	Days	*Days*
Trade receivable turnover days(1)	**155.4**	54.2
Trade and other receivable turnover days(2)	**315.3**	100.8

Notes:

(1) Calculated as the average net trade receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade receivables is used for the years ended 31 December 2018 and 2019.

(2) Calculated as the average net trade and other receivables for the relevant period divided by the revenue for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other receivables is used for the years ended 31 December 2018 and 2019.

e. *Trade and other payables/Contract liabilities*

Trade and other payables

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

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables	**150,971**	31,006
Other payables	**146,012**	106,923
Consideration payable for acquisition of subsidiaries	**21,209**	23,619
Staff salaries and welfare payables	**42,285**	46,091
Payables on acquisition of property, plant and equipment	**46,207**	69,755
Payables on acquisition of land use rights from related parties	**58,194**	58,194
Interest payables	**4,586**	2,982
Accrued taxes other than income tax	**17,384**	41,138
	486,848	379,708

Contract liabilities

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contract liabilities		
– related parties	**–**	1,362
– local government	**–**	8,516
– third parties	**7,238**	1,859
	7,238	11,737

Our trade and other payables increased by RMB107.1 million, or 28.2%, to RMB486.8 million as of 31 December 2019 from RMB379.7 million as of 31 December 2018. The increase was mainly because the project payables increased in 2019.

On each balance sheet date, the aging analysis of the total trade payables based on sales invoices is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
– Within one year	**137,309**	16,682
– Over one year and within two years	**13,662**	14,324
	150,971	31,006

As at 31 December 2018 and 2019, all trade and other payables of the Group were non-interest bearing, and their fair values approximated their carrying amounts due to their short maturities.

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

	As at 31 December	
	2019	2018
	Days	*Days*
Trade and other payables turnover days(1)	**132.2**	151.9
Trade payables turnover days(2)	**106.8**	102.3

Notes:

(1) Calculated as the average trade and other payables for the relevant period divided by cost of sales for the relevant period and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 31 December 2018 and 2019.

(2) Calculated as the balance of trade payables at the end of the relevant period divided by total purchase of materials for such period and multiplied by 365 days for the years ended 31 December 2018 and 2019.

Our trade payables turnover days increased by 4.5 days in 2019 as compared with 2018, mainly due to an increase in ending balance of trade payables and the total amount of materials purchased.

The directors of the Company confirm that up to 31 December 2019, there was no material default in payment of trade payables.

4. Indebtedness

a. Borrowings

All of our borrowings are denominated in RMB, HKD or USD and some are secured by our property, plant and equipment and some are secured by corporate guarantee issued by the Company. The following table shows our borrowings as of the dates indicated:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non-current portion		
Unsecured long-term borrowings	**340,000**	588,000
Secured long-term borrowings	**2,828,418**	480,635
Corporate bonds	**696,629**	696,064
Total non-current borrowings	**3,865,047**	1,764,699
Current portion		
Unsecured short-term borrowings	**615,000**	917,000
Secured short-term borrowings	**86,320**	97,505
Total current borrowings	**701,320**	1,014,505
Total borrowings	**4,566,367**	2,779,204

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

	As at 31 December	
	2019	2018
Weighted average effective interest rates	**4.83%**	5.25%

As of 31 December 2018 and 2019, our total borrowings amounted to RMB2,779.2 million and RMB4,566.4 million, respectively, mainly due to the Company's relatively significant capital requirements for project construction. The Company increased foreign currency borrowings approximately RMB2,453.5 million with international syndicates and a major bank this year (corporate guarantee provided by the Company to Dianchi International Holdings Limited (滇池國際控股有限公司)). Among our indebtedness, borrowings amounting to RMB578.1 million and RMB461.2 million as of 31 December 2018 and 2019, respectively, were secured by our property, plant and equipment. In addition to the above borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on 25 December 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%. At the end of the fifth year, the Company may adjust the interest rates for the remaining two years. In the event that investors disagree with the adjustment made to the interest rates, they may choose to demand an early redemption of outstanding corporate bonds.

As of 31 December 2019, there was no delay or default in the repayment of our borrowings, and no bank had withdrawn any of the banking facilities previously extended to us or had demanded any early repayment.

As of 31 December 2019, we were not in breach of any covenants in our loan agreements. Given our ability to access new bank borrowings and our strong credit profile, we believe we will not be subject to any risk of potential withdrawal of banking facilities or early repayment of outstanding loans. As of 31 December 2019, we had not received any requests for early repayment of the principal or interests under any of our loan agreements, and we did not have any plan for material external debt financing.

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
On demand or within 1 year	**701,320**	1,014,505
Between 1 and 2 years	**241,670**	584,810
Between 2 and 5 years	**3,623,377**	1,138,656
Later than 5 years	**–**	41,233
	4,566,367	2,779,204

As of 31 December 2018 and 2019, our net gearing ratios were 27.9% and 43.9%, respectively. Our net gearing ratios as at 31 December 2019 increased as compared with 31 December 2018 primarily due to an increase in ending balance of borrowings by RMB1,787.2 million in 2019.

Except as disclosed above, as of the 31 December 2019, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

b. *Commitments*

(a) *Capital commitments*

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Property, plant and equipment	**28,609**	37,074

(b) *Operating lease commitments – the Group as lessee*

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

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

Effective from 1 January 2019, the Group has recognised right-of-use assets for these leases.

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Concession projects and construction projects	**4,018,446**	148,788

c. *Capital expenditure*

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenses were RMB1,011.8 million and RMB264.7 million for the years ended 31 December 2018 and 2019, respectively. We expect to fund our contractual commitments and capital expenditures principally through cash generated from our operating activities, proceeds from borrowings and the net proceeds we receive from the global offering of H shares.

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Wastewater treatment	**205,189**	660,985
Water supply	**34,040**	34,201
Others	**25,479**	316,586
Total	**264,708**	1,011,772

Based on our current business plan, we expect to incur capital expenditure amounting to RMB326.5 million for the year ending 31 December 2020. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results.

5. Off-balance sheet arrangements

Save as disclosed in this report, as of 31 December 2019, we did not have any outstanding off-balance sheet guarantees, commodity forward contracts or other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts. The Group's policy does not participate in and invest in any financial products that are speculative and/or have significant risks. In the course of our normal business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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

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

As of 31 December 2019, approximately RMB789.0 million, accounting for 73.6% of RMB1,072.3 million of net proceeds from the Initial Public Offering, has been used in accordance with the use as stated in the paragraph headed "Future Plans and Use of Proceeds" in the Prospectus. The use of proceeds is as follows:

Business strategies as stated in the Prospectus	**Percentage of total net proceeds from the Initial Public Offering (as set out in the Prospectus)**	**Planned use of net proceeds from the Initial Public Offering (as set out in the Prospectus)** *RMB million*	**Actual use of net proceeds from the Initial Public Offering for the year ended 31 December 2019** *RMB million*	**Actual use of net proceeds from the Initial Public Offering from the Listing Date to the period ended 31 December 2019** *RMB million*	**Unused net proceeds from the Initial Public Offering** *RMB million*
Investments in BOT/BOO wastewater treatment and running water supply projects	35%	375.3	108.0	235.0	140.3
To acquire TOT/TOO wastewater treatment plants and running water supply projects	35%	375.3	3.6	289.7	85.6
Repayment of bank borrowings	20%	214.5	–	212.9	1.6
To supplement working capital and for general corporate purposes	10%	107.2	51.4	51.4	55.8
Total	100%	1,072.3	163.0	789.0	283.3

As of 31 December 2019, the unused net proceeds from the Initial Public Offering for each of the business strategies as stated in the above table have been placed as deposits in licensed banks of the PRC which will be used in accordance with the progress of the Company's investment projects and are expected to be used up within 1 year (i.e. before 2021). The business objectives, future plans and planned use of the proceeds as stated in the Prospectus were based on the best estimation and assumptions of future market conditions and industry developments made by the Company at the time of preparing the Prospectus, while the proceeds from the Initial Public Offering were used in accordance with the business of the Group and the actual development of the relevant industry.

The net proceeds from the Initial Public Offering were used and expected to be used according to the intentions previously disclosed in the Prospectus. As of 31 December 2019, there was no material change or material delay in the use of proceeds of the Company.

7. Exchange rate risk and management

The Group still retains some foreign currency funds, mainly Hong Kong dollars and US dollars. The Group borrowed foreign currency loans with international syndicates from March to June 2019, with principals of USD170,000,000 and HKD1,015,000,000 respectively. Exchange rate fluctuations have a certain impact on the retention of foreign currency funds and the return of principal and interest on borrowings. In December 2019, the Group entered into a confirmation of RMB foreign exchange currency swap transactions with Hang Seng Bank and the agreement fixed the exchange rate at the time of loan repayment and interest payment which was used to hedge the risk of foreign exchange fluctuations when repaying foreign currency borrowings and foreign currency interest. Details are as follows:

Hang Seng Bank pays floating interest on swap agreements and the fixed interest payer is the Group. Before the Group pays the foreign currency principal and interest of each international syndicate, Hang Seng Bank will pay the equivalent currency into the Company's account. The Company can use the foreign currency to pay the principal and interest. At the same time, when the Company pays RMB to Hang Seng Bank, the interest rate is fixed. The nominal principal for calculating the interest is calculated by multiplying the principal in the syndicated loan agreement by the fixed exchange rate locked by the agreement, actually using a fixed cost in exchange for the foreign currency to be paid and turning unknown risks of exchange rate changes into fixed interest expense costs. For the year of 2019, change in fair value gains of the swap agreement was RMB46,326,906 and exchange loss from syndicated foreign currency borrowings was RMB54,615,350.

8. Employees and remuneration policies

Relationship with Employees

As of 31 December 2019, we had 1,254 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of 31 December 2019:

Function	Number
Management and Administration	149
Finance	33
Research and Development	85
Quality Monitoring	195
Marketing	17
Operations	744
Construction and Maintenance	31
Total	1,254

We recruit our employees on the open market. Compensation for our employees includes basic wages, performance-based wages, bonuses and other staff benefits. For the years ended 31 December 2018 and 2019, our employee benefits amounted to approximately RMB151.3 million and RMB161.1 million, respectively.

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

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

9. Contingent liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

10. Material charges on assets

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

11. Major investment and acquisition

On 27 December 2019, the Group (as the asset entrustor) entered into the Asset Management Agreement with Bosera Capital Management Co., Ltd. (as the asset manager) and Kunming Branch of China Merchants Bank Company Limited (as the asset entrustee) on 27 December 2019 in relation to the investment and management of the Entrusted Assets, pursuant to which the Group agreed to entrust an amount of up to RMB400 million as the Entrusted Assets for the investment in a Single Asset Management Plan issued by Kunming Industrial Development and Investment Co., Ltd. ("**IDI**"). IDI is a wholly state-owned company, which is principally engaged in the integration of state-owned enterprise shareholding and management and operation of state-owned assets. It is an existing shareholder of the Company holding 59,000,000 H Shares and 2,620,449 Domestic Shares, representing 5.99% of the total issued share capital of the Company as at the date of this report. The investment in Single Asset Management Plan included certain accounts receivables and other non-standardised credit assets transferred from IDI. The Group invested RMB200 million to the Single Asset Management Plan (2018: Nil). For details, please refer to the announcement of the Company dated 27 December 2019.

From the report of the Asset Manager, the fair value of the Single Asset Management Plan approximates the carrying amount at the end of the Reporting Period, representing 2.1% of the total assets of the Group. None of these investments recorded realised or unrealised gains/(losses) during the year. By entering into the Asset Management Agreement and entrusting funds in accordance therewith, the Company intends to increase the rate of return of its cash and cash equivalents which can improve the Company's investment income and profit earnings. The entering into the Asset Management Agreement may also increase the chance to cooperate with IDI in the future in the aspects such as the cooperation in the form of innovative financing, project investment and resources sharing.

Save as disclosed above, the Company had no plans of major investments or capital and asset acquisition as of 31 December 2019.

12. Advance to an Entity

The Company entered into the Entrusted Loan Contract with Xindu Investment and Kunming Branch of Evergrowing Bank Co., Ltd.* (恒豐銀行股份有限公司昆明分行) ("**Evergrowing Bank**") on 17 January 2019, pursuant to which the Company entrusts Evergrowing Bank to provide a RMB400 million loan to Xindu Investment. The annual interest rate is 7.5%. The loan was repaid in January 2020.

The Company entered into the Entrusted Loan Contract with Kunming Bus and Kunming Branch of China CITIC Bank Corporation Limited ("**CITIC Bank**") on 3 April 2019, pursuant to which the Company entrusts CITIC Bank to provide a RMB300 million loan to Kunming Bus. The annual interest rate is 8.5%. The loan was repaid in January 2020.

The Company entered into the Entrusted Loan Contract with Kunming DIG and CITIC Bank on 17 April 2019, pursuant to which the Company entrusts CITIC Bank to provide a RMB300 million loan to Kunming DIG. The annual interest rate is 8.5%. The loan will expire on 17 April 2020.

As far as the Company is concerned, Xindu Investment, Kunming Bus and Kunming DIG are actually controlled or held by Kunming SASAC and Kunming DIG holds 6.818% equity interest of Xindu Investment. In addition, Xindu Investment, Kunming Bus and Kunming DIG are not related to one another and these companies are also independent of the Group or connected persons of the Group.

A. EXECUTIVE DIRECTORS

Ms. Guo Yumei (郭玉梅), aged 52, joined our Group in July 1990. Ms. Guo was appointed as an executive Director and the general manager of our Company in January 2011 and as the Chairperson of the Board on 23 June 2016 and resigned as the general manager on 10 July 2019. She has over 30 years of experience in the wastewater treatment industry and is responsible for strategic decision making of our Company's operations. Ms. Guo is currently the chairperson of the Strategy and Investment Decision Committee, and a member of the Remuneration and Appraisal Committee and the Nomination Committee of our Company.

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

Ms. Guo obtained a bachelor's degree in analytical chemistry from Yunnan University (雲南大學) in Yunnan Province, the PRC in July 1990. Ms. Guo has been recognised as a senior engineer in water supply and drainage since 2015. In January 2018, Ms. Guo was elected as a delegate to the 13th People's Congress (the "**People's Congress**") of Yunnan Province.

Mr. Luo Yun (羅雲), aged 41, joined our Group in June 2013 and was appointed as an executive Director of our Company on 23 June 2016. Mr. Luo has been the deputy general manager of our Company since January 2015, responsible for supervising our Company's investment strategies, market expansion and administration. He served as an assistant to the general manager from June 2013 to January 2015, responsible for assisting the general manager in the management of our Company's operation, development, investment programs and marketing strategies. Mr. Luo is currently a member of the Strategy and Investment Decision Committee of our Company.

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

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

B. NON-EXECUTIVE DIRECTORS

Ms. Song Hong (宋 紅), aged 56, joined our Group in June 2016 and was appointed as a non-executive Director of our Company on 23 June 2016. Ms. Song participates in the development of our business strategies. She has over 33 years of experience in finance sector. Ms. Song joined Kunming Dianchi Investment in September 2008. She served as a director and the chief financial officer of Kunming Dianchi Investment since June 2012. Ms. Song serves concurrently as a chairperson of Kunming Diantou Bishuiyuan Water Technology Co., Ltd (昆明滇投碧水源水務科技有限公司).

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

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

Ms. Zhao Zhu, aged 40, joined the Group in June 2019 and was appointed as a non-executive director of the Company on 21 June 2019 to participate in formulation of our business development strategy. Ms. Zhao has more than 15 years of experience in finance, currently serving as the deputy general manager of the financial management department of Yunnan Investment Holding Group Co., Ltd.* (雲南省投資控股集團有限公司) ("**Yunnan Investment Group**").

From November 2004 to November 2009, she worked in the field of planning and finance for Yunnan Investment Group. She served as the manager of the financial management department of Yunnan Investment Construction Co., Ltd.* (雲南雲投建設有限公司) from November 2009 to July 2013. From July 2013 to December 2015, she served as the senior business director and assistant to the business manager of the financial management department of Yunnan Investment Group and the financial director of Yunnan Medical Investment Management Co., Ltd.* (雲南省醫療投資管理有限公司) ("**Yunnan Medical Investment**"). She served as the senior assistant to the business manager of Yunnan Investment Group and the financial director of Yunnan Medical Investment from December 2015 to November 2017. From November 2017 to June 2018, she served as the audit director of the financial management department of Yunnan Investment Group. Since June 2018, she has been serving as the deputy general manager of the financial management department of Yunnan Investment Group.

Ms. Zhao graduated from the school of economics at Yunnan University, Yunnan Province, China with major in accounting and a bachelor's degree in management in July 2004 and completed her postgraduate degree in statistics at Yunnan University in October 2014. Ms. Zhao is also a senior accountant in China.

C. INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yin Xiaobing (尹曉冰), aged 46, joined our Group in June 2016 and was appointed as an independent non-executive Director on 23 June 2016. Mr. Yin participates in making significant decisions and advises on corporate governance, connected transactions, and various matters concerning Directors and senior management. He is currently the chairman of the Audit Committee and the Nomination Committee, and a member of the Strategy and Investment Decision Committee and the Remuneration and Appraisal Committee of our Company.

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

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

Serving time	Company name	Position
April 2013 to November 2017	Yunnan Yuntou Ecology and Environment Technology Co., Ltd. (雲南雲投生態環境科技股份有限公司, formerly known as Yunnan Green Land Biotechnology Co., Ltd. (雲南綠大地生物科技股份有限公司)) (Stock code: 002200)	Independent non-executive director
May 2014 to January 2020	Yunnan Aluminum Co., Ltd. (雲南鋁業股份有限公司) (Stock code: 000807)	Independent non-executive director
June 2016 to present	Yunnan Copper Industry Limited (雲南銅業股份有限公司) (Stock code: 000878)	Independent non-executive director
April 2019 to July 2019	Yunnan Luoping Zinc and Electricity Co., Ltd. (雲南羅平鋅電股份有限公司) (Stock code: 002114)	Independent non-executive director
August 2019 to present	Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司) (Stock code: 000538)	Independent non-executive director
February 2020 to present	Yunnan Tin Company Limited(雲南錫業股份有限公司) (Stock code: 000960)	Independent non-executive director

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

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

Mr. He Xifeng (何錫鋒), aged 57, joined our Group in June 2016 and was appointed as an independent non-executive Director on 23 June 2016. Mr. He participates in making significant decisions and advises on corporate governance, connected transactions, and various matters concerning Directors and senior management. Mr. He is currently the chairman of the Remuneration and Appraisal Committee and a member of the Audit Committee and the Nomination Committee of our Company.

Mr. He currently serves as the chief partner and previously served as the legal representative and the head of Yunnan Weizhen Law Office (雲南唯真律師事務所). Mr. He serves as a legal counsel of several government agencies, public institutions and associations, such as International Cooperation Center of the Ministry of Agriculture and Rural Affairs (農業農村部國際合作中心), etc. Mr. He currently serves as a standing director of China-ASEAN Legal Cooperation Center (中國東盟法律合作中心), a director of China-ASEAN Business Council (中國東盟商務理事會) and a director of Yunnan International Trade and Investment Association (雲南省國際貿易投資商會).

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

Mr. Sin Lik Man (冼力文), aged 41, joined our Group in November 2018 and was appointed as an independent non-executive Director on 16 November 2018. Mr. Sin participates in making significant decisions and advises on corporate governance, connected transactions and various matters concerning Directors and senior management. Mr. Sin is currently a member of the Audit Committee of our Company.

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

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

D. SUPERVISORS

Mr. Na Zhiqiang (那 志 強), aged 58, is the chairman of our Board of Supervisors and an employee representative Supervisor, responsible for leading the daily work of our Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Na joined our Group in February 1990. On 19 January 2011, he was appointed as the chairman of our Board of Supervisors and an employee representative Supervisor. Mr. Na has approximately 30 years' working experience in the wastewater treatment industry.

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

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

Mr. Yao Jianhua (姚 建 華), aged 61, joined our Group in November 1995 and has been an employee representative Supervisor of our Company since 19 January 2011 in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Yao has over 28 years' working experience in the wastewater treatment industry. From June 2005 to November 2019, Mr. Yao has been the executive director, the general manager and the legal representative of Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company.

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

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

Mr. Shao Wei (邵 偉), aged 39, joined our Group on 7 May 2016 and is a Supervisor of our Company in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Shao has over 10 years' working experience in the corporate finance management. Mr. Shao worked as the accounting manager of planning and financing department of Kunming DIG, responsible for corporate finance and accounting affairs. He was transferred to Kunming Development New Energy Industry Investment Operation Co., Ltd. (昆明發展新能源產業投資運營有限公司) in August 2018 and has been serving as the deputy general manager since October 2018. He has been serving as the financial controller of Kunming Zhongchuang Sanyou Kun Development New Energy Technology Co., Ltd. (昆明中創三優昆發展新能源科技有限公司) and the financial controller of Xundian County Wenlu Investment and Development Co., Ltd. (尋甸縣文旅投資開發有限公司) since March 2018 and January 2019, respectively. Since March 2019, he has also served as the executive deputy general manager of Kunming Petrochina Kunlun CNG Co., Ltd. (昆明中石油昆侖車用天然氣有限公司).

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

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

E. SENIOR MANAGEMENT

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

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	52	Chairperson; Executive Director (Served as general manager until 10 July 2019)	Responsible for the Company's operation management	Appointed as Executive Director and General Manager (The position of general manager has been resigned on 10 July 2019) in January 2011, and as Chairperson on 23 June 2016	July 1990	None
Mr. Chen Changyong	50	General Manager	Responsible for strategic decision making	Appointed as the General Manager on 10 July 2019	June 2019	None
Mr. Mei Yili	58	Deputy General Manager	Responsible for the Company's production safety management work	29 January 2015	May 1997	None
Mr. Luo Yun	41	Executive Director and Deputy General Manager	Responsible for supervising our Company's investment strategies, market expansion and administration	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. Yang Yang	47	Chief Financial Officer and Secretary of Board	Responsible for the management of our Company's finance, financing, capital operation and securities affairs, as well as daily affairs of the Board	Appointed as the Chief Financial Officer on 29 January 2015 and appointed as Secretary of Board on 23 June 2016	January 2015	None

Ms. Guo Yumei (郭玉梅) is the Chairperson of the Board, an executive Director and the general manager of our Company who has resigned the position of the general manager on 10 July 2019.

Please see the section headed "Profiles of Directors, Supervisors and Senior Management – A. Executive Directors" in this report for details of her biography.

Mr. Chen Changyong (陳昌勇), aged 50, joined the Group in June 2019 and has been the general manager of the Company since 10 July 2019, responsible for the Company's operation management.

Mr. Chen worked in the Land Acquisition Office of the Municipal Land and Resources Bureau of Kunming (昆明市國土資源局) from August 1999 to November 2002 and served as the deputy director of the general office of the Municipal Land and Resources Bureau of Kunming from November 2002 to January 2005. He joined Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限責任公司), the controlling shareholder of the Company, in September 2004 and until March 2016, he successively served as a member of the party committee, director, deputy general manager, deputy secretary of the party committee, secretary of the disciplinary committee and chairman of the labor union of Kunming Dianchi Investment. He was a director and the secretary to the party committee of Kunming Drainage System Management Co., Ltd. (昆明排水設施管理有限責任公司) (a subsidiary of Kunming Dianchi Investment) from March 2016 to June 2019. He joined the Company in June 2019.

Mr. Chen graduated from the Changchun Institute of Geology, Jilin Province, China (長春地質學院) with a bachelor's degree in July 1992, majoring in geology and mineral exploration and graduated from the Changchun Institute of Geology with a master's degree in July 1995, majoring in mineral prospecting and exploration. Mr. Chen graduated from Kunming University of Science and Technology (昆明理工大學) with a doctorate in July 1999, majoring in mineral prospecting and exploration in the Department of Territorial Development and Urban and Rural Architecture.

Mr. Mei Yili (梅益立), aged 58, joined our Group in May 1997 and has been the deputy general manager of our Company since 29 January 2015, responsible for the Company's production safety management work.

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

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

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

Mr. Yang Yang (楊 陽), aged 47, joined our Group in January 2015 and has been the chief financial officer of our Company since 29 January 2015. Mr. Yang has also been appointed as one of our joint company secretaries and our Board secretary in June 2016, responsible for the management of our Company's finance, financing, capital operation and securities affairs, as well as daily affairs of the Board.

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

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

Except as disclosed above:

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

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

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

F. JOINT COMPANY SECRETARIES

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

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

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

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

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

The Board of Directors of the Group hereby submit their report together with the audited financial statements of the Group for the year ended 31 December 2019.

A. BUSINESS REVIEW

1. Operating Environment and Prospects

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

In November 2019, the Yangtze River Delta Ecological Green Integrated Development Demonstration Zone was officially unveiled. At the beginning of 2020, President Xi Jinping convened the Central Finance and Economic Committee to study ecological protection and high-quality development in the Yellow River Basin. The development of cross-regional and integrated river basin has become the mainstream. Ecological priority and green development concepts have become the precursors of high-quality development. The mechanism of co-construction, sharing, security, and governance has been gradually deepened. New development concepts such as water-based land, water-based production and water-volume development have become dominant. Great protection, great governance and integrated river basin have become a new trend.

For the environmental protection industry, a regulatory pattern has been formed and the environmental protection industry has entered an era of "deep cultivation" of policy. Since the 18th National Congress of the Communist Party of China, the construction of ecological civilization has risen to the height of national strategy, accompanied by successive amendments and promulgations of laws, administrative regulations and departmental regulations in the ecological environment fields such as the Soil and Solid Waste Pollution Control Law, as well as national environmental supervision and establishment of a sound system of special inspections. Strict environmental protection supervision has become the new normal which extends from point supervision to surface supervision, from single water quality supervision to watershed governance quality supervision, from environmental protection of main product supervision to subsidiary product supervision. This stricter, more comprehensive and more stringent regulatory trend is both challenges and opportunities.

In addition, integration and innovation of environmental protection and other industries have accelerated and resources recycling has become the future industry development direction. The update and iteration speed of sewage treatment technology is accelerated with biotechnology as the core and integration of physics, chemistry, self-control, information, new materials and other technologies is accelerated. The environmental protection industry chain continues to extend upstream and downstream, across fields and across industries, from single-point technology breakthroughs to overall system technology upgrades, from direction of harmless pollution load reduction to reduction and resources utilization, the sewage treatment process from comprehensive treatment at the end to precise analysis at the source (especially industrial wastewater), from equipment-oriented to process-oriented and intelligent control conversion, from sludge and water treatment to co-processing of sludge and water co-governance and from treatment of water as the main auxiliary to treatment of sludge as the main auxiliary.

The wastewater treatment, reclaimed water and water supply industries are benefited from rapidly accelerating urbanization process in China and the policy dividends brought by the industry's significant development. Solid waste disposal such as reuse and recycling of sludge, and comprehensive ecological and environmental treatment businesses will also gain strong driving force from the bid to build a beautiful China as an objective. The Chinese economy has shifted from high-speed development to high-quality development, enabling the environmental protection industry to become an increasingly important industry for economic development under the New Normal condition of the PRC. The Board expects that following the transformation of economic structure of China and the development of environmental protection industries in Southeast Asia and the Middle East, industrial investment in related regions is tilted towards environmental protection industries and the Company's business scale and growth will further expand. Moreover, investors in the capital market will gradually pay more attention to the environmental protection industry with stable cash flow and a compound growth rate in a rapid growth period.

2. Business

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

3. Key Financial Ratios

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

	As at or for the year ended 31 December	
	2019	2018
Gross profit margin[1]	**34.8%**	37.0%
Net profit margin[2]	**20.2%**	24.5%
Return on equity[3]	**9.0%**	9.0%
Return on total assets[4]	**3.9%**	4.7%
Current ratio[5]	**305.0%**	151.4%
Quick ratio[6]	**303.3%**	150.6%
Gearing ratio[7]	**43.9%**	27.9%

Notes:

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

Gross profit margin and net profit margin

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

Return on equity

During the Reporting Period, our return on equity remained unchanged compared to 2018.

Return on total assets

Our return on total assets decreased from 4.7% in 2018 to 3.9% in 2019, primarily due to an increase in total assets by RMB2,134.2 million in 2019.

Current ratio and quick ratio

Our current ratio and quick ratio increased from 151.4% and 150.6% as of 31 December 2018 to 305.0% and 303.3% as of 31 December 2019, respectively, primarily because current assets increased by RMB1,630.2 million and current liabilities decreased by RMB216.1 million in 2019.

Gearing ratio

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

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

4. Laws, Regulatory and Compliance Matters

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

As of 31 December 2019, there are no material pending or threatened litigation matters or other proceedings, and the Group is not involved in any litigation or other proceedings that would materially and adversely affect our business, financial condition or results of operations.

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

5. Major Financial Risk Factors

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

Market Risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk primarily arising from currency exposure with respect to Hong Kong dollars ("**HKD**") and United States dollars ("**USD**"). Foreign exchange risk arises from cash and cash equivalents and borrowings denominated in HKD and USD. The Group has entered into a currency swap agreement with a major borrowing bank to manage the currency risk in related to the borrowings.

As at 31 December 2019, if RMB had weakened/strengthened by 1% (2018: 1%) against HKD and USD denominated cash and cash equivalent with all other variables held constant, net profit for the year would have been approximately RMB7,373,433 (2018: RMB3,023,000) higher/lower. If RMB had weakened/strengthened by 1% (2018: Nil) against HKD and USD denominated borrowings with all other variables held constant, net profit for the year would have been approximately RMB20,951,910 (2018: Nil) lower/higher.

(ii) Cash flow and fair value interest rate risk

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

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

Borrowed weighted average effective interest rate and borrowing maturity date are disclosed in Note 28 to the consolidated financial statements.

As at 31 December 2019, if the interest rate on floating interest rate borrowings had been higher/lower by 0.5%, the Group's net profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Year ended:		
Net profit (decrease)/increase		
– Higher 0.5%	**(13,768)**	(6,453)
– Lower 0.5%	**13,768**	6,453

Credit risk

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

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

For receivables, the Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any.

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

(i) Trade receivables

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

The expected loss rates are based on the payment profiles of sales over a period of 12 month before 1 January 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables.

On that basis, loss allowance provision for trade receivables amounting to RMB16,294,264 (2018: RMB9,653,996) was recognised as at 31 December 2019. And the expected loss rate for the remaining trade receivables as at 31 December 2019 is determined as follows:

	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 31 December 2019				
Expected loss rate	1.25%	3.77%	27.91%	
Gross carrying amount *(RMB'000)*	935,027	37,300	11,425	983,752
Loss allowance provision *(RMB'000)*	(11,698)	(1,407)	(3,189)	(16,294)
	923,329	35,893	8,236	967,458

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

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

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

On the basis as stated above, a total loss allowance provision for receivables under service concession arrangements, amounts due from customers for construction contracts and other receivables amounted at 31 December 2019 as follows.

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Total
As at 31 December 2019				
Expected loss rate	0.01%-0.1%	0.5%-1.2%	0.3%-1%	
Gross carrying amount *(RMB'000)*	1,390,030	549,978	1,091,268	3,031,276
Loss allowance provision *(RMB'000)*	(487)	(6,134)	(3,472)	(10,093)
	1,389,543	543,844	1,087,796	3,021,183

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

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

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of other receivables and adjusts for forward looking macro-economic data.

To measure the expected credit losses of these receivables, they have been grouped based on shared credit risk characteristics and the days past due. As at 31 December 2019, the expected loss rate of receivables under customer accounts of then unfulfilled service concession arrangements and construction contracts was approximately 0.04% and 1.1% respectively, with a carrying amount of RMB1,390,030,449 and RMB549,977,853, respectively, and a provision of RMB486,705 and RMB6,134,225, respectively. The expected loss rate of other receivables (excluding refund tax and other non-financial assets) being performed is approximately 0.3% with a carrying amount of RMB1,091,268,456 and the allowance provision was RMB3,472,016.

Liquidity risk

Our objective is to maintain sufficient cash and sources of funding through available banking facilities and maintain flexibility in funding by maintaining committed credit lines. We had net current assets of RMB2,613.2 million as of 31 December 2019. With respect to our future capital commitments and other financing requirements, we had unutilized banking facilities of RMB1,225 million as of 31 December 2019.

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

Interest rate risk

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

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

6. Significant Subsequent Events

(a) Dividend

Pursuant to a resolution of the Board of the Directors dated 27 March 2020, the Company has proposed dividend of RMB0.125 per share (inclusive of tax), which is RMB128,638,875 in total (inclusive of tax). The proposal is subject to approval at the annual general meeting of the Company.

(b) Provision of entrusted loans

The Company entered into the first Entrusted Loan Contract and the second Entrusted Loan Contract with Kunming Bus and the Bank of Communications on 23 January 2020 and 13 February 2020 respectively, pursuant to which the Company entrusts the Bank of Communications to grant loans of RMB60 million and RMB240 million respectively to Kunming Bus.

(c) Impacts of COVID-19 Epidemic

At the beginning of the Chinese New Year of 2020, the Novel Coronavirus Pneumonia Epidemic was spreading rapidly in a serious condition. In this epidemic, the Company established the epidemic prevention leading group for the first time to study and deploy epidemic prevention and control, purchased protective materials in a timely manner and increased investment in material supplies to ensure safe and stable operation and production as well as the health and safety of all employees. According to the nature and responsibilities of employees, a combination of remote and on-site office was adopted to ensure normal operation of the Company. At the same time, the Company further strengthened process management to ensure that water quality met the emission standards to guarantee water safety for residents in the territories. The normal operation of each wastewater treatment plant, reclaimed water supply facility and running water supply facility was also assured so that the quality of wastewater treatment, reclaimed water and running water supply during the epidemic reached and exceeded national effluent standards. During the epidemic, the Company coordinated the application for resumption of construction projects and the construction of the project remained basically normal. The Company will continue to pay attention to the development of the epidemic and to adjust relevant measures such as epidemic prevention and control and business development in a timely manner to endeavor to mitigate the adverse impact of the epidemic on the Company.

7. Relationship with Employees

As of 31 December 2019, we had 1,254 full-time employees, all of whom were in China and most of whom were based in Yunnan. The following table sets forth the breakdown of our employees by function as of 31 December 2019:

Function	Number
Management and Administration	149
Finance	33
Research and Development	85
Quality Monitoring	195
Marketing	17
Operations	744
Construction and Maintenance	31
Total	1,254

We recruit our employees on the open market. Compensation for our employees includes basic wages, performance-based wages, bonuses and other staff benefits. For the years ended 31 December 2018 and 2019, our employee benefits amounted to approximately RMB151.3 million and RMB161.1 million, respectively.

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

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

8. Relationship with Customers

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

Our largest customer during the Reporting Period was the Kunming Finance Bureau. The revenue attributable to our largest customer was approximately RMB543.3 million, accounting for approximately 29.6% of the total revenue of the Group. During the Reporting Period, the revenue attributable to our top five largest customers was approximately RMB981.5 million, accounting for approximately 53.5% of the total revenue of the Group.

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

During the Reporting Period, we also provided management services to our Controlling Shareholder. Our other major customers included Xundian County Government and Renhuai Water Authority, etc. We provided wastewater treatment and construction services to Yiliang County and Renhuai City under the relevant concession agreements.

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

9. Relationship with Suppliers

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

During the Reporting Period, our largest supplier was Yunnan Branch of Guizhou Construction Engineering Group. Our purchases from our largest supplier were RMB192.6 million, accounting for approximately 22.9% of our total purchases. Our purchases from our top five suppliers were RMB371.7 million, accounting for approximately 44.2% of our total purchases.

Yunnan Branch of Guizhou Construction Engineering Group, a state-owned enterprise, provides project construction services for us. Our other major suppliers include Kunming Power Supply Bureau of Yunnan Power Grid Co. which provides power for our operations, construction contractors such as Inner Mongolia Yingang Construction Group Co., Ltd. and Jiangxi Geo-Engineering (Group) Corporation, etc. which undertake the construction portions of our projects and raw materials providers such as Kunming Kejingyuan Environmental Protection Technology Co., Ltd., Shenzhen Pufeisi Environmental Protection Technology Co., Ltd. and Yunnan Senjie Environmental Engineering Co., Ltd. which provide water treatment chemicals and others materials for the operation and maintenance of our facilities.

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

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

We have sourced our raw materials from a few local suppliers located near Kunming in order to benefit from the economies of scale and convenient transportation, which allowed for faster and cheaper delivery of raw materials. We generally pay our suppliers within 10 to 15 days after receiving the delivery of goods, subject to internal review and approval. For our major suppliers, we often settle accounts monthly, and as of 31 December 2019, we did not have any payments in arrears.

We may from time to time cooperate with any suppliers in the market who offer similar raw materials with terms comparable to our existing suppliers so as to replace the existing suppliers. To mitigate the risks associated with any reliance on our major suppliers, we periodically seek potential alternative suppliers and obtain quotations from such suppliers with a view to keeping in contact with potential suppliers. In addition, in order to secure reliable supply channels and ensure the quality of our supplies, in 2015, we acquired 51% interest in Kunming Heertai Environmental Industry & Trade Co. Ltd., a producer of wastewater treatment chemicals, from which we intend to procure a majority of our chemicals in the future. As of 31 December 2019, we had not experienced any material difficulty in obtaining any utility services, construction services, or supplies of raw materials or equipment for our business operations.

10. Environmental Policies and Performance

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

We have implemented the corresponding measures in the operation of our business to ensure the compliance with the applicable requirements under the PRC environmental protection laws and regulations. As of 31 December 2019, we had not received any claims issued for failing to comply with the relevant licensing and environmental requirements.

As of 31 December 2019, we obtained all the material environmental licenses and certificates for each of our facilities, and we had complied in all material respects with the relevant environmental laws and regulations.

Our environmental compliance expenses were RMB5.7 million and RMB6.8 million for the years ended 31 December 2018 and 2019, respectively. To the best of our Directors' knowledge, information and belief, we do not expect our costs of compliance with environmental laws and regulations to increase significantly in the near future.

B. BUSINESS PERFORMANCE

The audited results of the Company and its subsidiaries for the year ended 31 December 2019 are stated in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 116. The financial positions of the Company and its subsidiaries for the year ended 31 December 2019 are stated in the Consolidated Statement of Financial Position on pages 117 to 118. The consolidated cash flows of the Company and its subsidiaries for the year ended 31 December 2019 are stated in the Consolidated Statement of Cash Flows on page 120.

The discussion and analysis on the Group's business performance and financial position for the current year are stated under "Management Discussion and Analysis" on pages 15 to 46 hereof.

C. SHARE CAPITAL

As of 31 December 2019, the Company had issued 1,029,111,000 shares (comprising 689,088,000 Domestic Shares and 340,023,000 H Shares) with a nominal value of RMB1 each.

D. ISSUANCE OF CORPORATE BONDS

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

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

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

F. PRE-EMPTIVE RIGHT TO ACQUIRE

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

G. RESERVE AND DISTRIBUTABLE RESERVE

The details in relation to the changes in the reserve of the Company for the current year are stated in Note 31 to the Financial Statements. Pursuant to the Company Law of the PRC, undistributed profit could be distributed as dividend after allocation is made to the statutory surplus reserve. According to the requirements of the Articles of Association, when the Company is to distribute its profit after tax in the relevant accounting year, the profit after tax shall be deemed to be the lesser of the amounts stated in the financial statements prepared in accordance with the China Accounting Standards and the International Financial Reporting Standards. For the calculation in accordance with the International Financial Reporting Standards, as at the end of 2019, the undistributed profit of the Company amounted to RMB1,385.9 million. **For the calculation in accordance with the China Accounting Standards, as at the end of 2019, the undistributed profit of the Company amounted to RMB1,383.2 million.**

H. PROPERTY, PLANT AND EQUIPMENT

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

I. PROFIT DISTRIBUTION

The Board proposes to distribute a final cash dividend (the "**2019 Final Dividend**") of RMB0.125 per share (tax inclusive), totaling RMB128,638,875.00 (tax inclusive) to all shareholders whose names appear on the Company's registers of shareholders of domestic shares and H shares as at Tuesday, 30 June 2020. The dividend of domestic shareholders shall be declared and paid in RMB while the dividend of H shareholders shall be declared in RMB but paid in Hong Kong dollars, with the exchange rate being subject to the average exchange rate published by the People's Bank of China within one week prior to the 2019 annual general meeting (the "**2019 Annual General Meeting**") intended to be held by the Company on Friday, 19 June 2020. The expected dividend distribution date is Thursday, 6 August 2020.

The proposal regarding the distribution of 2019 Final Dividend shall be confirmed subject to the approval by shareholders at the 2019 Annual General Meeting.

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

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

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

To determine the list of H Shareholders attending the 2019 Annual General Meeting of the Company:

Deadline for submitting the share transfer documents:	4:30 pm on 19 May 2020 (Tuesday)
Date of closure of register of members:	From 20 May 2020 (Wednesday) to and until 19 June 2020 (Friday) (both days inclusive)
Date of Record:	19 June 2020 (Friday)
Date for convening 2019 Annual General Meeting:	19 June 2020 (Friday)

If the proposal of distribution of 2019 Final Dividend is approved by the 2019 Annual General Meeting, the shareholders will be entitled to the proposed 2019 Final Dividend:

Deadline for submitting the share transfer documents:	4:30 pm on 24 June 2020 (Wednesday)
Date of closure of register of members:	From 25 June 2020 (Thursday) to and until 30 June 2020 (Tuesday) (both days inclusive)
Record date of dividend:	30 June 2020 (Tuesday)
Expected date of dividend distribution:	6 August 2020 (Thursday)

J. BANK BORROWINGS AND OTHER BORROWINGS

The details in relation to the bank borrowings and other borrowings of the Company and its subsidiaries as of 31 December 2019 are stated in Note 28 to the Financial Statements.

K. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, the Company's board of directors consisted of seven Directors, among whom, two are executive Directors and two are non-executive Directors and three are independent non-executive Directors. The Directors have been appointed by the shareholders of the Company with a term of three years, after which they may be re-elected.

On 14 November 2019, the Company held the Nomination Committee of the Board and the 69th meeting of the first session of the Board which proposed to appoint Mr. Chen Changyong (陳昌勇) as an executive director of the first session of the Board of the Company and appoint Ms. Yu Yanbo (余燕波) as a non-executive director of the first session of the Board of the Company. Resolutions of the proposed appointment of Mr. Chen Changyong to serve as the executive director of the Company and the proposed appointment of Ms. Yu Yanbo to serve as the non-executive director of the Company are subject to shareholders' approval in the form of ordinary resolutions at the general meeting. As at the Latest Practicable Date, the above-mentioned resolutions of the proposed appointment have yet to be submitted to the general meeting for approval.

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

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

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	52	Chairperson; Executive Director (Chairperson of the Strategy and Investment Decision Committee, and member of the Remuneration and Appraisal Committee and the Nomination Committee, serving as general manager until 10 July 2019)	Responsible for strategic decision making	Appointed as Executive Director and General Manager in January 2011 and resigned as general manager on 10 July 2019[1] Appointed as Chairperson on 23 June 2016	July 1990[2]	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. Luo Yun	41	Executive Director and Deputy General Manager (member of the Strategy and Investment Decision Committee)	Responsible for supervising our Company's investment strategies, market expansion and administration	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None
Ms. Ma Ce(3)	41	Non-executive Director	Participates in the development of business strategies of the Company	22 June 2018 to 21 June 2019	June 2018	None
Ms. Zhao Zhu (4)	40	Non-executive Director	Participates in formulation of the development of the business strategies of the Company	21 June 2019	June 2019	None
Ms. Song Hong	56	Non-executive Director	Participates in formulation of the development of the business strategies of the Company	23 June 2016	June 2016	None
Mr. Yin Xiaobing	46	Independent Non-executive Director (Chairman of the Audit Committee and the Nomination Committee, and member of the Strategy and Investment Decision Committee and the Remuneration and Appraisal Committee)	Participates in making significant decisions and advises on corporate governance, connected transactions, and various matters concerning Directors and senior management	23 June 2016	June 2016	None
Mr. He Xifeng	57	Independent Non-executive Director (Chairman of the Remuneration and Appraisal Committee, and member of the Audit Committee and the Nomination Committee)	Participates in making significant decisions and advises on corporate governance, connected transactions, and various matters concerning Directors and senior management	23 June 2016	June 2016	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. Sin Lik Man	41	Independent Non-executive Director (Member of the Audit Committee)	Participation in making significant decisions and advises on corporate governance, connected transactions and various matters concerning Directors and senior management	16 November 2018	November 2018	None
Mr. Na Zhiqiang	58	Chairman of the Board of Supervisors, Employee Representative Supervisor	Responsible for leading the daily work of the Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	19 January 2011	February 1990[5]	None
Mr. Yao Jianhua	61	Employee Representative Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	19 January 2011	November 1995[6]	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. Shao Wei	39	Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	7 May 2016	May 2016	None

Notes:

(1) In order to better coordinate the strategic development of the Company and to achieve better allocation of corporate governance responsibilities, Ms. Guo resigned as the general manager of the Company on 10 July 2019. After resigning as the general manager of the Company, Ms. Guo will continue to serve as an executive director of the Company and the Chairperson of the Board.

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

(3) Ms. Ma requested to resign from the position of non-executive director of the Company on 22 March 2019 due to job transfer and her resignation took effect on 21 June 2019.

(4) Ms. Zhao was appointed as a non-executive Director of the Company at the 2018 Annual General Meeting of the Company held on 21 June 2019.

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

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

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

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	52	Chairperson; Executive Director (Served as general manager until 10 July 2019)	Responsible for strategic decision making	Appointed as Executive Director and General Manager (The position of general manager has been resigned on 10 July 2019) in January 2011, and as Chairperson on 23 June 2016	July 1990	None
Mr. Chen Changyong	50	General Manager	Responsible for the Company's operation management	Appointed as the General Manager on 10 July 2019	June 2019	None
Mr. Mei Yili	58	Deputy General Manager	Responsible for the Company's production safety management work	29 January 2015	May 1997	None
Mr. Luo Yun	41	Executive Director and Deputy General Manager	Responsible for supervising our Company's investment strategies, market expansion and administration	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None
Mr. Yang Yang	47	Chief Financial Officer and Secretary of Board	Responsible for the management of our Company's finance, financing, capital operation and securities affairs, as well as daily affairs of the Board	Appointed as the Chief Financial Officer on 29 January 2015 and appointed as Secretary of Board on 23 June 2016	January 2015	None

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

Changes to the information of Directors

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

1. Ms. Ma requested to resign from the position of non-executive director of the first session of the Board of the Company on 22 March 2019 due to job transfer and her resignation took effect on 21 June 2019.

2. Ms. Zhao Zhu was appointed as a non-executive Director of the first session of the Board of the Company at the 2018 Annual General Meeting held on 21 June 2019.

3. In order to better coordinate the strategic development of the Company and to achieve better allocation of corporate governance responsibilities, Ms. Guo Yumei resigned as the general manager of the Company on 10 July 2019. After resigning as the general manager of the Company, Ms. Guo will continue to serve as an executive director of the Company and the Chairperson of the Board, the chairperson of the Strategy and Investment Decision Committee, and a member of the Remuneration and Appraisal Committee and the Nomination Committee.

4. Mr. Chen Changyong was appointed as the general manager of the Company at the Board held on 10 July 2019.

5. On 14 November 2019, the Company held the Nomination Committee of the Board and the 69th meeting of the first session of the Board to review the proposed appointment of Mr. Chen Changyong (陳昌勇) as an executive director of the first session of the Board of the Company. The resolution of the proposed appointment of Mr. Chen Changyong to serve as the executive director of the Company is subject to shareholders 'approval in the form of ordinary resolutions at the general meeting.

6. On 14 November 2019, the Company held the Nomination Committee of the Board and the 69th meeting of the first session of the Board to review the proposed appointment of Ms. Yu Yanbo (佘燕波) as a non-executive director of the first session of the Board of the Company. The resolution of the proposed appointment of Ms. Yu Yanbo (佘燕波) to serve as the non-executive director of the Company is subject to shareholders 'approval in the form of ordinary resolutions at the general meeting.

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

1. Ms. Guo Yumei resigned as the general manager of the Company on 10 July 2019. After resigning as the general manager of the Company, Ms. Guo will continue to serve as an executive director of the Company and the Chairperson, the chairperson of the Strategy and Investment Decision Committee, and a member of the Remuneration and Appraisal Committee and the Nomination Committee.

2. Since February 2019, Ms. Song Hong, a non-executive director of the Company, has been serving as the chairperson of Kunming Diantou Bishuiyuan Water Technology Co., Ltd (昆明滇投碧水源水務科技有限公司).

3. Mr. Yin Xiaobing, an independent non-executive director of the Company, served as an independent non-executive director of the seventh session of the board of directors of Yunnan Luoping Zinc and Electricity Co., Ltd. (雲南羅平鋅電股份有限公司)(Stock code: 002114)from April 2019 to July 2019. From August 2019 to present, he has been serving as an independent non-executive director of Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司). From February 2020 to present, he has been serving as an independent non-executive director of Yunnan Tin Company Limited (雲南錫業股份有限公司)(Stock code: 000960). He resigned as an independent non-executive director of Yunnan Shennong Agricultural Industry Group Co., Ltd.* (雲南神農農業產業集團股份有限公司) in March 2019 and resigned as an independent non-executive director of Yunnan Aluminum Co., Ltd. (雲南鋁業股份有限公司) (Stock code: 000807) in January 2020.

4. Mr. Yao Jianhua, the supervisor of the Company, ceased to serve as an executive director, general manager and legal representative of Kunming Dianchi Logistics Co., Ltd. (昆明滇池物流有限責任公司), a wholly-owned subsidiary of the Company, since November 2019.

5. Mr. Shao Wei, a supervisor of the Company, has also been serving as the executive deputy general manager of Kunming Petrochina Kunlun CNG Co., Ltd.* (昆明中石油昆侖車用天然氣有限公司) since March 2019.

L. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

M. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The details of the remuneration of the Company's Directors, Supervisors and senior management are stated in Note 12 to the Financial Statements. The scope of the remuneration of the senior management officers is as follows:

Range of Remuneration *(RMB'000)*	**Number of Directors, Supervisors and Senior Management**
0-500	5
500-1,000	5

Note:

1. The remuneration in the above table is pre-tax remuneration. The remuneration range includes salary (wages, bonuses and allowances, employee benefits), benefit plans (basic pension insurance and enterprise annuity paid by the employer) and others (housing provident fund, medical insurance and other social insurance paid by the employer).

2. The number of directors, supervisors and senior management in the above table does not include directors and supervisors who are not receiving remuneration from the Company.

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

At the end of 2019 or at any time during 2019, none of the Company's Directors, Supervisors (and such entities connected therewith) had any individual interests, directly or indirectly, in the major transactions, arrangements or contracts as established by the Company or any of its subsidiaries.

O. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETITIVE BUSINESS

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

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

As of 31 December 2019, none of the Directors, Supervisors and senior management had any interest or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As of 31 December 2019, none of the Directors or Supervisors or their respective spouses or children below 18 was granted any right to subscribe for the shares of the Company or any of its associated corporations or to have exercised any such rights.

Q. INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

As at 31 December 2019 and to the best knowledge of the Company's Directors, the following persons (except for the Company's Directors, the chief executives or Supervisors) had some interest or short positions in the shares or underlying shares of the Company which had to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Identity/Nature of interest	Class of shares	Number of shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of shares of the Company (%)
Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限責任公司)	Beneficial Owner	Domestic Shares	660,318,635 (long position)	64.16%	95.82%
Kunming Industrial Development & Investment Co., Ltd. (昆明產業開發投資有限責任公司)	Interest of Controlled Corporation	H Shares	59,000,000 (long position)	5.73%	17.35%
Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司)	Beneficial Owner	H Shares	39,790,000 (long position)	3.87%	11.70%
Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司)	Beneficial Owner	H Shares	64,770,000 (long position)	6.29%	19.05%
Modern Orient Limited	Interest of Controlled Corporation	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%
Beijing Enterprises Water Group Limited	Beneficial Owner	H Shares	47,754,000 (long position) *(Notes 2 and 3)*	4.64%	14.04%

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

Notes:

1. The above information disclosed is primarily based on the information provided by the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the records of the register maintained by the Company under section 336 of the SFO.
2. Pursuant to Section 336 of the SFO, if certain conditions are fulfilled, the shareholders of the Company are required to submit a form for disclosure of interests. In the event of changes in the shareholding of the shareholders of the Company, the shareholders will not be required to notify the Company and the Hong Kong Stock Exchange unless certain conditions have been fulfilled, so that the latest shareholding of the shareholders of the Company may be different from the shareholding submitted to the Hong Kong Stock Exchange.
3. The 47,754,000 shares belong to the same batch of shares.
4. Save as disclosed above, as at 31 December 2019, the Company is not aware of any other persons (other than the Directors, Supervisors and chief executives of the Company) who have interest or short position in the shares or underlying shares of the Company that are required to be recorded in the register under the provisions of Section 336 of the SFO.

R. MANAGEMENT CONTRACTS

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

S. CONNECTED TRANSACTIONS

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

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

Entrusted Operation and Management Framework Agreement

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

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

On 31 December 2018, the entrusted operation management framework agreement entered into between the Company and the controlling shareholder expired. As the specific contract between the Company and the controlling shareholder is still valid and the Company has obtained the approval for the annual cap of the transaction under the entrusted operation framework agreement valid for three years until 31 December 2019, during the renewal negotiation of the entrusted operation framework agreement, the Company continued to provide operation management services to the controlling shareholder and its subsidiaries. In order to further regulate the terms and conditions of the Company's provision of operation and management services to the controlling shareholders for the three years ended 31 December 2021, the parties entered into a new entrusted operation management framework agreement (the "**New Framework Agreement**") on 30 April 2019, pursuant to which the Company would continue to provide operation and management services to the controlling shareholder and its subsidiaries for a period of three years. The term of the New Framework Agreement will be from the date of approval at the Annual General Meeting held on 21 June 2019 to 31 December 2021.

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

The controlling shareholder and the Company may enter into separate independent service agreements and specify specific terms of each transaction in accordance with the scope stipulated in the New Framework Agreement to regulate the transactions contemplated under the New Framework Agreement. These individual service agreements shall comply with the terms of the New Framework Agreement and set out the specific terms of each transaction. The price of operation and management services under the New Framework Agreement will be determined based on the following principles:

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

(2) if there is a market price, it shall be executed at market price; and

(3) if there is no market price reference, the price is determined based on reasonable costs + reasonable profit (not more than 10%). Reasonable costs refer to the costs mutually agreed through negotiation between the Company and the controlling shareholder for actual expenses incurred for provision of products or services under the New Framework Agreement to the controlling shareholder or the costs mutually agreed through negotiation between both parties (including taxes and fees). The reasonable profit was fixed at no more than 10%. On the one hand, the Company considers that it is commercially reasonable to adopt an overall margin for different types of projects to be transacted under the New Framework Agreement, which will allow the Company to have more flexibility to negotiate with the controlling shareholder regarding the pricing for individual projects. On the other hand, the Company will ensure that the overall profit margin for the transactions under the New Framework Agreement will not be lower than 8%. When determining the price and specific terms of an individual agreement, the Company will strictly follow relevant internal control measures to ensure that the price is fair and reasonable, and the terms of individual agreement conforms with the principles stipulated under the New Framework Agreement.

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

Individual Service Agreements

The Company and the Controlling Shareholder have entered into the individual service agreements in relation to 7 treatment plants conducting the excluded business, including the Kunming No. 9 Water Purification Plant Entrusted Operation Management Agreement, the Kunming No. 11 Water Purification Plant Entrusted Operation Management Agreement, the Baiyuhe Water Purification Plant Entrusted Operation Management Agreement, the Baiyukou Water Purification Plant Entrusted Operation Management Agreement, the Haikou Water Purification Plant Entrusted Operation Management Agreement, the Luolonghe Rain Water Station Entrusted Operation Management Agreement, and the Kunming No. 13 Wastewater Treatment Plant Entrusted Operation Management Agreement of Overall Commissioning of Process and Equipment with Load which are governed by the terms of the New Framework Agreement. The management fees under individual service agreements are calculated based on the actual wastewater treatment volume multiplied by the price per cubic meter. The price per cubic meter is based on the pricing principles determined in the New Framework Agreement. If there is a market price, it shall be executed at market price. If there is no market price reference, the price is calculated based on reasonable costs + reasonable profit (not more than 10%).

Annual Caps and actual transaction amount

During the Reporting Period, the annual cap for the transactions under the Entrusted Operation and Management Framework Agreement for 2019 was RMB123,170,000, with the actual transaction value being RMB98,937,055.

2. Confirmation by the independent non-executive Directors

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

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

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

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

3. Confirmation of Auditor

The Board has received a confirmation letter in relation to above continuing connected transactions from Mazars CPA Limited ("**Mazars**"), confirming with respect to the above continuing connected transactions as at 31 December 2019 that:

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

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

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

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

Please refer to Note 35 to the Consolidated Financial Statements prepared under the IAS for details of the significant related party transactions. The information disclosure on connected transactions and continuing connected transactions required by the Listing Rules is set out in this chapter. Saved as disclosed above, it does not constitute connected transactions or continuing connected transactions of the Company or connected transactions or continuing connected transactions exempted from disclosure. Directors confirm that the Company has complied with the disclosure rules under Chapter 14A of the Listing Rules in relation to the above connected transactions and the related party transactions set out in Note 35 to the Consolidated Financial Statements.

T. COMPLIANCE WITH NON-COMPETITION AGREEMENT

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

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

Kunming Dianchi Investment has committed that for the year 2019, it has complied with the Non-competition Agreement. The independent non-executive Directors have examined and reviewed the implementation of the Non-competition Agreement during the year of 2019 and have confirmed that Kunming Dianchi Investment was fully complied with the agreement and there were no violations of agreement.

U. RETIREMENT AND EMPLOYEE BENEFIT PLANS

Details of the retirement and employee benefits plans of the Group are set out in Note 10 to the Financial Statements.

V. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

W. PUBLIC FLOAT

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

X. DONATIONS

During the Reporting Period, the Company had made donations for charity of RMB33,000 in an aggregate.

Y. PERMITTED INDEMNITY PROVISIONS

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

Z. AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Financial Statements of the Group for the year ended 31 December 2019 prepared in accordance with the International Financial Reporting Standards in 2019.

AA. AUDITOR

The Company's domestic and international auditors for the year 2018 were PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers Certified Public Accountants. The aforementioned auditors retired at the annual general meeting of the Company held on 21 June 2019.

According to the annual general meeting of the Company held on 21 June 2019, the board of directors has been authorized to approve the appointment of Zhongshen Zhonghuan Certified Public Accountants (Special General Partnership) and Mazars as the domestic and international auditors of the Company respectively.

Mazars is appointed as the auditor for the Financial Statements for the year ended 31 December 2019 prepared in accordance with the International Financial Reporting Standards. Such Financial Statements prepared in accordance with the International Financial Reporting Standards as stated herein have been audited by Mazars and a standard unqualified audit report has been issued.

By order of the Board
Guo Yumei
Chairperson

Kunming, the PRC

The Board of Directors of the Company has hereby submitted its Corporate Governance Report for 2019 to the shareholders.

A. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company focuses on maintaining a high standard of corporate governance for purposes of enhancing the value of the shareholders and protecting their interests. The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and as its own corporate governance code. The Company has established and enhanced the corporate governance structure in accordance with the Listing Rules and the CG Code and has set up a series of corporate governance policies. The directors of the Company believe that during the Reporting Period, the Company has been observing all mandatory code provisions as stipulated in the CG Code except for provision A.2.1 and A.4.2.

During the Reporting Period, for the period from 1 January 2019 to 10 July 2019, Ms. Guo Yumei is the Chairperson and President of the Company.In accordance with provision A.2.1 of the Corporate Governance Code, the roles of chairperson and chief executive officer should be separated and should not be held by the same person. Being aware of the said deviation from provision A.2.1 of the Corporate Governance Code, but in view of the development of the Group and Ms. Guo's extensive experience in the industry and long service history with the Group and the Board comprises 3 independent non-executive Directors and 2 non-executive Directors, enabling the interest of the Company's shareholders to be represented sufficiently and fairly under the supervision by the Board, therefore, the board of directors considers that, during the Reporting Period, during the period of deviation from the A.2.1 of the Corporate Governance Code, Ms. Guo concurrently acting as the Chairperson and President can facilitate the execution of the Group's business strategies and enhance the operating efficiency. In order to better coordinate the strategic development of the Company and to achieve better allocation of corporate governance responsibilities, the Company has appointed Mr. Chen Changyong as the general manager of the Company on 10 July 2019. Ms. Guo will continue to serve as the Chairperson of the Company. Since then, the Company has fully complied with the relevant provisions of provision A.2.1 of the Corporate Governance Code. The Chairperson, Ms. Guo Yumei, and the general manager, Mr. Chen Changyong, performed corresponding duties respectively in accordance with relevant laws and regulations and provision of the Company's Articles of Association.

In addition, under code provision A.4.2, every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years. As of the end of the Reporting Period, the terms of office of the first Board and the board of supervisors of the Company have expired for 3 years, but the relevant nomination work of relevant candidates has not yet ended. At the same time, the Board considers the continuity of the Board and the board of supervisors of the Company. Under the relevant provisions of the articles of association of the Company, if, upon the expiry of a director's term of office, a new director cannot be elected on a timely basis, before the re-elected director commences his/her term of office, such director shall continue to perform his/her duties in accordance with the laws, administrative regulations, departmental rules and the articles of association of the Company. Therefore, the Board considers that deviations from provision A.4.2 of the Corporate Governance Code will not have a significant impact on the Group's operation as a whole and the Company will complete the relevant work as soon as possible.

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

B. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES DEALINGS BY THE DIRECTORS AND SUPERVISORS

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

C. BOARD OF DIRECTORS

1. Board of Directors

a. Composition of the Board of Directors

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

On 14 November 2019, the Company held the Nomination Committee of the Board and the 69th meeting of the first session of the Board which proposed to appoint Mr. Chen Changyong (陳昌勇) as an executive director of the first session of the Board of the Company and appoint Ms. Yu Yanbo (余燕波) as a non-executive director of the first session of the Board of the Company. Resolutions of the proposed appointment of Mr. Chen Changyong to serve as the executive director of the Company and the proposed appointment of Ms. Yu Yanbo to serve as the non-executive director of the Company are subject to shareholders 'approval in the form of ordinary resolutions at the general meeting. As at the Latest Practicable Date, the above-mentioned resolutions of the proposed appointment have yet to be submitted to the general meeting for approval.

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

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

As of the end of the Reporting Period, the composition of the Board is as follows:

Name	Age	Sex	Position	Appointment date	Term
Ms. Guo Yumei	52	Female	Chairperson; Executive Director	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016 and resigned as General Manager on 10 July 2019	3 years
Mr. Luo Yun	41	Male	Executive Director and Deputy General Manager (serving as General Manager until 10 July 2019)	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	3 years
Ms. Zhao Zhu	40	Female	Non-executive Director	21 June 2019	3 years
Ms. Song Hong	56	Female	Non-executive Director	23 June 2016	3 years
Mr. Yin Xiaobing	46	Male	Independent Non-executive Director	23 June 2016	3 years
Mr. He Xifeng	57	Male	Independent Non-executive Director	23 June 2016	3 years
Mr. Sin Lik Man	41	Male	Independent Non-executive Director	16 November 2018	3 years

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

b. Job Duties and Authority of the Board of Directors

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

c. Job Duties and Authority of the Management

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

2. Meetings of Board of Directors and General Meeting

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

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

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

The Directors confirm that during the Reporting Period, the Company has strictly complied with the provisions in relation to the meetings of the Board of Directors. The Chairperson also held a meeting with the independent non-executive Directors without presence of other Directors during the year. During the Reporting Period, the Board of Directors convened a total of 22 meetings. The attendance of the meetings by the Directors was as follows:

Name	Position	Number of meetings attended/ should attend	Attendance Rate
Ms. Guo Yumei	Chairperson; Executive Director	22/22	100%
Mr. Luo Yun	Executive Director and Deputy General Manager	22/22	100%
Ms. Ma Ce (1)	Non-executive Director	10/10	100%
Ms. Song Hong	Non-executive Director	22/22	100%
Ms. Zhao Zhu (2)	Non-executive Director	12/12	100%
Mr. Yin Xiaobing	Independent Non-executive Director	22/22	100%
Mr. He Xifeng	Independent Non-executive Director	22/22	100%
Mr. Sin Lik Man	Independent Non-executive Director	22/22	100%

Notes:

(1) The resignation of Ms. Ma Ce from his position as a non-executive Director of the Company took effect after the 2018 Annual General Meeting held on 21 June 2019, and he was not required to participate in any Board meetings held after the effective date of his resignation.

(2) Ms. Zhao Zhu was a non-executive Director newly appointed after an approval had been given by shareholders of the Company at the 2018 Annual General Meeting held on 21 June 2019, and she participated in all Board meetings held after her appointment.

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

Name	Position	Number of meetings attended/ should attend	Attendance rate
Ms. Guo Yumei	Chairperson; Executive Director	1/1	100%
Mr. Luo Yun	Executive Director and Deputy General Manager	1/1	100%
Ms. Ma Ce [(1)]	Non-executive Director	0/0	100%
Ms. Song Hong	Non-executive Director	1/1	100%
Ms. Zhao Zhu [(2)]	Non-executive Director	1/1	100%
Mr. Yin Xiaobing	Independent non-executive Director	1/1	100%
Mr. He Xifeng	Independent non-executive Director	1/1	100%
Mr. Sin Lik Man	Independent non-executive Director	1/1	100%

Notes:

(1) Ms. Ma Ce submitted her resignation to the board of directors on 22 March 2019 and resigned as the non-executive Director of the Company. The resignation as a non-executive Director of the Company took effect after the 2018 annual general meeting held on 21 June 2019.

(2) Ms. Zhao Zhu is a newly appointed non-executive Director approved by the 2018 annual general meeting held on 21 June 2019 who attended the annual general meeting as a director candidate.

3. Chairperson and President

During the Reporting Period, for the period from 1 January 2019 to 10 July 2019, Ms. Guo Yumei is the Chairperson and President of the Company.In accordance with provision A.2.1 of the Corporate Governance Code, the roles of chairperson and chief executive officer should be separated and should not be held by the same person. Being aware of the said deviation from provision A.2.1 of the Corporate Governance Code, but in view of the development of the Group and Ms. Guo's extensive experience in the industry and long service history with the Group and the Board comprises 3 independent non-executive Directors and 2 non-executive Directors, enabling the interest of the Company's shareholders to be represented sufficiently and fairly under the supervision by the Board, therefore, the board of directors considers that, during the Reporting Period, during the period of deviation from the A.2.1 of the Corporate Governance Code, Ms. Guo concurrently acting as the Chairperson and President can facilitate the execution of the Group's business strategies and enhance the operating efficiency. In order to better coordinate the strategic development of the Company and to achieve better allocation of corporate governance responsibilities, the Company has appointed Mr. Chen Changyong (陳昌勇) as the general manager of the Company on 10 July 2019. Ms. Guo will continue to serve as the Chairperson of the Company. Since then, the Company has fully complied with the relevant provisions of provision A.2.1 of the Corporate Governance Code. The Chairperson, Ms. Guo Yumei, and the general manager, Mr. Chen Changyong, performed corresponding duties respectively in accordance with relevant laws and regulations and provision of the Company's Articles of Association.

4. Appointment of Directors

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

Under code provision A.4.2, every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years. As of the end of the reporting period, the terms of office of the first Board and the board of supervisors of the Company have expired for 3 years, but the relevant nomination work of relevant candidates has not yet ended. At the same time, the Board considers the continuity of the Board and the board of supervisors of the Company. Under the relevant provisions of the articles of association of the Company, if, upon the expiry of a director's term of office, a new director cannot be elected on a timely basis, before the re-elected director commences his/her term of office, such director shall continue to perform his/her duties in accordance with the laws, administrative regulations, departmental rules and the articles of association of the Company. Therefore, the Board considers that deviations from provision A.4.2 of the Corporate Governance Code will not have a significant impact on the Group's operation as a whole and the Company will complete the relevant work as soon as possible.

5. Remuneration of Directors

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

The independent non-executive Directors of the Company receive their remuneration from the Company, whereby the Company shall pay Mr. Yin Xiaobing, Mr. He Xifeng and Mr. Sin Lik Man an amount of pre-tax remuneration RMB150,000, RMB150,000 and RMB220,000, respectively on a yearly basis. Travel and accommodation expenses incurred for the Company's Board meetings, general meetings and the relevant activities organized by the Board of Directors attended by the independent non-executive Directors shall be borne by the Company. As for those non-executive Directors who do not take any management job duties in the Company, they do not receive their remuneration from the Company. The executive Directors who undertake management job duties in the Company shall receive their remuneration from the Company. The remuneration of all executive Directors shall be determined pursuant to the standards as provided in the "Measures Regarding Remuneration Management" of the Company, and in particular, such remuneration shall include the basic salary, performance bonus and other benefits. The basic salary is determined based on the position held by an executive Director in the Company and the performance bonus is determined subject to the Company's operating results. Other benefits shall include the statutory pension, medical and housing provident funds. Details in relation to the remuneration of Directors are provided in Note 12 to the Financial Statements.

6. Training of Directors

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

For the year ended 31 December 2019, the Directors have participated in the following training:

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

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

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

7. Joint Company Secretaries and their training

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

D. COMMITTEES UNDER THE BOARD OF DIRECTORS

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

1. Audit Committee

The Audit Committee of the Company consists of three members. During the Reporting Period, such members include Mr. Yin Xiaobing (尹曉冰) (an independent non-executive Director, acting as the chairman of the Audit Committee since 16 November 2018), Mr. He Xifeng (何錫鋒) (an independent non-executive Director) and Mr. Sin Lik Man (冼力文) (an independent non-executive Director).

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

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

During the Reporting Period, the Audit Committee held 5 meetings, the details of which are as follows:

On 22 March 2019, a meeting of the Audit Committee was held, at which 11 proposals including the Proposal on Financial Statements Reviewed by External Auditors in the Previous Year and the Proposal on Profit Distribution Plan were considered and unanimously approved by all members of the Audit Committee.

On 24 May 2019, a meeting of the Audit Committee was held which considered the resolution of the proposed appointment of the Company's auditors for the year of 2019 and was unanimously approved by all members of the Audit Committee.

On 16 August 2019, a meeting of the Audit Committee was held, at which 7 proposals including the Proposal on 2019 Interim Results Report were considered and unanimously approved by all members of the Audit Committee.

On 14 November 2019, the Audit Committee meeting was held. At the meeting, the Company's auditor team conducted the first communication with the Audit Committee and the management for the Company's 2019 annual report.

On 31 December 2019, the Audit Committee meeting was held. At the meeting, the Company's auditor team conducted the second communication with the Audit Committee for the Company's 2019 annual report.

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

Name	Number of meetings attended/ should attend	Attendance Rate
Mr. Yin Xiaobing *(Chairman)*	5/5	100%
Mr. He Xifeng	5/5	100%
Mr. Sin Lik Man	5/5	100%

2. Remuneration and Appraisal Committee

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

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

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

On 22 March 2019, a meeting of the Remuneration and Appraisal Committee was held in the Company. The meeting considered and evaluated 1 proposal of the Company's operation and management team's salary for the year of 2018 which was unanimously approved by all members of the Remuneration and Appraisal Committee.

On 14 November 2019, a meeting of the Remuneration and Appraisal Committee was held in the Company. The meeting considered 2 proposals of determining the salary of two director candidates which were unanimously approved by all members of the Remuneration and Appraisal Committee. The candidate's remuneration plan will not take effect until the appointment of director of the two candidates is considered and approved by the general meeting.

On 29 November 2019, a meeting of the Remuneration and Appraisal Committee was held in the Company. The meeting considered 1 proposal of the appraisal and realization of the remuneration of the person in charge of the Company for the year of 2018 which was unanimously approved by all members of the Remuneration and Appraisal Committee.

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

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

3. Nomination Committee

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

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

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

On 10 July 2019, a meeting of the Nomination Committee was held in the Company which considered one proposal of the nomination of Mr. Chen Changyong as the general manager of the Company and was unanimously approved by all members of the Nomination Committee.

On 14 November 2019, a meeting of the Nomination Committee was held in the Company which considered two proposals of the nomination of Mr. Chen Changyong as an executive Director of the Company and the nomination of Ms. Yu Yanbo as a non-executive Director of the Company which were unanimously approved by all members of the Nomination Committee.

On 31 December 2019, a meeting of the Nomination Committee was held in the Company which considered two proposals of reviewing the structure and composition of members of the Board of the Company and reviewing the diversity policy of the board of directors of the Company and its implementation which were unanimously approved by all members of the Nomination Committee.

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

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

4. Strategy and Investment Decision Committee

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

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

During the Reporting Period, the Strategy and Investment Decision Committee held 2 meetings. Details are as follows:

On 10 July 2019, a meeting of the Strategy and Investment Decision Committee was held in the Company which discussed and reviewed 2 proposals concerning the five-year strategic plan of the Company from 2019 to 2023 and were unanimously approved by all members of the Strategy and Investment Decision Committee.

On 31 December 2019, a meeting of the Strategy and Investment Decision Committee was held in the Company which discussed the proposal related to international development of the Company's business and members fully expressed their views on all aspects involved in the proposal.

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

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

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

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

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

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

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

The Nomination Committee has selected new Directors pursuant to the requirements of the "Diversity Policy of Members of the Board of Directors", while a special meeting was held during the Reporting Period to review the implementation and progress of the "Diversity Policy of Members of the Board of Directors", with a view to achieving the objective of diversifying the members of the Board of Directors.

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

Item	Category	Number	Percentage in the members of the Board of Directors
Gender	Male	4	57%
	Female	3	43%
Age	40 to 50	4	57%
	51 to 60	3	43%
Post	Executive Director	2	29%
	Non-executive Director	2	29%
	Independent non-executive Director	3	42%
Length of service as Board members	3 years to 4 years or less	6	86%
	4 years or more	1	14%
Experience in water treatment industry	20 years or less	6	86%
	21 years or more	1	14%
Major or expertise	Engineering	2	29%
	Finance and accounting	4	57%
	Law	1	14%

F. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

Our Board of Directors and the senior management are accountable for the overall responsibility in respect of monitoring the implementation of internal control and risk management procedures and other measures in the Group. The Company's risk management and internal control systems aim at managing but not eliminating the risk for not being able to achieve the business objective. Moreover, only reasonable but not absolute guarantee is made for misrepresentation or loss that are not significant. The Board of Directors will conduct an examination on the Company's risk management and internal control systems once a year. The Board of Directors states that it has reviewed and examined the Company's risk management and internal control systems as of 31 December 2019. The Board of Directors confirms that it has examined the effectiveness of the Company's risk management and internal control systems. The Board believes that the Company's risk management and internal control systems are effective and sufficient. The Company's risk management and internal control systems can effectively guard against such risks existing in the operation.

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

G. DIVIDEND POLICY

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

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

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

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

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

H. THE DIRECTORS' LIABILITY TO THE FINANCIAL STATEMENTS

The Company has not encountered with any significant and uncertain events and circumstances that might produce significant doubts on the Company's capability of its continuous operation of business. The Board of Directors has confirmed to undertake the liabilities for the preparation of the Group's financial statements as of 31 December 2019.

I. REMUNERATION OF AUDITOR

Auditors engaged by the Company shall be nominated by the Board and approved by the general meeting of shareholders. Their remuneration is determined by the Board as authorized by the general meeting of shareholders. To ensure better alignment between the Company's audit works in the PRC and overseas, the Company appointed Mazars CPA Limited as its international auditor and engaged Zhongshen Zhonghuan Certified Public Accountants (Special General Partnership) to handle its PRC domestic audit work in 2019. During the year, the Group paid RMB3.5 million to auditors for their audit service for the Group, and paid RMB0 million for their non-audit service.

J. SHAREHOLDERS' RIGHTS

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

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

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

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

3. Shareholders are entitled to the inquiry right

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

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

K. COMMUNICATIONS WITH SHAREHOLDERS

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

L. INVESTORS RELATION

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

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

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

M. ARTICLES OF ASSOCIATION

During the Reporting Period, in order to meet the actual needs of the Company and better adapt to future business development needs, the Board proposed to increase members of the Board to contribute to the Company's business planning and management advice and thus proposed that relevant articles in the Articles of Association are revised as follows. For details, please refer to the announcement of the Company dated 14 November 2019. The resolution of the proposed amendments to the Articles of Association shall be submitted to the Company's general meeting for consideration and approval, but the proposed amendments to the Articles of Association shall be subject to approval by way of special resolution at the general meeting. Save for the above amendments, there were no other amendments made to the Company's Articles of Association during the Reporting Period.

N. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Company has complied with the provisions of "Comply or Explain" ("不遵守就解釋") stated in the Environmental, Social and Governance ("**ESG**") Reporting Guide. The Environmental, Social and Governance Report is set out in Chapter 13 of the "Environmental, Social and Governance Report" of this annual report.

I. COMPOSITION OF THE BOARD OF SUPERVISORS

As of 31 December 2019, the Board of Supervisors of the Company consists of three Supervisors, of whom two are employee representative Supervisors. The remaining Supervisor has been appointed by our shareholders and the current employee representative Supervisors have been appointed by the representatives of our labor union. The Supervisors are appointed for a term of three years after which they may be re-elected.

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

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

II. MEETING OF THE BOARD OF SUPERVISORS

In 2019, the Board of Supervisors of the Company convened 22 meetings of the Board of Supervisors in total. All Supervisors were present. The attendance of the supervisors is as follows:

Name	Number of meetings attended/ should attend	Attendance Rate
Na Zhiqiang	22/22	100%
Yao Jianhua	22/22	100%
Shao Wei	22/22	100%

III. MAJOR WORK IN 2019

(1) Monitoring the operation of the Company

In 2019, the members of the Board of Supervisors of the Company reviewed the proposals submitted to the Board of Directors and the general meetings for consideration and examined the operating activities of the Company by attending all the Board meetings and general meetings of the Company. The Board of Supervisors believes that the operating activities of the Company are in compliance with the provisions of the relevant laws and regulations of the state and the Articles of Association, the decision-making procedures are legal, the operating results are significant, and the Company has not engaged in any operating activities that are in violation of laws and regulations or exceed the scope of business operation as prescribed in laws and regulations.

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

In 2019, the members of the Board of Supervisors of the Company monitored the Directors and senior management of the Company performing their duties by attending the Board meetings, reviewing various proposals of the Board and examining the daily operation and management of the Company. The Board of Supervisors believes that the Directors and senior management of the Company are in compliance with laws, carry out their duties responsibly, and perform their work in a practicable, diligent and due manner. The decision-making procedures are scientific and legal. None of the Directors or senior management has been found to act illegally or in violation of laws and regulations or to the detriment of the rights and interests of the Company and shareholders when performing their duties.

(3) Monitoring the financial position of the Company

In 2019, the Board of Supervisors of the Company carefully reviewed the relevant financial information and audit reports of the Company. The Board of Supervisors believes that the preparation of the financial statements of the Company is in compliance with the Financial Reporting Standards. The report has followed the principle of consistency and has reflected the financial position and operating results of the Company in an accurate, complete, true and fair manner.

(4) Monitoring the connected transactions of the Company

In 2019, the Board of Supervisors reviewed the information regarding the connected transactions between the Company and the Controlling Shareholder. The Board of Supervisors believes that such connected transactions were conducted on normal commercial terms, were fair, equitable and reasonable, and there existed no damages to the interests of the Company and other shareholders.

(5) Internal control

In 2019, the Company established a rather complete internal control system, which was in compliance with the requirements of the relevant laws and regulations of the state and meeting the actual needs of production, operation and management of the Company. Such system could be effectively implemented. The establishment of the internal control system has produced effect on better risk prevention and control on various sectors of production, operation and management of the Company. During the Reporting Period, the supervisory activities of the Board of Supervisors did not reveal any risk existing in the Company and there was no objection to the supervision matters during the Reporting Period.

IV. 2020 ANNUAL WORK PLAN

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

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

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

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

In 2020, the Board of Supervisors will seriously abide by the provisions of laws, regulations and the Articles of Association and perform their duties and obligations, and effectively safeguard the interests of the Company and the shareholders, so as to ensure that the Company can operate in a standardized and healthy manner.

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

OPINION

We have audited the consolidated financial statements of Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 116 to 215, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by International Federation of Accountants ("**IFAC**"). 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 "**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA 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 for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables, receivables under service concession arrangements and construction contracts	
Refer to Note 24 "Trade and other receivables", Note 17 "Receivables under service concession arrangements", Note 18 "Amounts due from customers for construction contracts" and Note 2 "Significant accounting policies – Critical accounting estimates and judgements" to the consolidated financial statements. As at 31 December 2019, the net carrying amounts of trade receivables, receivables under service concession arrangements and construction contracts were approximately RMB967 million, RMB1,390 million and RMB544 million respectively, and loss allowance provision for trade receivables, receivables under service concession arrangements and construction contracts were approximately RMB16.3 million, RMB0.5 million and RMB6.1 million respectively. To a large extent of receivables under service concession arrangements and construction contracts and approximately RMB780 million out of the trade receivables were due from local government authorities. Management assesses the recoverability of trade receivables, receivables under service concession arrangements and construction contracts based on the risk portfolio, customers' liquidity, historical credit losses, past collection history, subsequent settlement and other current and forward-looking information on macro economy. We identified the above matter as a key audit matter area because of the significant judgement involved in determining the recoverability of trade receivables, receivables under service concession arrangements and construction contracts and their significant amounts.	Our audit procedures, among others, included: – evaluated management's controls over the Group's assessment process in relation to the recoverability of trade receivables, receivables under service concession arrangements and construction contracts respectively; – tested, on a sample basis, the accuracy of the ageing report and historical credit losses for trade receivables, receivables under service concession arrangements and construction contracts respectively; – obtained management's assessment of future expected credit losses and the change of credit risk of individually significant balances and corroborated management's assessment against available evidence including but not limited to obtaining market data for our analysis; and – examined subsequent settlements for trade receivables, receivables under service concession arrangements and construction contracts respectively.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2019 annual report of the Company 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 issued by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with ISAs, we exercise professional judgment 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.

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

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

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

We communicate with 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 and 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.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2020

The engagement director on the audit resulting in this independent auditor's report is:
Fung Shiu Hang
Practising Certificate number: P04793

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 31 December 2019 RMB'000	Year ended 31 December 2018 RMB'000
Revenue	5	1,833,542	1,429,787
Cost of sales	6	(1,195,618)	(900,753)
Gross profit		637,924	529,034
Selling expenses	6	(13,140)	(14,175)
Administrative expenses	6	(126,082)	(135,991)
Research and development expenses	6	(5,719)	(4,160)
Net impairment losses on financial and contract assets		(8,829)	(17,562)
Other income	7	86,512	110,525
Other (losses)/gains – net	8	(974)	2,052
Operating profit		569,692	469,723
Finance income	9	61,408	56,924
Finance costs	9	(192,709)	(111,243)
Finance costs – net	9	(131,301)	(54,319)
Share of results of associates	20	(241)	(183)
Profit before income tax	10	438,150	415,221
Income tax expense	11	(68,072)	(65,494)
Profit for the year		370,078	349,727
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on consolidation		871	3,282
Total comprehensive income for the year		370,949	353,009
Profit attributable to:			
– The equity holders of the Company		368,411	348,549
– Non-controlling interests		1,667	1,178
		370,078	349,727
Total comprehensive income attributable to:			
– The equity holders of the Company		369,282	351,831
– Non-controlling interests		1,667	1,178
		370,949	353,009
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic and diluted earnings per share	14	0.36	0.34

As at 31 DECEMBER 2019

	Notes	As at 31 December 2019 RMB'000	2018 RMB'000
Non-current assets			
Land use rights	15	–	469,125
Right-of-use assets	15	464,182	–
Property, plant and equipment	16	3,058,900	3,053,604
Receivables under service concession arrangements	17	1,381,995	1,120,398
Amounts due from customers for construction contracts	18	516,266	291,687
Intangible assets	19	199,420	184,558
Investments in associates	20	14,833	15,074
Deferred tax assets	21	52,990	50,196
		5,688,586	5,184,642
Current assets			
Receivables under service concession arrangements	17	7,548	15,408
Inventories	22	22,636	12,921
Amounts due from customers for construction contracts	18	27,578	18,911
Financial assets at fair value through profit or loss	23	246,327	170,000
Trade and other receivables	24	2,225,415	942,551
Cash and cash equivalents	25	1,290,199	1,079,714
Restricted cash	25	67,966	17,916
		3,887,669	2,257,421
Current liabilities			
Trade and other payables	26	486,848	379,708
Income tax payables		75,273	84,589
Borrowings	28	701,320	1,014,505
Lease liabilities	27	3,786	–
Contract liabilities	26	7,238	11,737
		1,274,465	1,490,539
Net current assets		2,613,204	766,882
Total assets less current liabilities		8,301,790	5,951,524
Non-current liabilities			
Deferred revenue	29	266,354	222,530
Borrowings	28	3,865,047	1,764,699
Lease liabilities	27	1,495	–
Deferred tax liabilities	21	74,473	63,374
		4,207,369	2,050,603
NET ASSET		4,094,421	3,900,921

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 DECEMBER 2019

		As at 31 December	
	Notes	**2019** ***RMB'000***	2018 *RMB'000*
Capital and reserves			
Share capital	*30*	**1,029,111**	1,029,111
Other reserves	*31*	**1,489,179**	1,452,284
Retained earnings	*32*	**1,569,375**	1,413,378
Equity attributable to the equity holders of the Company		**4,087,665**	3,894,773
Non-controlling interests		**6,756**	6,148
TOTAL EQUITY		**4,094,421**	3,900,921

The consolidated financial statements on pages 116 to 215 were approved and authorised for issue by the Board of Directors on 27 March 2020 and signed on its behalf by:

Guo Yumei
Director

Luo Yun
Director

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to the equity holders of the Company					
	Share capital *RMB'000* *(Note 30)*	Other reserves *RMB'000* *(Note 31)*	Retained earnings *RMB'000* *(Note 32)*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2018	1,029,111	1,413,937	1,257,039	3,700,087	6,114	3,706,201
Comprehensive income:						
Profit for the year	–	–	348,549	348,549	1,178	349,727
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on consolidation	–	3,282	–	3,282	–	3,282
Total comprehensive income for the year	–	3,282	348,549	351,831	1,178	353,009
Transactions with owners:						
Dividends *(Note13)*	–	–	(157,145)	(157,145)	(1,144)	(158,289)
Appropriations:						
Appropriation to statutory reserve *(Note31(a))*	–	35,065	(35,065)	–	–	–
At 31 December 2018	1,029,111	1,452,284	1,413,378	3,894,773	6,148	3,900,921
At 1 January 2019	1,029,111	1,452,284	1,413,378	3,894,773	6,148	3,900,921
Comprehensive income:						
Profit for the year	–	–	368,411	368,411	1,667	370,078
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on consolidation	–	871	–	871	–	871
Total comprehensive income for the year	–	871	368,411	369,282	1,667	370,949
Transactions with owners:						
Dividends *(Note13)*	–	–	(176,390)	(176,390)	(1,059)	(177,449)
Appropriations:						
Appropriation to statutory reserve *(Note 31(a))*	–	36,024	(36,024)	–	–	–
At 31 December 2019	1,029,111	1,489,179	1,569,375	4,087,665	6,756	4,094,421

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	*33(a)*	52,394	(630,994)
Interest paid		(156,123)	(27,430)
Income tax paid		(69,083)	(54,471)
Net cash used in operating activities		(172,812)	(712,895)
INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired		–	(148,087)
Purchase of property, plant and equipment		(219,700)	(328,132)
Purchase of intangible assets		(3,247)	(1,162)
Proceeds from disposal of property, plant and equipment	*33(b)*	25	12,721
Advances to related parties	*35(b)(ii)*	(1,000,000)	(900,000)
Repayments from related parties	*35(b)(iii)*	–	900,000
Interest received		61,408	29,811
Government grants received relating to purchase of property, plant and equipment		60,000	74,289
Purchase of structured deposits		–	(170,000)
Purchase of investment in Single Asset Management Plan		(200,000)	–
Proceed from disposal of structured deposits		170,000	80,000
Net cash used in investing activities		(1,131,514)	(450,560)
FINANCING ACTIVITIES			
Addition of restricted bank balances		(50,050)	–
Dividends declared and paid to the Company's equity holders		(176,390)	(160,006)
Dividends declared and paid to non-controlling interests in subsidiaries		(1,059)	(1,144)
Proceeds from borrowings		3,409,272	2,095,000
Repayments of borrowings		(1,676,725)	(995,792)
Repayments of lease liabilities		(4,082)	–
Net cash from financing activities		1,500,966	938,058
Net increase/(decrease) in cash and cash equivalents		196,640	(225,397)
Effect on exchange rate changes		13,845	13,941
Cash and cash equivalents at the beginning of the reporting period		1,079,714	1,291,170
Cash and cash equivalents at the end of the reporting period		1,290,199	1,079,714

1. GENERAL

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

The Company and its subsidiaries (together, the "**Group**") are principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC. The activities of the principal subsidiaries of the Company are set out in Note 36 to the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("**IASs**") and Interpretations issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). **There is no significant difference between the data recognised through the IASs and the data recognised in accordance with the Chinese Accounting Standards.**

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company, and rounded to the nearest thousands unless otherwise indicated.

The consolidated financial statements have been prepared on the basis consistent with accounting policies adopted in 2018 consolidated financial statements except for the adoption of the new/revised IFRSs that are relevant to the Group and effective from the current year as set out below.

Except for IFRS 16, the adoption of those new/revised IFRSs does not have any significant impact on the consolidated financial statement.

Adoption of new/revised IFRSs

The Group has applied, for the first time, the following new/revised IFRSs:

Annual Improvements to IFRSs	2015-2017 Cycle
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IAS 19	Employee Benefits
Amendments to IAS 28	Investments in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features with Negative Compensation
IFRS 16	Leases

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised IFRSs *(Continued)*

Annual Improvements Project – 2015-2017 Cycle

IFRS 3: Previously held interest in a joint operation

The amendments clarify that obtaining control of a business that is a joint operation is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages, including remeasuring its entire previously held interest in the joint operation.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

IFRS 11: Previously held interest in a joint operation

The amendments clarify that when an entity that participated in a joint operation which is a business obtains joint control of the joint operation, its previously held interest in the joint operation is not remeasured.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

IAS 12: Income tax consequences of payments on financial instruments classified as equity

The amendments clarify that (a) the income tax consequences of dividends are recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated the distributable profits were originally recognised and (b) these requirements apply to all income tax consequences of dividends as defined in IFRS 9.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

IAS 23: Borrowing costs eligible for capitalisation

The amendments clarify that (a) if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of the funds an entity borrows generally and (b) funds borrowed specifically to obtain an asset other than a qualifying asset are included as part of general borrowings.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation supports the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.

The adoption of the Interpretation does not have any significant impact on the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised IFRSs *(Continued)*

Amendments to IAS 19: Employee Benefits

The amendments require the use of updated assumptions to determine current service cost and net interest for the remainder of the reporting period after a change is made to a plan.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures

The amendments clarify that long-term interests in an associate or joint venture, to which the equity method is not applied, are accounted for using IFRS 9.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income instead of at fair value through profit or loss ("**FVPL**") if specified conditions are met.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

IFRS 16: Leases

IFRS 16 replaces IAS 17 and related Interpretations for annual periods beginning on or after 1 January 2019. It significantly changes, among others, the lessee accounting by replacing the dual-model under IAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

In accordance with the transitional provisions, the Group has applied IFRS 16 for the first time at 1 January 2019 (i.e. the date of initial application, the "**DIA**") using the modified retrospective approach in which comparative information has not been restated. Instead, the Group recognised the cumulative effect of initially applying IFRS 16 as an adjustment to the balance of retained earnings or other component of equity, where appropriate, at the DIA.

The Group elected to use the transitional practical expedient not to reassess whether a contract was, or contained, a lease at the DIA and applied IFRS 16 only to contracts that were previously identified as leases by applying IAS 17 and IFRIC-Int 4, but not to those that were not previously identified as containing a lease. Therefore, the definition of lease under IFRS 16 is applied only to contracts entered into or changed on or after the DIA.

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised IFRSs *(Continued)*

IFRS 16: Leases (Continued)

As lessee

Before the adoption of IFRS 16, lease contracts were classified as operating or finance lease in accordance with the Group's accounting policies applicable prior to the DIA.

Upon adoption of IFRS 16, the Group accounted for the leases in accordance with the transitional provisions of IFRS 16 and the Group's accounting policies applicable from the DIA.

As lessee – leases previously classified as operating leases

The Group recognised right-of-use assets and lease liabilities for leases previously classified as operating leases at the DIA, except for leases for which the underlying asset is of low value, and applied the following practical expedients on a lease-by-lease basis.

(a) Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

(b) Adjusted the right-of-use assets at the DIA by the provision for onerous leases recognised immediately before the DIA by applying IAS 37, as an alternative to performing an impairment review at the DIA.

(c) Did not recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the DIA.

(d) Excluded initial direct costs from the measurement of the right-of-use assets at the DIA.

(e) Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

At the DIA, except for those that were previously or will be accounted for as investment property using the fair value model, right-of-use assets were, on a lease-by-lease basis, measured at either,

(a) their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the DIA; or

(b) an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised immediately before the DIA.

At the DIA, the carrying amount of the right-of-use assets is adjusted by the carrying amount of the asset or liabilities that were previously recognised in accordance with IFRS 3 relating to favourable or unfavourable terms of an operating lease acquired as part of a business combination.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Adoption of new/revised IFRSs *(Continued)*

IFRS 16: Leases *(Continued)*

As lessee - leases previously classified as operating leases (Continued)

The financial impact at the DIA and for the current year is as follows:

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the DIA. The weighted average incremental borrowing rate applied to the lease liabilities at the DIA is 4.83%.

No right-of-use assets and lease liabilities were recognised for the operating lease commitments disclosed applying IAS 17 at 31 December 2018 because the amount of the initial recognition of the right-of-use assets and lease liabilities for leases are insignificant to the Group.

The following table summarises the input of transition to IFRS 16 on the consolidated statements of financial position of the Group at the DIA:

	Classification and carrying amount under IAS 17	Reclassification on adoption of IFRS 16	Classification and carrying amount under IFRS 16
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets:			
Land use rights	469,125	(469,125)	–
Right-of-use assets	–	469,125	469,125

Based on the foregoing, as at 1 January 2019:

- Prepaid lease payments in respect of the land use rights in the PRC was reclassified as right-of-use assets under IFRS 16 *(Note 15)*.

A summary of the principal accounting policies adopted by the Group is set out below:

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost basis, except for the financial assets at fair value through profit or loss which is measured at fair value as explained in the accounting policy set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from equity holders of the Company, in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, are measured initially either at fair value or at the present ownership instrument's proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by IFRSs.

Allocation of total comprehensive income

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

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. 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 the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position as set out in Note 37 to the consolidated financial statements, investments in subsidiaries are stated at cost less accumulated impairment losses, if any. The carrying amount of the investments is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investment in associate is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position which is presented within these notes, an investment in associates is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

As described in Note 30(a) to the consolidated financial statements, the Group received certain completed water supply or wastewater treatment facilities as capital injection from its controlling shareholder and undertakes the operation and maintenance of such facilities owned by the Group in the concession period, during which the Group can charge service fees based on the supplied water or treated wastewater to recover its costs of investment, operations and maintenance and obtain reasonable return, according to the concession agreement entered into by the Group and the governmental authority ("**Transfer-Own-Operate**" Model or "**TOO Model**"). Since the Group directed the use of the assets and controlled the significant residual interest in the assets under the TOO Model during the concession period and the Group has the exclusive priority right to extend its operation period and is not required to return these assets to the governmental authority at the end of the concession period, the fixed assets under the TOO Model are accounted for as property, plant and equipment.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment other than construction in progress, over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual value, using the straight-line method at the following rates per annum. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately.

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

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

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

Intangible assets

(i) Operating concessions

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

The Group recognises the related rights in the service concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) to charge users of the concession service and shall recognise a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Therefore intangible assets – concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 20 to 30 years.

(ii) Computer software

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

(iii) Development cost

Development costs relate to the cost incurred for improving technology and techniques to improve the wastewater treatment plants. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Right-of-use assets – Land use rights

As described in note 30(a) to the consolidated financial statement, all land in the PRC is state-owned or collectively-owned and no individual land ownership exists. The land use rights of certain land of the Group were contributed by Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限公司,"**KDI**"). Before 1 January 2019, the premium paid for such rights are treated as prepayments for operating lease and recorded as land use rights, which are stated at cost less accumulative amortisation and accumulated impairment losses, if any. Land use rights are amortised over the lease period of 48 to 50 years using straight-line method. From 1 January 2019, these payments are accounted for as right-of-use assets.

Service concession arrangements

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

(a) Consideration given by the Grantor

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

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of public services, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the services.

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially in accordance with IFRS 15.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Service concession arrangements *(Continued)*

(b) Construction and upgrade services

Revenue from construction service is recognised over time based on the percentage of completion of the contract, which is determined by the direct proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

(c) Operating service

During the Operation Period of the service concession arrangements, receipts up to the level of the guarantee are treated as settlement of the financial asset. Costs for operating services are expensed in the period in which they are incurred.

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Recognition and derecognition (Continued)

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income ("**Mandatory FVOCI**"); (iii) equity investment measured at fair value through other comprehensive income ("**Designated FVOCI**"); or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the following annual reporting period following the change in the business model.

Derivatives embedded in a hybrid contract in which a host is an asset within the scope of IFRS 9 are not separated from the host. Instead, the entire hybrid contract is assessed for classification.

1) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(a) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group's financial assets at amortised cost include receivables under service concession arrangements, trade and other receivables and bank balances and cash.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Recognition and derecognition (Continued)

2) Financial assets at FVPL

These investments include financial assets that are not measured at amortised cost or FVOCI, including financial assets held for trading, financial assets designated upon initial recognition at FVPL, financial assets resulting from a contingent consideration arrangement in a business combination to which IFRS 3 applies and financial assets that are otherwise required to be measured at FVPL. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which does not include any dividend or interest earned on the financial assets. Dividend or interest income is presented separately from fair value gain or loss.

A financial asset is classified as held for trading if it is:

(i) acquired principally for the purpose of selling it in the near term;

(ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking on initial recognition; or

(iii) a derivative that is not a financial guarantee contract or not a designated and effective hedging instrument.

Financial assets are designated at initial recognition at FVPL only if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables and borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated).

Subsequently, the financial guarantee is measured at the higher of (i) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with IFRS 15 and (ii) the amount of the loss allowance determined in accordance with the expected credit losses ("**ECL**") model under IFRS 9, unless the financial guarantee is measured at FVPL or arises from a transfer of a financial asset.

Impairment of financial assets and other items

The Group recognises loss allowances for ECL on financial assets that are measured at amortised cost, amounts due from customers for construction contracts issued to which the impairment requirements apply in accordance with IFRS 9. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

(a) past due status

(b) nature of financial instrument

(c) nature, size and industry of debtors; and

(d) local economy environment of provinces in the PRC

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items *(Continued)*

Measurement of ECL (Continued)

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial instrument that meets any of the following criteria.

(a) 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); or

(b) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, 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.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument 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 in the assessment:

- the debtor's failure to make payments of principal or interest on the due dates;
- an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items *(Continued)*

Assessment of significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(a) it has a low risk of default;

(b) the borrower has a strong capacity to meet its contractual cash flow obligations in the near terms; and

(c) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

As detailed in Note 3.1(b) to the consolidated financial statements, bank balances are determined to have low credit risk.

Simplified approach of ECL

For trade and other receivables, receivables under concession arrangement and amounts due from customers for construction contracts, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events 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 include 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets and other items *(Continued)*

Credit-impaired financial asset (Continued)

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

Revenue recognition

Revenue from contracts with customers within IFRS 15

Nature of goods or services

The nature of the goods or services provided by the Group is as follows:

(i) Wastewater treatment services.

(ii) Water supply services.

(iii) Revenue from construction contracts.

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers within IFRS 15 *(Continued)*

Identification of performance obligations(Continued)

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, 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 or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; 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.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

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

Revenue from water supply services is recognised when a Group entity has delivered water to the customer.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers within IFRS 15 (Continued)

Timing of revenue recognition (Continued)

Revenue from construction service is recognised over time based on the percentage of completion of the contract, which is determined by the direct proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, at the end of each reporting period. The Group's construction contracts refer to Build-Transfer (the "**BT**") arrangements. Under the BT arrangements, the Group carried out construction work of the wastewater treatment and water supply facilities and returned the assets to the counter parties of the BT arrangements after completion of the construction. The interest income arising from BT construction contracts of RMB61,237,652 during the year was presented in revenue (2018: finance income of RMB19,172,000) because the Group increased its engagement in BT contracts with government authorities for the construction and upgrade work of the wastewater treatment and water supply and other ancillary facilities and therefore the management considered to present such interest income in revenue for achieving more reasonable financial reporting purpose.

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract assets and contract liabilities *(Continued)*

For the wastewater treatment service and water supply services, it is common for the Group to receive from the customer the whole or some of the contractual payments before the services are completed or when the goods are delivered (i.e. the timing of revenue recognition for such transactions). The Group recognises a contract liability until it is recognised as revenue. During that period, any significant financing components, if applicable, will be included in the contract liability and will be expensed as accrued unless the interest expense is eligible for capitalisation.

On the consolidated statement of financial position, the Group reports the net contract position for each contract as either an asset or a liability. Amount due from customers for construction contracts represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). Since the Group's main operation is carried out in the PRC, the amounts shown in the consolidated financial statements are presented in RMB.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign exchange gains and losses resulting from the retranslation of non-monetary items carried at fair value are recognised in profit or loss except for those arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the gains or losses are also recognised directly in equity.

The results and financial position of all the group entities that have a functional currency different from the presentation currency ("**foreign operations**") are translated into the presentation currency as follows:

– Assets and liabilities for each statement of financial position presented and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period.

– Income and expenses for each statement of comprehensive income are translated at average exchange rate.

– All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currency translation *(Continued)*

– On the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

– On the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss.

– On all other partial disposals, which includes partial disposal of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, right-of-use assets, intangible assets, investments in associates and investments in subsidiaries may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. In addition, the Group tests its intangible assets that are not yet available for use for impairment by estimating their recoverable amount on an annual basis and whenever there is an indication that those assets may be impaired. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

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 cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as an income in profit or loss immediately.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowings costs

Borrowings costs which are directly attributable to the acquisition, construction and production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as and included in finance costs in profit or loss in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is included in non-current liabilities as deferred revenue and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Leases

Applicable from 1 January 2019

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

As lessee

The Group applies the recognition exemption to short-term leases. Lease payments associated with this lease is recognised as an expense on a straight-line basis over the lease term.

The Group has elected not to separate non-lease components from lease components, and accounts for each lease component and any associated non-lease components as a single lease component.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Applicable from 1 January 2019 (Continued)

As lessee (Continued)

The Group accounts for each lease component within a lease contract as a lease separately. The Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component.

Amounts payable by the Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

The right-of-use asset is initially measured at cost, which comprises

(a) the amount of the initial measurement of the lease liability;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the Group; and

(d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset. The unexpired lease term of the leased properties is ranged 2 to 3 years.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;

(b) variable lease payments that depend on an index or a rate;

(c) amounts expected to be payable under residual value guarantees;

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Applicable from 1 January 2019 *(Continued)*

As lessee (Continued)

(d) exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

(e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option.

The lease liability is remeasured by using the original discount rate when there is a change in the residual value guarantee, the in-substance fixed lease payments or the future lease payments resulting from a change in an index or a rate (other than floating interest rate). In case of a change in future lease payments resulting from a change in floating interest rates, the Group remeasures the lease liability using a revised discount rate.

The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss.

A lease modification is accounted for as a separate lease if

(a) the modification increase the scope of the lease by adding the right to use or more underlying assets; and

(b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification,

(a) the Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above.

(b) the Group determines the lease term of the modified contract.

(c) the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Applicable from 1 January 2019 *(Continued)*

As lessee (Continued)

(d) for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss.

(e) for all other lease modifications, the Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.

Applicable before 1 January 2019

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.

As lessee

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Lease incentives are recognised in profit or loss as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit

(a) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves the Group. In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. The full-time employees of the Group in the PRC are entitled to an additional pension aggregating to 8% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

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

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

(c) Bonus entitlements

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

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and investments in associates, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Related parties

A related party is a person or entity that is related to the Group.

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

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

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group.

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

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

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

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

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

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

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

  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

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

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

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individual material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Critical accounting estimates and judgements

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

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

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

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

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

(iv) Current and deferred income tax

The Group is subject to income taxes in different areas in the PRC. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

(v) Percentage of completion of construction and service contracts

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

(vi) Service concession arrangements

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially in accordance with IFRS 15. Significant judgement is exercised in determining the transaction price and the allocation thereof. Discount rates, estimates of future cash flows and other factors are used in the valuation process. Any change in the expected cash flows will result in change in the carrying value of the financial receivable.

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of financial receivables on the consolidated statement of financial position, (ii) interest income, which will be recognised as revenue in the consolidated statement of profit or loss and other comprehensive income, and (iii) revenue from operating and maintaining the water treatment plants in the consolidated statement of profit or loss and other comprehensive income.

Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and impairment losses. The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

The net amounts of the operating concession carried as intangible assets in the consolidated statement of financial position as at 31 December 2019 was RMB191,340,011 (2018: RMB163,335,251), while the receivables under service concession arrangements was RMB1,389,543,443 (2018: RMB1,135,806,000).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

(vii) Recognition of government grants

During 2019, the Group recognised government grant receivables as income for value-added tax refund of RMB17,418,710 (2018: RMB82,470,854) (Note 7). Management considered there is reasonable assurance that the value-added tax refund can be received pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilisation of Resources issued by the State Administration of Taxation in the PRC, and the grants were continuously received in 2019. When the expectation is different from the original estimate, such differences will impact the timing of recognition of government grants and reflect in the period in which such estimate is changed.

Future changes in IFRSs

At the date of approving these consolidated financial statements, the IASB has issued the following new/revised IFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to IASs 1 and 8	*Definition of Material* [1]
Amendments to IAS 39, IFRSs 7 and 9	*Interest Rate Benchmark Reform* [1]
Amendments to IFRS 3	*Definition of a Business* [2]
IFRS 17	*Insurance Contracts* [3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* [4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [5]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after 1 January 2022
5 The effective date to be determined

The management of the Group does not anticipate that the adoption of the new/revised IFRSs in future periods will have any material impact on the Group's consolidated financial statements.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk primarily arising from currency exposure with respect to Hong Kong dollars ("**HKD**") and United States dollars ("**USD**"). Foreign exchange risk arises from cash and cash equivalents and borrowings denominated in HKD and USD. The Group has entered into a currency swap agreement with a major borrowing bank to manage the currency risk in related to the borrowings.

As at 31 December 2019, if RMB had weakened/strengthened by 1% (2018: 1%) against HKD and USD denominated cash and cash equivalent with all other variables held constant, net profit for the year would have been approximately RMB7,373,433 (2018: RMB3,023,000) higher/lower. If RMB had weakened/strengthened by 1% (2018: nil) against HKD and USD denominated borrowings with all other variables held constant, net profit for the year would have been approximately RMB20,951,910 (2018: nil) lower/higher.

(ii) Cash flow and fair value interest rate risk

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

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

The interest rates and terms of repayments of borrowings are disclosed in Note 28 to the consolidated financial statements.

As at 31 December 2019, if the interest rate on floating interest rate borrowings had been higher/lower by 0.5% (2018: 0.5%), the Group's net profit for the year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	2019 *RMB'000*	2018 *RMB'000*
Net profit (decrease)/increase		
– Higher 0.5%	(13,768)	(6,453)
– Lower 0.5%	13,768	6,453

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

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

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

For receivables, the Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any.

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

(i) Trade receivables

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

The expected loss rates are based on the payment profiles of sales over a period of 12 month before 1 January 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. There was no change in the estimation techniques or significant assumptions made during the year.

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

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

(i) Trade receivables (Continued)

On that basis, loss allowance provision for trade receivables amounted to RMB16,294,264 was recognised as at 31 December 2019 (2018: RMB9,653,996). The expected loss rate for trade receivables and the loss allowance provision as at 31 December 2019 and 2018 are illustrated as follows:

	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 31 December 2019				
Expected loss rate	1.25%	3.77%	27.91%	
Gross carrying amount *(RMB'000)*	935,027	37,300	11,425	983,752
Loss allowance provision *(RMB'000)*	(11,698)	(1,407)	(3,189)	(16,294)
	923,329	35,893	8,236	967,458
Credit-impaired	No	No	No	

	Up to 1 year	1 to 2 years	2 to 3 years	Total
Trade receivables				
As at 31 December 2018				
Expected loss rate	1.00%	6.36%	79.85%	
Gross carrying amount *(RMB'000)*	576,932	23,067	3,023	603,022
Loss allowance provision *(RMB'000)*	(5,769)	(1,467)	(2,418)	(9,654)
	571,163	21,600	605	593,368
Credit-impaired	No	No	No	

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

(i) Trade receivables (Continued)

As at 31 December 2019, the Group recognised loss allowance of RMB6,640,268 (2018: RMB9,653,996) on the trade receivables. The movement in the loss allowance for trade receivables is summarised below.

	2019 *RMB'000*	2018 *RMB'000*
At the beginning of year	9,654	–
Increase of allowance	6,640	9,654
At the end of year	16,294	9,654

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

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

The Group does not hold any collateral over receivables under service concession arrangements or amounts due from customers for construction contracts as at 31 December 2019 (2018: Nil).

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

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

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

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

On the basis as stated, a total loss allowance provision for receivables under service concession arrangements, amounts due from customers for construction contracts and other receivables (except for the tax rebate which are not financial assets) amounted to RMB10,092,947 (2018: RMB7,907,603) was recognised at 31 December 2019 as follows:

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Total
As at 31 December 2019				
Expected loss rate	0.01%-0.1%	0.5%-1.2%	0.3%-1%	
Gross carrying amount *(RMB'000)*	1,390,030	549,978	1,091,268	3,031,276
Loss allowance provision *(RMB'000)*	(487)	(6,134)	(3,472)	(10,093)
	1,389,543	543,844	1,087,796	3,021,183
Credit-impaired	No	No	No	

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) *Credit risk (Continued)*

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

	Receivables under service concession arrangements	Amounts due from customers for construction contracts	Other receivables	Total
As at 31 December 2018				
Expected loss rate	0.1%-0.6%	0.5%-0.8%	0.3%-1.2%	
Gross carrying amount *(RMB'000)*	1,141,513	312,159	63,964	1,517,636
Loss allowance provision *(RMB'000)*	(5,707)	(1,561)	(640)	(7,908)
	1,135,806	310,598	63,324	1,509,728
Credit-impaired	No	No	No	

As at 31 December 2019, the Group recognised loss allowance of RMB2,185,344 (2018: RMB7,907,603) on the trade receivables. The movement in the loss allowance for trade receivables is summarised below.

	2019 *RMB'000*	2018 *RMB'000*
At the beginning of year	7,908	–
Increase of allowance	2,185	7,908
At the end of year	10,093	7,908

(c) *Liquidity risk*

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk (Continued)

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

Note 28 to the consolidated financial statements presents more analysis of liquidity risk and undrawn bank borrowings facilities.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
As at 31 December 2019					
Borrowings	896,651	407,472	3,710,252	–	5,014,375
Financial liabilities included in trade and other payables	422,593	–	–	–	422,593
Lease liabilities	3,970	1,515	–	–	5,485
	1,323,214	408,987	3,710,252	–	5,442,453

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
As at 31 December 2018					
Borrowings	1,121,922	648,563	1,268,769	61,638	3,100,892
Financial liabilities included in trade and other payables	289,497	–	–	–	289,497
	1,411,419	648,563	1,268,769	61,638	3,390,389

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

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

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

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

The net gearing ratio as at 31 December 2019 is as follow:

	2019 *RMB'000*	2018 *RMB'000*
Total borrowings *(Note 28)*	4,566,367	2,779,204
Less: Cash and cash equivalents *(Note 25)*	(1,290,199)	(1,079,714)
Restricted cash *(Note 25)*	(67,966)	(17,916)
Liquid investments *(Note 23)*	–	(170,000)
Net debt	3,208,202	1,511,574
Total equity	4,094,421	3,900,921
Total capital	7,302,623	5,412,495
Gearing ratio	43.93%	27.93%

3.3 Fair value estimation

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis across the three levels of the fair value hierarchy defined in IFRS 13 Fair Value Measurement, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

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

FOR THE YEAR ENDED 31 DECEMBER 2019

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

Financial assets measured at fair value

Financial assets	Fair value as at 31 December		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Correlation between significant unobservable inputs and fair value
	2019 *RMB'000*	2018 *RMB'000*				
1) Cross Currency swap classified as financial assets at FVPL	46,327	–	Level 2	Discounted cash flow method	N/A	N/A
2) Investment in Single Asset Management Plan classified as financial assets at FVPL	200,000	–	Level 3	Quoted prices from financial institution	Operating cash flows, interest rate, expected exit timing, specific right or terms associated with investments	Interest rate increases/ decreases 1%, fair value would increases/ decreases RMB2,000,000
3) Investments in structured deposits classified as financial assets at FVPL	–	170,000	Level 1	Quoted bid prices in an active market	N/A	N/A

During the year ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers between levels as at the end of the reporting period.

Movements in Level 3 fair value measurements

	Investment in Single Asset Management Plan 2019 *RMB'000*
At beginning of the reporting period	–
Purchases	200,000
At end of the reporting period	200,000

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

Financial assets measured at fair value *(Continued)*

Description of valuation techniques and inputs used in Level 3 fair value measurement

The investment in Single Asset Management Plan mainly comprises investment in certain accounts receivables and other non-standardised credit assets (the "**Investment**"). The fair value of the Investment is estimated based on the net asset value of the Investment reported to the investors by the investment manager as at the end of the reporting period.

Valuation processes used in Level 3 fair value measurement

The Group reviews estimation of fair value of the investment in Single Asset Management Plan which is categorised into Level 3 of the fair value hierarchy. Reports with estimation of fair value are prepared by the external fund manager on a quarterly basis. Discussion of the valuation process and results with the Audit Committee is held twice a year, to coincide with the reporting dates.

Fair values of financial assets and liabilities carried at other than fair value

In the opinion of the directors, no other financial assets of the Group are carried at amount materially different from their fair values as at 31 December 2019.

Fair value of financial assets and liabilities measured at amortised cost

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

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

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

4. SEGMENT INFORMATION

The executive directors have been identified as the chief operating decision-maker of the Company. Management has determined the operating segments based on reports reviewed by the executive directors of the Company for the purpose of allocating resources and assessing performance.

The executive directors of the Company consider the business from product and service perspective.

The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including thermal production, management service, transportation service and treasury functions.

The executive directors of the Company assess the performance of the operating segments based on the measurement of revenue and operating profit.

Unallocated assets consist of deferred tax assets and investments in associates. Unallocated liabilities consist of deferred tax liabilities and income tax payable.

Capital expenditure comprises mainly additions to land use rights/right-of-use assets, property, plant and equipment and intangible assets.

4. SEGMENT INFORMATION *(Continued)*

(a) Segment information

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2019 are presented as below:

	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Revenue from external customers	1,213,810	304,857	314,875	1,833,542
Segment gross profit	514,145	57,622	66,157	637,924
Segment profit	472,382	34,737	62,573	569,692
Finance income				61,408
Finance costs				(192,709)
Share of results of associates				(241)
Profit before income tax				438,150
Other information				
Depreciation of property, plant and equipment	188,247	5,716	19,839	213,802
Depreciation of right-of-use assets	10,090	–	3,834	13,924
Amortisation of intangible assets	8,787	2,482	438	11,707
Write-off of intangible asset	9,458	–	–	9,458
Capital expenditure	205,189	34,040	25,479	264,708

FOR THE YEAR ENDED 31 DECEMBER 2019

4. SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

Segment assets and liabilities as at 31 December 2019 are presented below:

	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	6,760,731	743,269	2,004,432	9,508,432
Unallocated:				
Deferred tax assets				52,990
Investments in associates				14,833
Total assets				9,576,255
Segment liabilities	3,879,507	385,147	1,067,434	5,332,088
Unallocated:				
Deferred tax liabilities				74,473
Income tax payables				75,273
Total liabilities				5,481,834

4. SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2018 are presented below:

	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Revenue from external customers	1,159,075	115,254	155,458	1,429,787
Segment gross profit	480,070	8,372	40,592	529,034
Segment profit	434,413	3,591	31,719	469,723
Finance income				56,924
Finance costs				(111,243)
Share of results of associates				(183)
Profit before income tax				415,221
Other information				
Depreciation of property, plant and equipment	165,986	8,269	21,315	195,570
Amortisation of land use rights	10,636	–	–	10,636
Amortisation of intangible assets	9,374	–	–	9,374
Capital expenditure	660,985	34,201	316,586	1,011,772

4. SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

Segment assets and liabilities as at 31 December 2018 are presented below:

	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	6,246,112	361,018	769,663	7,376,793
Unallocated:				
Deferred tax assets				50,196
Investments in associates				15,074
Total assets				7,442,063
Segment liabilities	2,889,297	132,348	371,534	3,393,179
Unallocated:				
Deferred tax liabilities				63,374
Income tax payables				84,589
Total liabilities				3,541,142

(b) Geographical information

The Group's operations are principally located in the PRC, hence, geographical segment information is not considered necessary.

(c) Information about major customers

The major customers whose revenue amounted to 10% or more of the Group's total revenue were as below:

	2019 *RMB'000*	2018 *RMB'000*
Customer A	543,279	555,045
Customer B	230,505	208,867
	773,784	763,912

The customer portfolio of the Group is concentrated, which is consistent with the industry practise. Both customer A and customer B are from wastewater treatment segment. If customer A or customer B substantially defaults in payment or terminates the business relationship with the Group, it could materially affect the Group's financial position and results of operations.

5. REVENUE

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within IFRS 15		
Wastewater treatment	**1,213,810**	1,159,075
Operating services – under TOO model	**823,658**	820,400
Operating services – under TOT/BOT model	**79,396**	65,775
Construction services – under BT model	**67,118**	42,881
Construction services – under BOT model	**180,345**	205,461
Finance income	**63,293**	24,558
Reclaimed water supply and running water supply	**304,857**	115,254
Operating services of reclaimed water supply – under TOO model	**18,102**	14,395
Operating services of running water supply – under TOT/BOT model	**14,507**	11,684
Construction services – under BT model	**44,005**	38,322
Construction services – under BOT model	**184,431**	49,009
Finance income	**43,812**	1,844
Others	**314,875**	155,458
Management services	**139,108**	88,977
Transportation services	**4,252**	3,649
Construction services – under BT model	**35,291**	13,881
Thermal production	**110,587**	37,276
Others	**25,637**	11,675
	1,833,542	1,429,787

The revenue from contracts with customers within IFRS 15 is recognised over time, except the transportation services is recognised at a point in time.

6. EXPENSES BY NATURE

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment *(Note 16)*	**213,802**	195,570
Utilities, electricity and office expenditures	**92,021**	83,738
Employee benefit expenses *(Note 10)*	**161,088**	151,269
Costs of wastewater and water distribution services	**105,597**	82,685
Cost of construction services	**489,553**	334,880
Taxes and levies	**27,409**	37,183
Repair and maintenance costs	**21,349**	20,367
Commission charge *(Note 35(b) (vii))*	**8,642**	9,053
Depreciation of right-of-use assets *(Note 15)*	**13,924**	–
Amortisation of land use rights *(Note 15)*	**–**	10,636
Subcontracting costs	**44,972**	31,063
Professional expenses	**17,659**	21,873
Materials used in research and development activities	**5,719**	4,160
Amortisation of intangible assets *(Note 19)*	**11,707**	9,374
Auditor's remuneration	**3,302**	3,491
Write-off of intangible assets	**9,458**	–
Fuels expenses	**80,590**	29,761
Miscellaneous	**33,767**	29,976
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**1,340,559**	1,055,079

7. OTHER INCOME

	2019 *RMB'000*	2018 *RMB'000*
Government grants:	33,595	93,709
– relating to property plant and equipment *(Note 29)*	15,855	6,555
– relating to research and development activities *(Note 29)*	321	4,683
– relating to tax refund *(Note (a))*	17,419	82,471
Interest income from cash and cash equivalents	882	3,508
Interest income from structured deposits *(Note 23)*	899	4,198
Net fair value gain of financial assets at FVPL	46,327	–
Others	4,809	9,110
	86,512	110,525

(a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax ("**VAT**") Policies for Products Made through and Labor Services for Integrated Utilisation of Resources issued by the State Administration of Taxation in the PRC, companies which sell self-produced products made with integrated utilised resources or provides labor services for integrated utilisation of resources can enjoy the policy of value-added tax refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% (2018: 70% and 50%) VAT refund respectively.

8. OTHER (LOSSES)/GAINS – NET

	2019 *RMB'000*	2018 *RMB'000*
(Losses)/Gains on disposal of property, plant and equipment – net	(577)	80
Donation	(33)	(591)
Gains on bargain purchase	–	3,069
Others	(364)	(506)
	(974)	2,052

9. FINANCE COSTS – NET

	2019 *RMB'000*	2018 *RMB'000*
Finance income:		
– Interest income from term deposits	361	3,641
– Interest income charged to related parties *(Note 35(b)(iv))*	61,047	34,111
– Interest income arising from construction contracts	–	19,172
	61,408	56,924
Finance cost:		
– Interest expenses on unsecured borrowings	(40,609)	(81,582)
– Interest expenses on corporate bonds	(31,015)	(21,315)
– Interest expenses on secured borrowings	(86,668)	(30,224)
– Total interest expenses on borrowings	(158,292)	(133,121)
– Less: borrowing costs capitalised in property, plant and equipment *(Note (16)(d))*	8,610	8,401
– Finance charges on lease liabilities	(382)	–
– Interest expenses – net	(150,064)	(124,720)
– Exchange (loss)/gain	(41,642)	13,941
– Others	(1,003)	(464)
	(192,709)	(111,243)
Finance costs – net	(131,301)	(54,319)

10. PROFIT BEFORE INCOME TAX

This is stated after charging:

	2019 *RMB'000*	2018 *RMB'000*
Staff costs, including directors' emoluments		
Salaries, wages and bonuses	127,739	121,606
Contributions to pension plans *(Note (a))*	17,043	15,940
Housing fund, medical insurance and other social insurance *(Note (b))*	16,306	13,723
	161,088	151,269
Other items		
Auditor's remuneration	3,302	3,491
Depreciation of property, plant and equipment	213,802	195,570
Depreciation of right-of-use assets	13,924	–
Amortisation of land use rights	–	10,636
Amortisation of intangible assets	11,707	9,374
Professional expenses	17,659	21,873
Written-off of intangible assets	9,458	–

(a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its full-time employees in the PRC. The Group's full-time employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 14% to 19% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. The full-time employees of the Group in the PRC are entitled to an additional pension aggregating to 8% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

(b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 6.3% to 23.6% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

11. INCOME TAX EXPENSE

	2019 *RMB'000*	2018 *RMB'000*
Current tax	57,139	78,821
Under provision in prior years	2,629	–
	59,768	78,821
Deferred tax	8,304	(13,327)
Income tax expense	68,072	65,494

In March 2018, the two-tiered profits tax rates regime was signed into law of Hong Kong, under which, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of corporations incorporated in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the years ended 31 December 2019 and 2018, Hong Kong Profits Tax has not been provided as the Group has no assessable profits arising in or derived from Hong Kong.

Under the Law of the PRC on Corporate Income Tax (the "**CIT Law**") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries during the year ended 31 December 2019, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the respective local tax authorities, which was discussed as follows:

(a) China's western region development policy (the "**Western Region Development Policy**") is a preferential tax ruling issued by the State Administration of Taxation of the PRC for companies whose business fall into the catalogue of encouraged industries and located in western region of China. During the years ended 31 December 2019 and 2018, the Company and certain subsidiaries qualified for the Western Region Development Policy were granted the preferential income tax rate of 15%.

(b) In addition to the Western Region Development Policy, the Company also qualifies as a "High-tech Enterprise" and enjoys a 15% enterprise income tax rate during the years ended 31 December 2019 and 2018.

(c) Certain newly upgraded wastewater treatment facilities owned by certain PRC subsidiaries meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments, such PRC subsidiaries are entitled to three years' exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.

11. INCOME TAX EXPENSE *(Continued)*

(d) Certain PRC subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments enjoyed 10% deduction of CIT.

Reconciliation of taxation

	2019 *RMB'000*	2018 *RMB'000*
Profit before income tax	438,150	415,221
Tax calculated at the domestic CIT rate applicable	109,538	103,805
Expenses not deductible for tax purpose *(Note (i))*	249	89
Preferential tax rates of the Company and certain subsidiaries *(Note (a), (b), and (d))*	(39,566)	(36,820)
Additional deduction allowance for research and development expenses	(615)	(514)
Income not subject to income tax *(Note (c))*	(4,836)	(895)
Under provision in prior years	2,629	–
Share of results of associates	36	(27)
Others	637	(144)
Income tax expense	68,072	65,494

(i) Expenses not deductible for tax purpose primarily include expenses without valid invoices, welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law.

FOR THE YEAR ENDED 31 DECEMBER 2019

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executives' emoluments

Directors and chief executives' emoluments for the year ended 31 December 2019 and 2018 are set out as follows:

	Fees *RMB'000*	Salary *RMB'000*	Employer's contribution to benefit scheme *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended 31 December 2019					
Executive directors					
Ms. Guo Yumei (郭玉梅)	–	645	53	47	745
Mr. Luo Yun (羅雲)	–	563	58	47	668
Non-executive directors					
Ms. Song Hong (宋紅)	–	–	–	–	–
Ms. Ma Ce (馬策) *(Note (a) (i))*	–	–	–	–	–
Ms. Zhao Zhu (趙竹) *(Note (a) (ii))*	–	–	–	–	–
Independent non-executive directors					
Mr. Yin Xiaobing (尹曉冰)	–	150	–	–	150
Mr. He Xifeng (何錫鋒)	–	150	–	–	150
Mr. Sin Lik Man (冼力文)	–	220	–	–	220
Supervisors					
Mr. Na Zhiqiang (那志強)	–	563	61	47	671
Mr. Yao Jianghua (姚建華)	–	197	41	40	278
Mr. Shao Wei (邵偉)	–	–	–	–	–
Chief executive					
Mr. Chen Changyong (陳昌勇) *(Note (a) (iii))*	–	113	25	22	160
Mr. Mei Yili (梅益立)	–	563	52	47	662
Mr. Yang Yang (楊陽)	–	563	58	47	668
	–	3,727	348	297	4,372

Note: The remuneration in the above table is pre-tax remuneration. Wages include wages, bonuses and allowances, and employee benefits paid by the employer; contributions to benefit plans include basic pension insurance and enterprise annuities paid by the employer; others include housing contributions, medical insurance and other social insurance paid by the employer.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

	Fees *RMB'000*	Salary *RMB'000*	Employer's contribution to benefit scheme *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended 31 December 2018					
Executive directors					
Ms. Guo Yumei (郭玉梅)	–	506	42	73	621
Mr. Luo Yun (羅雲)	–	445	42	84	571
Non-executive directors					
Mr. Zeng Feng (曾鋒) *(Note (a) (iv))*	–	–	–	–	–
Ms. Ma Ce (馬策) *(Note (a) (i))*	–	–	–	–	–
Ms. Song Hong (宋紅)	–	–	–	–	–
Independent non-executive directors					
Mr. Wong Man Chung Francis (黃文宗) *(Note (a) (v))*	–	139	–	–	139
Mr. Yin Xiaobing (尹曉冰)	–	150	–	–	150
Mr. He Xifeng (何錫鋒)	–	150	–	–	150
Mr. Sin Lik Man (冼力文)	–	28	–	–	28
Supervisors					
Mr. Na Zhiqiang (那志強)	–	445	42	84	571
Mr. Yao Jianghua (姚建華)	–	141	42	70	253
Mr. Shao Wei (邵偉)	–	–	–	–	–
Chief executive					
Mr. Mei Yili (梅益立)	–	413	42	72	527
Mr. Yang Yang (楊陽)	–	445	42	84	571
	–	2,862	252	467	3,581

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

Directors and chief executives' emoluments for the year ended 31 December 2019 and 2018 are set out as follows:

(i) Ms. Ma Ce was appointed as a non-executive director of the Company in June 2018 and resigned on 21 June 2019.

(ii) Ms. Zhao Zhu was appointed as a non-executive director on 21 June 2019.

(iii) Mr. Chen Changyong was appointed as a general manager on 10 July 2019.

(iv) Mr. Zeng Feng resigned on 22 June 2018.

(v) Mr. Wong Man Chung Francis resigned on 18 August 2018.

During the year ended 31 December 2019 and 2018, no director received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

(b) Directors' and chief executives' retirement benefits

7 out of 14 directors and chief executives (2018: 6 out of 14) enjoyed retirement benefits by a defined benefit pension plan operated by the Group.

(c) Directors' and chief executives' termination benefits

There is no directors' termination benefits operated by the Group.

(d) Consideration provided to third parties for making available directors' and chief executives' services

During the year ended 31 December 2019, no consideration was provided to third parties for making available directors' services (2018: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors and chief executives

During the year ended 31 December 2019, there were no loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors (2018: Nil).

(f) Directors' and chief executives' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2019 (2018: Nil).

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included 2 directors, 1 supervisor and 2 chief executives for the year ended 31 December 2019 (2018: 2 directors, 1 supervisor and 2 chief executives). Their emoluments are reflected in the analysis presented above.

13. DIVIDENDS

	2019 *RMB'000*	2018 *RMB'000*
(a) Final dividend for the year ended 31 December 2018 of RMB0.1714 (2017: RMB0.1527) per share *(Note i)*	176,390	157,145
(b) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of RMB0.125 per share (2018 – RMB0.1714). The aggregate amount of the proposed dividend expected to be paid in 2020 out of retained earnings at 31 December 2019, but not recognised as a liability at year end, is *(Note 38)*	128,639	176,390

(i) As approved by the annual general meeting on 21 June 2019, the Company declared a dividend of RMB176,389,625.40 in respect of the accumulated distributable profit as at 31 December 2018. The declaration of the dividend has been reflected as an appropriation of retained earnings during the year ended 31 December 2019. The dividends were paid out during the year ended 31 December 2019.

14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year:

	2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	368,411	348,549
Weighted average number of ordinary shares in issue *(thousand)*	1,029,111	1,029,111
Basic earnings per share *(RMB)*	0.36	0.34

The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the year ended 31 December 2019.

15. RIGHT-OF-USE ASSETS/LAND USE RIGHTS

The Group's right-of-use assets represents (i) the prepaid lease payments for land located in the PRC, and (ii) leased office premises located in Hong Kong.

		Right-of-use assets		
	Land use rights	**Land use rights**	**Leased properties**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reconciliation of carrying amount – year ended 31 December 2018				
At the beginning of the reporting period	445,974	–	–	445,974
Additions	33,787	–	–	33,787
Amortisation	(10,636)	–	–	(10,636)
At the end of the reporting period	469,125	–	–	469,125
Reconciliation of carrying amount – year ended 31 December 2019				
At the beginning of the reporting period	469,125	–	–	469,125
Adjustment on transition to IFRS 16	(469,125)	469,125	–	–
Additions *(Note (a))*	–	–	8,981	8,981
Depreciation	–	(10,090)	(3,834)	(13,924)
At the end of the reporting period	–	459,035	5,147	464,182
At 31 December 2018				
Cost	534,992	–	–	534,992
Accumulated amortisation	(65,867)	–	–	(65,867)
	469,125	–	–	469,125
At 31 December 2019				
Cost	–	534,992	8,981	543,973
Accumulated depreciation	–	(75,957)	(3,834)	(79,791)
	–	459,035	5,147	464,182

(a) The Group leased various office premises for its daily operations. Lease terms of the leased properties ranged from 2 to 3 years.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities *RMB'000*	Machinery and equipment *RMB'000*	Office and electronic equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2018						
Opening net book value	1,459,581	391,385	50,491	11,588	429,618	2,342,663
Additions	304,612	294,933	7,578	5,784	173,640	786,547
Transfer	25	91	53	–	(169)	–
Acquisition of subsidiaries	83,225	48,141	518	721	–	132,605
Disposals	(12,515)	(80)	–	(46)	–	(12,641)
Depreciation	(80,191)	(101,848)	(10,592)	(2,939)	–	(195,570)
Closing net book value	1,754,737	632,622	48,048	15,108	603,089	3,053,604
At 31 December 2018						
Cost	2,255,450	1,225,125	121,489	38,914	603,089	4,244,067
Accumulated depreciation	(500,713)	(592,503)	(73,441)	(23,806)	–	(1,190,463)
Net book value	1,754,737	632,622	48,048	15,108	603,089	3,053,604
Year ended 31 December 2019						
Opening net book value	1,754,737	632,622	48,048	15,108	603,089	3,053,604
Additions	8,971	20,085	3,597	1,118	185,929	219,700
Transfer	105,446	1,060	384	–	(106,890)	–
Disposals	(571)	–	–	(31)	–	(602)
Depreciation	(99,430)	(103,634)	(7,386)	(3,352)	–	(213,802)
Closing net book value	1,769,153	550,133	44,643	12,843	682,128	3,058,900
At 31 December 2019						
Cost	2,369,296	1,246,270	125,470	40,001	682,128	4,463,165
Accumulated depreciation	(600,143)	(696,137)	(80,827)	(27,158)	–	(1,404,265)
Net book value	1,769,153	550,133	44,643	12,843	682,128	3,058,900

FOR THE YEAR ENDED 31 DECEMBER 2019

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(a) The net book value of property, plant and equipment pledged as collateral for the Group's borrowings (Note 28) as at the end of reporting period were as follows:

	2019 *RMB'000*	2018 *RMB'000*
Buildings and facilities	380,816	415,428
Machinery and equipment	9,749	19,942
	390,565	435,370

(b) Depreciation of property, plant and equipment has been charged to the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 *RMB'000*	2018 *RMB'000*
Cost of sales	209,948	192,266
Administrative expenses	3,854	3,300
Selling and marketing expenses	–	4
	213,802	195,570

(c) As at 31 December 2019, the Group is still in the process of applying for the building ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB24,703,531 (2018: RMB25,981,000).

(d) During the year ended 31 December 2019, the Group has capitalised borrowing costs amounting to approximately RMB8,610,217 (2018: RMB8,400,675) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.06% p.a. during the year ended 31 December 2019 (2018: 4.93% p.a.).

17. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain arrangements with governmental authorities in the PRC under TOT or BOT models in respect of its wastewater treatment and water supply services (the "**Facilities**"). These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for those arrangements under TOT models; (ii) constructing the Facilities for those arrangements under BOT models; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 20 to 30 years (the "**Service Concession Periods**"), and the Group will be paid for its services over the service concession periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

As further explained in the accounting policy for "service concession arrangements" set out in Note 2 to the consolidated financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) (Note 19) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The effective interest rate fell within the range from 5.10% p.a. to 9.23% p.a..

17. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

	2019 *RMB'000*	2018 *RMB'000*
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	7,550	15,485
Loss allowance	(2)	(77)
	7,548	15,408
Non-current portion:		
Receivables under service concession arrangements	1,382,480	1,126,028
Loss allowance	(485)	(5,630)
	1,381,995	1,120,398
	1,389,543	1,135,806

In respect of the Group's receivables under service concession arrangements, the Group has different credit policies, depending on the locations in which they operate. Collection of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in the PRC, as grantors in respect of the Group's service concession arrangements.

18. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	2019 *RMB'000*	2018 *RMB'000*
Costs incurred to date plus recognised profits less recognised losses		
Current portion:		
Amounts due from customers for construction contracts	28,030	19,006
Loss allowance	(452)	(95)
	27,578	18,911
Non-current portion:		
Amounts due from customers for construction contracts	521,948	293,153
Loss allowance	(5,682)	(1,466)
	516,266	291,687
	543,844	310,598

To measure the expected credit losses, amounts due from customers for construction contracts have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2019, a provision of approximately RMB6,134,225 (2018: RMB1,561,000) was made against the gross amounts to amounts due from customers for construction contracts.

FOR THE YEAR ENDED 31 DECEMBER 2019

19. INTANGIBLE ASSETS

	Computer software *RMB'000*	Operating concession *RMB'000*	Development cost *RMB'000*	Total *RMB'000*
Year ended 31 December 2018				
Opening net book value	14,359	110,898	9,842	135,099
Additions	1,046	–	116	1,162
Acquisition of subsidiaries	–	57,671	–	57,671
Amortisation	(4,141)	(5,233)	–	(9,374)
Closing net book value	11,264	163,336	9,958	184,558
At 31 December 2018				
Cost	28,767	172,221	9,958	210,946
Accumulated amortisation	(17,503)	(8,885)	–	(26,388)
Net book value	11,264	163,336	9,958	184,558
Year ended 31 December 2019				
Opening net book value	11,264	163,336	9,958	184,558
Additions	447	35,580	–	36,027
Transfer	500	–	(500)	–
Write-off	–	–	(9,458)	(9,458)
Amortisation	(4,131)	(7,576)	–	(11,707)
Closing net book value	8,080	191,340	–	199,420
At 31 December 2019				
Cost	29,714	207,801	–	237,515
Accumulated amortisation	(21,634)	(16,461)	–	(38,095)
Net book value	8,080	191,340	-	199,420

19. INTANGIBLE ASSETS *(Continued)*

(a) Amortisation of intangible assets has been charged to the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 *RMB'000*	2018 *RMB'000*
Cost of sales	10,679	8,331
Administrative expenses	1,028	1,043
	11,707	9,374

(b) **Impairment assessment**

Operating concession

The recoverable amount of operating concessions which are not yet available for use is determined based on the value-in-use calculation using cash flow projections, based on financial forecast approved by management. Management's assumptions and estimation including forecast of utilisation, discount rate and useful lives of 20 to 30 years. The discount rates used in measuring value-in-use are 9% to 10% (2018: 11% to 12%), which are pre-tax and reflect special risk relating to operating concessions.

20. INVESTMENTS IN ASSOCIATES

Investments accounted for using the equity method refer to the associates held by the Group and the Company, a movement of which is set out as follows.

	2019 *RMB'000*	2018 *RMB'000*
Unlisted shares		
Share of net assets	5,491	5,732
Goodwill	9,342	9,342
At the end of the reporting period	14,833	15,074

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Fair value of investments

At the end of the reporting period, all of the Group's associates are private companies and there was no quoted market price available for the investments.

Financial information of associates

Summarised financial information of the associates of the Group is set out below, which represents amounts shown in the associates' financial statements prepared in accordance with IFRSs and adjusted by the Group for equity accounting purposes including any differences in accounting policies and fair value adjustments.

Details of the associates at the end of the reporting period are as follows.

Name of entities	Country/place and date of establishment	Paid-up capital	Proportion of ownership interest held by the Group		Principal activities
		RMB'000	2019	2018	
Yunnan Dianchi Information Construction Management Co., Ltd.* (雲南滇池信息建設管理有限公司, "**Dianchi Information**")	PRC, Kunming 14 May 2012	2,500	40%	40%	Construction of communication pipeline
Yunnan Dianchi Jiajing Environmental Technology Co., Ltd.* (雲南滇池嘉淨環保科技有限公司, "**Dianchi Jiajing**")	PRC, Kunming 13 April 2012	11,600	40%	40%	Research and promotion of environment technology
Kunming Zaojing Quanxiang Biological Technology Co., Ltd.* (昆明藻井泉香生物科技有限公司, "**Kunming Zaojing**")	PRC, Kunming 12 August 2010	8,000	35%	35%	Research and development of biological products

* English translation for identification purpose only.

The Group's investments in associates and certain of its key financial information attributable to the Group are as follows:

Year	Assets	Liabilities	Revenues	Losses	Net assets
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2019	7,092	1,601	1,168	(241)	5,491
2018	7,642	1,910	371	(183)	5,732

21. DEFERRED TAX ASSETS AND LIABILITIES

	2019 *RMB'000*	2018 *RMB'000*
Deferred tax assets:		
– to be recovered within 12 months	**7,643**	5,328
– to be recovered after more than 12 months	**45,347**	44,868
	52,990	50,196
Deferred tax liabilities:		
– to be settled within 12 months	**2,061**	1,027
– to be settled after more than 12 months	**72,412**	62,347
	74,473	63,374

Movements in deferred tax assets and liabilities during the year ended 31 December 2019, without taking into consideration the offsetting of balance within the same tax jurisdiction, are as follows:

Deferred tax assets	**Tax losses carried forward *(Note a)*** *RMB'000*	**Government grants** *RMB'000*	**Depreciation and amortisation differences arising from the revaluation results *(Note b)*** *RMB'000*	**Impairment** *RMB'000*	**Unrealised foreign exchange losses** *RMB'000*	**Total** *RMB'000*
At 1 January 2018	564	23,597	6,268	–	2,731	33,160
Acquisition of subsidiaries	3,329	–	–	–	–	3,329
Recognised in profit or loss	(219)	11,959	(771)	3,360	43	14,372
At 31 December 2018	3,674	35,556	5,497	3,360	2,774	50,861
Recognised in profit or loss	(51)	4,114	(414)	1,254	(2,774)	2,129
At 31 December 2019	**3,623**	**39,670**	**5,083**	**4,614**	**–**	**52,990**

FOR THE YEAR ENDED 31 DECEMBER 2019

21. DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

(a) Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. Carrying forward of these tax losses will expire, if unused, in the years ending 31 December 2020 to 31 December 2024.

(b) Certain wastewater treatment facilities and land use rights were recorded at the carrying amounts from KDI's perspective in the consolidated financial statements, which are different from tax bases of these assets. The deferred income tax assets arising from such differences were initially recognised as a credit to reserve.

Deferred tax liabilities	Fair value adjustment arising from acquisition of subsidiaries	Differences arising from service concession receivables	Change in fair value of financial assets at FVPL	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	30,713	9,209	–	129	40,051
Acquisition of subsidiaries	22,944	–	–	–	22,944
Recognised in profit or loss	(1,424)	2,538	–	(69)	1,045
At 31 December 2018	52,233	11,747	–	60	64,040
At 1 January 2019	52,233	11,747	–	60	64,040
Recognised in profit or loss	(2,299)	5,843	6,949	(60)	10,433
At 31 December 2019	**49,934**	**17,590**	**6,949**	**–**	**74,473**

22. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Materials for wastewater treatment and water distribution services	4,947	4,963
Coal	11,428	4,284
Spare parts	6,261	3,674
	22,636	12,921

The cost of inventories recognised as cost of sales amounted to approximately RMB67,617,889, for the year ended 31 December 2019 (2018: RMB57,966,000).

23. FINANCIAL ASSETS AT FVPL

	Notes	2019 RMB'000	2018 RMB'000
Derivatives not designated as hedging instruments – Cross Currency swap ("**CCS**")	*(a)*	46,327	–
Investment in Single Asset Management Plan	*(b)*	200,000	–
Structured deposit	*(c)*	–	170,000
		246,327	170,000

(a) The maturities of the derivatives are expiring on 26 March 2021, 27 September 2021 and 28 March 2022. The objective of these derivatives entered into by the Group is to mitigate the currency exposures arising from the bank borrowings of USD170,000,000 and HKD1,015,000,000 incepted principally for funding the operations of the subsidiaries incorporated in the PRC. These derivatives are not qualified for hedge accounting and their corresponding changes in fair values have been recognised in profit or loss. During the year, gain on change in fair value of the currency swap arrangement in an aggregate amount of RMB46,326,906 was credited to profit or loss.

The fair value is estimated by an independent qualified professional valuer, Beijing Yachao Asset Appraisal Co.,Ltd. (北京亞超資產評估有限公司, "**Beijing Yachao**"), by using the discounted cash flow technique.

(b) On 27 December 2019, the Group entered into an Asset Management Agreement with an independent China-based financial institution (known as the Asset Manager) and another independent China-based financial institution (known as the Asset Entrustee), pursuant to which the Group agreed to entrust an amount of up to RMB400 million as the Entrusted Assets for the investment in a Single Asset Management Plan issued by Kunming Industrial Development and Investment Co., Ltd. ("**IDI**"), a wholly state-owned company holding 5.99% of total issued share capital of the Company at the end of the reporting period. The investment in Single Asset Management Plan included certain accounts receivables and other non-standardised credit assets transferred from IDI. The Single Asset Management Plan has no guaranteed returns and lasts for 12 months investment period without early redemption option.

The Group invested RMB200 million to the Single Asset Management Plan in December 2019. From the report of the Asset Manager, the fair value of the Single Asset Management Plan approximates the carrying amount at the end of the reporting period.

(c) For the year ended 31 December 2019, interest income of RMB898,533 were recognised in profit or loss as other income (2018: RMB4,198,116) from the investment in structured deposit. The structured deposit was matured and cashed in January, March and June 2019.

24. TRADE AND OTHER RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables *(Note (a))*:		
– Third parties	80,165	50,824
– Related parties *(Note 35(d)(i))*	123,168	117,780
– Local government	780,419	434,418
– Loss allowance	(16,294)	(9,654)
Trade receivables – net	967,458	593,368
Other receivables:		
– Third parties	57,597	28,481
– Related parties *(Note 35(d)(i)) (Note (b))*	1,026,202	24,780
– Local government	47,057	125,367
– Loss allowance	(3,472)	(640)
Other receivables – net	1,127,384	177,988
Prepayments:		
– Related parties *(Note 35(d)(i))*	–	60
– Local government	3,587	3,304
– Others	126,990	167,831
– Impairment loss	(4)	–
Prepayments – net	130,573	171,195
Trade and other receivables – net	2,225,415	942,551

As at 31 December 2019, the fair values of the current portion of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2019, the carrying amounts of trade and other receivables are principally denominated in RMB. The trade receivables are due for payment upon presentation of invoices.

24. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the life time expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2019, a provision of approximately RMB16,294,264 (2018: RMB9,653,996) was made against the gross amounts to trade receivables.

To measure the expected credit losses, other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2019, a provision of approximately RMB3,472,016 (2018: RMB640,019) was made against the gross amounts to other receivables.

(a) Aging analysis of gross trade receivables at the end of reporting period, based on the invoice dates, are as follows:

	2019 *RMB'000*	2018 *RMB'000*
– Within one year	935,027	576,932
– Over one year and within two years	37,300	23,067
– Over two years	11,425	3,023
	983,752	603,022

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

(b) The Company entered into the Entrusted Loan Contracts with Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司, "**Xindu Investment**"), Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司, "**Kunming Bus**"), and Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, "**Kunming DIG**") with some major PRC banks on 17 January 2019, 3 April 2019 and 17 April 2019 respectively. Pursuant to the Entrusted Loan Contract, the Group entrusted these major PRC banks to grant loans of RMB400 million, RMB300 million, and RMB300 million to Xindu Investment, Kunming Bus, and Kunming DIG respectively. The loans to Xindu Investment and Kunming Bus of RMB400 million and RMB300 million have been settled subsequent to year end.

FOR THE YEAR ENDED 31 DECEMBER 2019

25. CASH AND CASH EQUIVALENTS

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Cash and cash equivalents	*(a)*	**1,290,199**	1,079,714
Restricted cash	*(b)*	**67,966**	17,916

(a) Cash and cash equivalents are denominated in

	2019 *RMB'000*	2018 *RMB'000*
RMB	**552,856**	769,367
HKD	**714,487**	302,348
USD	**22,856**	7,999
	1,290,199	1,079,714

All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates ranged from 0.30% to 1.92% during the year ended 31 December 2019 (2018: 0.30% to 1.35%).

(b) As at 31 December 2019 and 2018, the restricted cash mainly comprised of guarantee deposits for construction projects.

26. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	2019 *RMB'000*	2018 *RMB'000*
Trade payables to third parties	150,971	31,006
Other payables due to:	146,012	106,923
– related parties *(Note 35 (d)(ii))*	14,635	21,918
– local government	1,791	3,790
– third parties	129,586	81,215
Consideration payable for acquisition of subsidiaries	21,209	23,619
Staff salaries and welfare payables	42,285	46,091
Payables for acquisition of property, plant and equipment due to:	46,207	69,755
– related parties *(Note 35 (d)(ii))*	16,040	17,212
– third parties	30,167	52,543
Payables for acquisition of land use rights from related parties *(Note 35 (d)(ii))*	58,194	58,194
Interest payables	4,586	2,982
Accrued taxes other than income tax	17,384	41,138
Total trade and other payables	486,848	379,708

	2019 *RMB'000*	2018 *RMB'000*
Contract liabilities		
– related parties *(Note 35 (d)(iii))*	–	1,362
– local government	–	8,516
– third parties	7,238	1,859
	7,238	11,737

(a) As at 31 December 2019, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities. The trade payables are normally granted with credit terms ranging from 30 to 90 days.

(b) During the year ended 31 December 2019, the Group's trade and other payables are principally denominated in RMB.

FOR THE YEAR ENDED 31 DECEMBER 2019

26. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES *(Continued)*

(c) Aging analysis of trade payables to third parties by invoice date at the end of the reporting period is as follow:

	2019	2018
	RMB'000	*RMB'000*
– Within one year	**137,309**	16,682
– Over one year and within two years	**13,662**	14,324
	150,971	31,006

27. LEASES

	2019
	RMB'000
Right-of-use assets *(Note 15)*	
Leased properties	**5,147**
Land use right	**459,035**
	464,182
Lease liabilities	
Current	**3,786**
Non-current	**1,495**
	5,281

The total rental payment for leases for the year ended 31 December 2019 were approximately RMB4,311,478.

28. BORROWINGS

	2019 *RMB'000*	2018 *RMB'000*
Non-current portion:		
Unsecured long-term borrowings	340,000	588,000
Secured long-term borrowings *(Note (b))*	2,828,418	480,635
Corporate bonds *(Note (c))*	696,629	696,064
	3,865,047	1,764,699
Current portion:		
Unsecured short-term borrowings	615,000	917,000
Secured short-term borrowings *(Note (b))*	86,320	97,505
	701,320	1,014,505
	4,566,367	2,779,204

(a) All the borrowings were denominated in RMB, HKD or USD.

(b) As at 31 December 2019, analysis of the secured borrowings are as follows:

	2019 *RMB'000*	2018 *RMB'000*
Secured by:		
Corporate guarantee issued by the Company	2,453,503	–
Property, plant and equipment *(Note 16)*	461,235	578,140
	2,914,738	578,140

(c) As approved by the National Development and Reform Commission on 25 November 2015, the Company issued corporate bonds of RMB700,000,000 for a term of 7 years, bearing interest at 4.35% per annum. At the end of the fifth year, the Company can adjust the interest rate within a range of 0.00% to 3.00% for the remaining 2-year period, and the investors have an option to request early redemption at par value of the outstanding corporate bond.

28. BORROWINGS *(Continued)*

(d) The maturities of borrowings are as follows:

	2019 *RMB'000*	2018 *RMB'000*
On demand or within 1 year	701,320	1,014,505
Between 1 and 2 years	241,670	584,810
Between 2 and 5 years	3,623,377	1,138,656
Later than 5 years	–	41,233
	4,566,367	2,779,204

(e) The weighted average effective interest rates for borrowings at the end of reporting period are as follows:

	2019	2018
Borrowings	4.83%	5.25%

Interest rates of borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

The Group's borrowings bear interest at floating rates, except bank loans in an aggregate principal amount of RMB1,812,864,148 (2018:RMB1,716,204,000) bearing interest at fixed rates ranging from 4.13% to 6.00% (2018: 4.75% to 6.00%) per annum.

(f) The fair values of current borrowings equal their carrying amount as the discounting impact is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market interest rates available to the Group for financial instruments with substantially the same terms and characteristics. The fair values of non-current borrowings approximated to their carrying amount.

(g) The Group had the following undrawn borrowing facilities:

	2019 *RMB'000*	2018 *RMB'000*
RMB facilities	1,225,000	900,000

29. DEFERRED REVENUE

Deferred revenue of the Group included government grants in respect of the Group's or the Company's construction of various facilities and wastewater treatment facilities, thermal production, and the performance of research and development activities.

Government grants relating to property, plant and equipment are recognised to the consolidated statement of profit or loss and comprehensive income on a straight-line basis over the estimated lives of the related assets.

Government grants relating to research and development activities are recognised in the consolidated statement of profit or loss and comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

	2019 *RMB'000*	2018 *RMB'000*
Government grants related to:		
– property, plant and equipment	265,588	221,345
– research and development activities	766	1,185
	266,354	222,530

The movements of government grants are set out as follows:

	2019 *RMB'000*	2018 *RMB'000*
Opening net book value	222,530	157,479
Additions	60,000	76,289
Credit to the statement of profit or loss and other comprehensive income	(16,176)	(11,238)
Closing net book value	266,354	222,530

30. SHARE CAPITAL

	2019	2018
Registered, issued and fully paid		
Number of shares *(in thousand)*	1,029,111	1,029,111
Share capital *(in RMB'000)*	1,029,111	1,029,111

(a) The Company was established on 23 December 2010, with an initial registered share capital of RMB360,000,000, divided into 360,000,000 shares with a nominal value of RMB1.00 each. 344,943,000 shares or 95.82% equity interest amounting to RMB1,260,091,016 were issued to KDI at a premium of RMB915,148,016, in exchange for the property, plant and equipment and land use rights under TOO Model of RMB1,189,276,959, certain investments in subsidiaries of RMB5,814,057, and cash of RMB65,000,000. The remaining 15,057,000 shares or 4.18% equity interest amounting to RMB55,000,000 were issued to other four shareholders at a premium of RMB39,943,000, Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, "**DIG**"), IDI, Kunming State-owned Assets Management and Operation Co., Ltd. (昆明市國有資產管理運營有限責任公司, "**Kunming State-Owned Asset Management**") and Kunming Xindu Real Estate Co., Ltd. (昆明新都置業有限公司, "**Xindu Real Estate**").

The capital contributions were paid up by two instalments. The first instalment of RMB1,208,841,016 was received upon the establishment of the Company and the second instalment of RMB106,250,000 was received in the year ended 31 December 2012. The excess of the assets or cash consideration received by the Company over the share capital with the amount of RMB955,091,016 was recorded as share premium.

(b) On 12 October 2015, as approved by the shareholders of the Company, based on a total of 360,000,000 shares of the Company as at 31 December 2014, bonus shares of 360,000,000 in total were issued to all shareholders by transfer of capital reserve on the basis of 10 shares for 10 shares. Upon completion of the transfer, total share capital of the Company was increased to 720,000,000 shares.

(c) On 6 April 2017, the Company newly issued 308,572,000 H shares of RMB1.00 each at HKD3.91 per share in connection with the initial listing of H shares of the Company on the Main Board of the Stock Exchange, and raised gross proceeds of approximately HKD1,206,516,520 (equivalent to RMB1,070,421,457). Subsequently on 10 May 2017, after the exercise of the over-allotment option, additional 539,000 H shares of RMB1.00 each were issued at HKD3.91 per share and raised gross proceeds of HKD2,107,490 (equivalent to RMB1,869,976). Net proceeds of RMB997,460,106 (after deducting the underwriting commissions and other listing expenses) was raised by the Company, of which RMB309,111,000 was credited to share capital with remaining RMB688,349,106 credited to share premium.

31. OTHER RESERVES

	Share premium	Statutory reserve *(Note (a))*	Capital reserve *(Note (b))*	Translation reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	1,283,440	180,137	(47,793)	(1,847)	1,413,937
Appropriation to statutory reserves	–	35,065	–	–	35,065
Currency translation differences	–	–	–	3,282	3,282
At 31 December 2018 and 1 January 2019	1,283,440	215,202	(47,793)	1,435	1,452,284
Appropriation to statutory reserves	–	36,024	–	–	36,024
Currency translation differences	–	–	–	871	871
At 31 December 2019	1,283,440	251,226	(47,793)	2,306	1,489,179

(a) Statutory reserve

In accordance with the PRC Company Law and the constitutions of the PRC companies of the Group (the "**PRC Companies**"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.

(b) Capital reserve

Capital reserve mainly represented the existing book value from KDI's prospective of certain acquired wastewater treatment facilities and land use rights transferred to the Group from KDI, which did not form part of the capital contribution in the form of share capital in 2010, netting of the consideration of these assets and the deferred tax impact. These wastewater treatment facilities and land use rights were included in the consolidated financial statements as if they had been consolidated from the date when KDI came under the control of the then ultimate controlling party.

FOR THE YEAR ENDED 31 DECEMBER 2019

32. RETAINED EARNINGS

	RMB'000
At 1 January 2018	1,257,039
Profit for the year	348,549
Appropriation to statutory reserves *(Note 31(a))*	(35,065)
Dividend declared and paid to the Company's shareholders *(Note 13)*	(157,145)
At 31 December 2018 and 1 January 2019	1,413,378
Profit for the year	368,411
Appropriation to statutory reserves *(Note 31(a))*	(36,024)
Dividend declared and paid to the Company's shareholders *(Note 13)*	(176,390)
At 31 December 2019	**1,569,375**

33. CASH FLOW INFORMATION

(a) Cash generated from/(used) in operations

	2019 *RMB'000*	2018 *RMB'000*
Profit for the year before income tax	438,150	415,221
Adjustments for:		
– Impairment losses on financial and contract assets	8,829	17,562
– Depreciation of property, plant and equipment	213,802	195,570
– Depreciation of right-of-use assets	13,924	–
– Amortisation of land use rights	–	10,636
– Amortisation of intangible assets	11,707	9,374
– Write-off of intangible assets	9,458	–
– Fair value gain on derivative financial instruments	(46,327)	–
– Share of results of associates	241	183
– Finance cost/(income) – net	89,659	(70,401)
– Interest income from structured deposits	(899)	(4,198)
– Amortisation of government grants relating to purchase of property, plant and equipment	(15,855)	(6,555)
– Losses/(gains) on disposal of property, plant and equipment	577	(80)
– Exchange differences	54,616	–
– Gains on bargain purchase	–	(3,069)
	777,882	564,243
Changes in working capital:		
– Increase in trade and other receivables	(292,340)	(497,290)
– Increase in inventories	(9,721)	2,704
– Decrease in contract liabilities	(4,499)	–
– Increase in amount due from customers for construction contracts	(237,819)	(6,108)
– Increase in receivables under service concession arrangements	(281,297)	(458,762)
– Decrease in deferred revenue relating to research and development activities	(321)	(4,683)
– Increase in trade and other payables	100,509	(231,098)
Cash generated from/(used in) from operations	52,394	(630,994)

FOR THE YEAR ENDED 31 DECEMBER 2019

33. CASH FLOW INFORMATION *(Continued)*

(b) Proceeds from disposal of property, plant and equipment comprise:

	2019 *RMB'000*	2018 *RMB'000*
Net book value *(Note 16)*	602	12,641
(Losses)/gains on disposal of property, plant and equipment – net *(Note 8)*	(577)	80
Proceeds from the disposal	25	12,721

(c) Changes in liabilities arising from financing activities

Details of the changes in the Group's liabilities from financing activities are as follows:

2018

	Borrowings *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At beginning of the year	1,691,195	–	1,691,195
Net cash flows	1,109,324	–	1,109,324
Interest expenses	(21,315)	–	(21,315)
At end of the year	2,779,204	–	2,779,204

2019

	Borrowings *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At beginning of the year	2,779,204	–	2,779,204
Addition	–	8,981	8,981
Net cash flows	1,732,547	(4,082)	1,728,465
Interest expenses	31,015	382	31,397
Exchange differences	23,601	–	23,601
At end of the year	4,566,367	5,281	4,571,648

(d) Major non-cash transactions

Right-of-use assets with a total capital value of approximately RMB8,980,715 with the corresponding amount of lease liabilities were recognised.

Intangible assets with a total addition amount of approximately RMB32,780,000 represents the amount of operating concession were recognised.

34. COMMITMENTS

(a) Capital commitments

(i) At the end of the reporting period, capital expenditures contracted for, but not yet incurred are as follows:

	2019 RMB'000	2018 RMB'000
Property, plant and equipment	28,609	37,074

(b) Lease commitments – the Group as lessee

During the year ended 31 December 2018, the Group leases various buildings in the PRC under non-cancellable lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable leases are as follows:

	2018 RMB'000
No later than 1 year	315
Later than 1 year and no later than 2 years	305
Later than 2 year and no later than 5 years	963
Later than 5 years	4,707
	6,290

Effective from 1 January 2019, the Group has recognised right-of-use assets for these leases.

(c) Concession projects and construction projects contracted at the end of the reporting period, but not yet incurred are as follows:

	2019 RMB'000	2018 RMB'000
Concession projects and construction projects	4,018,446	148,788

FOR THE YEAR ENDED 31 DECEMBER 2019

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Company is controlled by KDI, which is a government-related enterprise established in the PRC by the State-owned Assets Supervision and Administration Commission of the Kunming People's Government ("**Kunming SASAC**"). In accordance with IAS 24 (Revised), "Related Party Disclosures", issued by the IASB, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include KDI and its subsidiaries (other than the Group), entities controlled by Kunming SASAC, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include purchases of assets, provision of financial assets, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, term deposits with initial term of over three months, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the consolidated financial statements.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year ended 31 December 2019, and balances as at 31 December 2019 arising from those related party transactions.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Name and relationship with related parties

Name of related party	Nature of relationship
KDI	Controlling shareholder of the Company
Kunming DIG	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Industrial Development and Investment Co., Ltd. (昆明產業開發投資有限責任公司, "**IDI**")	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming State-Owned Asset Management	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Xindu Real Estate Co., Ltd. (昆明新都置業有限公司, "**Xindu Real Estate**")	Controlled by Kunming SASAC and a minority shareholder of the Company
Xindu Investment	Controlled by Kunming SASAC
Kunming Bus	Controlled by Kunming SASAC
Kunming CGE Water Supply Co., Ltd. (昆明通用水務自來水有限公司, "**Kunming CGE**")	Controlled by Kunming SASAC
Kunming Qingyuan Water Supply Co., Ltd. (昆明清源自來水有限責任公司, "**Kunming Qingyuan**")	Controlled by Kunming SASAC
Kunming Dianchi Project Management Co., Ltd. (昆明滇池項目管理有限責任公司,"**Kunming Dianchi Project Management**")	Controlled by KDI

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the year ended 31 December 2019, the Group had the following significant transactions with related parties.

(i) Purchase of property, plant and equipment:

	2019 RMB'000	2018 RMB'000
KDI	–	54,035

FOR THE YEAR ENDED 31 DECEMBER 2019

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(ii) Loans granted to related parties:

	2019 *RMB'000*	2018 *RMB'000*
Kunming Bus	300,000	300,000
IDI	–	300,000
Kunming DIG	300,000	300,000
Xindu Investment	400,000	–
	1,000,000	900,000

The transactions under finance arrangement between the Group and related parties are paid and settled in RMB, repayable on demand.

Interest was charged on certain loans granted to related parties at a rate of 7.5% p.a. and 8.5% p.a. (2018: 7% p.a. to 8.5% p.a.).

(iii) Loans repaid from related parties:

	2019 *RMB'000*	2018 *RMB'000*
Kunming Bus	–	300,000
IDI	–	300,000
Kunming DIG	–	300,000
	–	900,000

(iv) Interest income from related parties:

	2019 *RMB'000*	2018 *RMB'000*
Kunming DIG	17,004	2,256
IDI	–	14,748
Xindu Investment	26,907	–
Kunming bus	17,136	17,107
	61,047	34,111

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(v) Operation services provided to related parties:

	2019 *RMB'000*	2018 *RMB'000*
KDI	98,937	67,999

(vi) Other services provided to related parties:

	2019 *RMB'000*	2018 *RMB'000*
KDI	–	18

(vii) Commission charged by related parties:

	2019 *RMB'000*	2018 *RMB'000*
Kunming CGE	7,653	7,665
Kunming Qingyuan	989	1,388
	8,642	9,053

(c) Key management compensation

Key management includes directors (executive and non-executive), supervisors and executives. The compensation paid or payable to key management for employee services is shown below:

	2019 *RMB'000*	2018 *RMB'000*
Salaries, wages and bonuses	3,727	2,862
Contributions to pension plans	348	252
Housing fund, medical insurance and other social insurance	297	467
	4,372	3,581

FOR THE YEAR ENDED 31 DECEMBER 2019

35. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties

(i) Trade and other receivables due from related parties:

	2019 *RMB'000*	2018 *RMB'000*
KDI	91,296	87,976
Xindu Investment	424,669	24,232
Kunming CGE	22,276	21,301
Kunming Qingyuan	9,976	9,111
Kunming DIG	300,458	–
Kunming Bus	300,527	–
Kunming Dianchi Project Management	168	–
	1,149,370	142,620

Other receivables are all non-trade receivables and will be settled upon demand by the Group.

(ii) Trade and other payables due to related parties:

	2019 *RMB'000*	2018 *RMB'000*
Acquisition of property, plant and equipment:		
Xindu Investment	16,040	16,040
Acquisition of land use rights:		
KDI	27,194	27,194
Xindu Investment	31,000	31,000
Others:		
KDI	13,369	21,884
Kunming CGE	876	904
Kunming Qingyuan	161	302
Kunming Dianchi Project Management	229	–
	88,869	97,324

Other payables are all non-trade payables and will be settled upon demand by these related parties.

35. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties *(Continued)*

(iii) Advances from related parties for services to be provided/contract liabilities:

	2019 *RMB'000*	2018 *RMB'000*
KDI	–	1,362

36. SUBSIDIARIES

Particulars of the principal subsidiaries as at the date of this report and during the year ended 31 December 2019 are set out below.

Name of subsidiary	Place of operation/ incorporation and date of incorporation	Issued and fully paid share capital RMB'000	Proportion of nominal value of issued share capital/registered capital held by the Company 2019 Directly	2019 Indirectly	2018 Directly	2018 Indirectly	Principal activities	Kind of legal entity registered under the law
Yunnan Reclaimed Industry Co., Ltd. (雲南中水工業有限公司, "**Yunnan Reclaimed Water**")	PRC, 28 March 2002	10,000	100%	-	100%	–	Reclaimed water supply	Limited liability
Kunming Wastewater Treatment and Operation Co., Ltd. (昆明城市污水處理運營有限責任公司, "**City Operation**")	PRC, 15 June 2005	3,000	100%	-	100%	–	Operation of wastewater treatment facilities	Limited liability
Kunming Dianchi Logistics Co., Ltd. (昆明滇池物流有限責任公司, "**Dianchi Logistics**")	PRC, 15 June 2005	11,200	100%	-	100%	–	Logistics and leasing services	Limited liability
Kunming Dianchi Water Treatment Occupation Training School (昆明滇池水處理職業培訓學校, "**Dianchi Training School**")	PRC, 26 October 2012	200	100%	-	100%	–	Professional training services	Social organisation
Xundian Dianchi Water Co. Ltd. (尋甸滇池水務有限公司, "**Xundian Wastewater**")	PRC, 30 April 2009	10,000	100%	-	100%	–	Wastewater treatment	Limited liability
Shidian Dianchi Water Treatment Co., Ltd. (施甸滇池水務有限公司, "**Shidian Water**")	PRC, 21 July 2014	23,300	100%	-	100%	–	Wastewater treatment	Limited liability
Yiliang Dianchi Water Treatment Co., Ltd. (彝良滇池水務有限公司,"**Yiliang Water**")	PRC, 4 June 2015	21,000	100%	-	100%	–	Wastewater treatment	Limited liability

36. SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of operation/ incorporation and date of incorporation	Issued and fully paid share capital RMB'000	Proportion of nominal value of issued share capital/registered capital held by the Company 2019 Directly	2019 Indirectly	2018 Directly	2018 Indirectly	Principal activities	Kind of legal entity registered under the law
Qujing Dianchi Water Treatment Co., Ltd. (曲靖滇池水務有限公司,"**Qujing Water**") (Formerly known as Malong Dianchi Water Treatment Co., Ltd. 馬龍滇池水務有限公司)	PRC, 13 August 2015	70,000	100%	–	100%	–	Wastewater treatment and running water supply	Limited liability
Fanchang Dianchi Water Treatment Co., Ltd. (繁昌縣滇池水務有限公司, "**Fanchang Water**")	PRC, 8 May 2014	30,000	100%	–	100%	–	Wastewater treatment	Limited liability
Zhuji Dianchi Water Treatment Co., Ltd. (諸暨滇池水務有限公司, "**Zhuji Water**")	PRC, 30 November 2015	25,000	100%	–	100%	–	Wastewater treatment	Limited liability
Suijiang Dianchi Water Treatment Co., Ltd. (綏江滇池水務有限公司,"**Suijiang Water**")	PRC, 9 December 2015	22,000	100%	–	100%	–	Wastewater treatment	Limited liability
Ziyunxian Dianchi Water Treatment Co., Ltd. (紫雲縣滇池水務有限公司, "**Ziyun Water**")	PRC, 12 January 2016	12,000	100%	–	100%	–	Wastewater treatment	Limited liability
Renhuai Water Treatment Co., Ltd. (仁懷滇池水務有限公司, "**Renhuai Water**") (Formerly known as Guizhou Bafang Water Treatment Co., Ltd. 貴州八方水務有限公司)	PRC, 5 January 2011	10,000	100%	–	100%	–	Wastewater treatment	Limited liability
Kunming He'ertai Environmental industry and trade Co., Ltd. (昆明和而泰環保工貿有限責任公司, "**He'ertai Environmental**")	PRC, 7 February 2002	10,000	51%	–	51%	–	Manufacturing and sales of chemical products	Limited liability
Shuangjiang Dianchi Water Treatment Co., Ltd. (雙江滇池水務有限公司, "**Shuangjiang Water**")	PRC, 8 October 2016	10,000	100%	–	100%	–	Running water supply	Limited liability
Dian Chi Water Treatment (LAOS) Sole Co., Ltd.	LAOS, 22 August 2016	51,412	–	100%	–	100%	Wastewater treatment	Limited liability
Haian Qutang Dianchi Water Treatment Co., Ltd. (海安曲塘滇池水務有限公司, "**Qutang Water**") (Formerly known as Haian Qutang Water Treatment Co., Ltd. 海安曲塘污水處理有限公司)	PRC, 6 July 2009	2,000	100%	–	100%	–	Wastewater treatment	Limited liability

36. SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of operation/ incorporation and date of incorporation	Issued and fully paid share capital RMB'000	Proportion of nominal value of issued share capital/registered capital held by the Company 2019 Directly	2019 Indirectly	2018 Directly	2018 Indirectly	Principal activities	Kind of legal entity registered under the law
Hongze Dianchi Water Treatment Co., Ltd. (洪澤滇池水務有限公司, "**Hongze Water**") (Formerly known as Hongzetianying Water Treatment Co., Ltd. 洪澤天楹污水處理有限責任公司)	PRC, 6 March 2006	30,000	100%	-	100%	–	Wastewater treatment	Limited liability
Haian Libao Dianchi Water Treatment Co., Ltd. (海安李堡滇池水務有限公司, "**Libao Water**") (Formerly known as Haian Libao Water Treatment Co., Ltd. 海安李堡污水處理有限公司)	PRC, 7 July 2009	2,000	100%	-	100%	–	Wastewater treatment	Limited liability
Liuyang Dianchi Water Treatment Co., Ltd. (瀏陽滇池水務有限公司, "**Liuyang Water**") (Formerly known as Liuyang Hongyu Water Treatment Co., Ltd. 瀏陽市宏宇水務有限公司)	PRC, 21 April 2006	12,690	100%	-	100%	–	Wastewater treatment	Limited liability
Kunming Dianchi Water Environment Monitoring Co., Ltd. (昆明滇池水務環境監測有限公司, "**Environment Monitoring**")	PRC, 31 March 2017	5,000	100%	-	100%	–	Water quality testing	Limited liability
Kunming Dianchi Water Jizhen Co., Ltd. (昆明滇池水務集鎮污水處理有限公司, "**Jizhen Water**")	PRC, 11 April 2017	1,000	100%	-	100%	–	Operation of wastewater treatment facilities	Limited liability
Leshan Debei'ao Water Treatment Co., Ltd. (樂山德貝奧水務有限公司 ("**Debei'ao Water**")	PRC, 11 August 2014	70,000	100%	-	100%	–	Wastewater treatment	Limited liability
Zhuji Dongda Ciwu Water Treatment Co., Ltd. (諸暨市東大次塢污水處理有限公司 ("**Dongda Water**")	PRC, 22 July 2013	24,100	100%	-	100%	–	Wastewater treatment	Limited liability
Liuyang Hongyu Thermal Power Co., Ltd. (瀏陽市宏宇熱電有限公司, "**Liuyang Power**")	PRC, 12 March 2008	30,000	100%	-	100%	–	Thermal production	Limited liability
Yiliang Dianchi Water Treatment Co., Ltd. (宜良滇池水務有限公司, "**Yiliang Water**")	PRC, 26 September 2018	40,000	100%	-	100%	–	Wastewater treatment	Limited liability
Dianchi International Holdings Limited (滇池國際控股有限公司, "**International Holdings**")	Hong Kong, 25 January 2018	170,462	100%	-	100%	–	Investment holding	Limited liability

36. SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of operation/ incorporation and date of incorporation	Issued and fully paid share capital RMB'000	Proportion of nominal value of issued share capital/registered capital held by the Company 2019 Directly	2019 Indirectly	2018 Directly	2018 Indirectly	Principal activities	Kind of legal entity registered under the law
Luquan Dianchi Water Treatment Co., Ltd. (祿勸滇池水務有限公司, "Luquan Water")	PRC, 21 October 2019	3,000	100%	-	–	–	Wastewater treatment	Limited liability
Kunming Dianchi Solid Waste Disposal Resources Utilisation Co., Ltd. (昆明滇池固廢處置資源化利用有限責任公司, "Solid waste utilization")	PRC, 22 February 2019	8,000	100%	-	–	–	Utilisation of solid waste	Limited liability

* English translation for identification purpose only.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Non-current assets		
Land use rights	–	442,373
Right-of-use assets	433,089	–
Property, plant and equipment	2,793,314	2,801,638
Receivables under service concession arrangements	715,994	488,540
Amounts due from customers for construction contracts	414,016	235,243
Intangible assets	8,080	20,728
Investments in subsidiaries	769,240	759,184
Investments in associates	17,515	17,756
Deferred tax assets	35,523	39,690
	5,186,771	4,805,152
Current assets		
Receivables under service concession arrangements	2,512	–
Inventories	4,837	4,556
Amounts due from customers for construction contracts	27,578	15,838
Financial assets at FVPL	246,327	170,000
Trade and other receivables	2,412,933	1,129,131
Cash and cash equivalents	813,990	997,227
Restricted cash	67,966	17,916
	3,576,143	2,334,668

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2019 *RMB'000*	2018 *RMB'000*
Current liabilities		
Trade and other payables	2,392,356	249,138
Income tax payables	57,787	67,713
Contract liabilities	5,667	10,065
Borrowings	701,320	1,014,505
	3,157,130	1,341,421
Net current asset	419,013	993,247
Total assets less current liabilities	5,605,784	5,798,399
Non-current liabilities		
Deferred revenue	264,317	220,072
Borrowings	1,411,544	1,749,699
	1,675,861	1,969,771
NET ASSETS	3,929,923	3,828,628
Capital and reserves		
Share capital	1,029,111	1,029,111
Other reserves *(Note (a))*	1,514,885	1,487,117
Retained earnings *(Note (a))*	1,385,927	1,312,400
TOTAL EQUITY	3,929,923	3,828,628

FOR THE YEAR ENDED 31 DECEMBER 2019

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(a) Reserves movements of the Company

	Share premium	Other reserves Statutory reserve	Other reserves Total	Retained Earning
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	1,283,440	173,483	1,456,923	1,197,794
Profit for the year	–	–	–	301,945
Appropriation to statutory reserves	–	30,194	30,194	(30,194)
Dividends declared and paid to the Company's shareholders	–	–	–	(157,145)
At 31 December 2018 and 1 January 2019	1,283,440	203,677	1,487,117	1,312,400
Profit for the year	**–**	**–**	**–**	**277,685**
Appropriation to statutory reserves	**–**	**27,768**	**27,768**	**(27,768)**
Dividends declared and paid to the Company's shareholders	**–**	**–**	**–**	**(176,390)**
At 31 December 2019	**1,283,440**	**231,445**	**1,514,885**	**1,385,927**

38. EVENTS AFTER REPORTING PERIOD

In addition to the events disclosed elsewhere in these consolidated financial statements, the Group had the following subsequent events:

(a) Dividend

Pursuant to a resolution of the Board of the Directors dated 27 March 2020, the Company has proposed dividend of RMB0.125 per share (inclusive of tax), which is RMB128,638,875.00 in total (inclusive of tax). The proposal is subject to approval at the annual general meeting of the Company.

(b) Provision of entrusted loans

The Company entered into the first Entrusted Loan Contract and the second Entrusted Loan Contract with Kunming Bus and the Bank of Communications on 23 January 2020 and 13 February 2020 respectively, pursuant to which the Company entrusts the Bank of Communications to grant loans of RMB60 million and RMB240 million respectively to Kunming Bus.

(c) Impacts of COVID-19 Epidemic

At the beginning of the Chinese New Year of 2020, the Novel Coronavirus Pneumonia Epidemic was spreading rapidly in a serious condition. In this epidemic, the Company established the epidemic prevention leading group for the first time to study and deploy epidemic prevention and control, purchased protective materials in a timely manner and increased investment in material supplies to ensure safe and stable operation and production as well as the health and safety of all employees. According to the nature and responsibilities of employees, a combination of remote and on-site office was adopted to ensure normal operation of the Company. At the same time, the Company further strengthened process management to ensure that water quality met the emission standards to guarantee water safety for residents in the territories. The normal operation of each wastewater treatment plant, reclaimed water supply facility and running water supply facility was also assured so that the quality of wastewater treatment, reclaimed water and running water supply during the epidemic reached and exceeded national effluent standards. During the epidemic, the Company coordinated the application for resumption of construction projects and the construction of the project remained basically normal. The Company will continue to pay attention to the development of the epidemic and to adjust relevant measures such as epidemic prevention and control and business development in a timely manner to endeavor to mitigate the adverse impact of the epidemic on the Company.

During the Reporting Period, the Company has complied with the "comply or explain" provision set out in the "Environmental, Social and Governance Reporting Guide".

In order to enable stakeholders (including shareholders, investors, regulatory authorities, customers, employees, partners and communities) to understand the Environmental, Social and Governance Reporting Guidelines (the "**ESG Guidelines**") of the Group, this report has been prepared. We hope this report would allow investors to better understand the Company's performance in environmental, social and governance aspects, so as to improve its management system and efforts in promoting sustainable development system. This report covers the period from 1 January 2019 to 31 December 2019 (the "**Reporting Period**"). This report mainly reports on the core business of the Company and its subsidiaries.

The Board is responsible for evaluating and determining the ESG risks relating to the issuer and it has included the ESG matters in the risk management and internal monitoring system of the Group. Both the management and staff of the major subsidiaries and functional departments have participated in preparing the ESG Report, assisting the Group to review its operations and identify relevant ESG matters as well as evaluating the importance of the above to our businesses and to each stakeholder.

A. ENVIRONMENT

Since its inception, the Company not only protects resources and the environment through carrying out green business, but also plants green living idea in the mind of our employees which are carried through in every process of our production and operation. In addition to the compliance with GB/T24001-2016 Environmental Management System Requirements and Guidelines (《環境管理體系要求及使用指南》), GB/T19001-2016 Quality Management System Requirements (《質量管理體系要求》) and GB/T 28001-2011 Administrative System Requirements on Occupational Health and Safety (《職業健康安全管理體系要求》), and in light of the characteristics of the Company, Dianchi Water implements and executes its internal standardized management system to reduce the impact of waste, wastewater, exhaust gas, noise on the environment, so as to implement green office practices and promote green development through our own efforts and inconspicuous actions. The Company keeps paying attention to environmental policies and information, and helps its staff comprehend the latest applicable environmental laws and regulations, policies, industry trends and domestic and international best practices in the industry through our internal management procedures. During the Reporting Period, no violation of the environment-related laws and regulations has been found on the Company.

We have formulated a relatively complete emergency management system for production and operation. Heavy rainfall weather in cities is a major climatic influencing factor facing our production and operation. The flood situation brought by heavy rainfall may have certain impact on the stability and safety of our production and operation. In order to mitigate or avoid the impact of such climatic events, we have launched flood prevention emergency plans and working mechanisms before the rainy season. By confirming that flood control materials are in good standby status, implementing the formation of emergency rescue teams, regularly checking and rectifying potential flood control related safety hazards, purchasing flood control materials, collecting and summarizing relevant flood control safety work information, holding regular safety meetings, conducting flood control safety drills, etc. and improving the production unit's rapid response and emergency response capabilities, the Company effectively prevented and reduced various types of safety accidents during the rainy and flood seasons. At the same time, the Company also increased the volume of sewage treatment during the flood season and ensured normal operation of production and management to give full play to the role of sewage treatment facilities in intercepting and treating pollution.

A1. Emissions

As an enterprise that engages in pollution control and environmental protection, the Company takes sustainable development as its guiding principle and takes the impact of projects on the environment into consideration in its business decision-making, instead of solely pursuing economic efficiency. The Company pays attention to the harmonious coexistence of human and nature.

Within the scope of the Company's business, all the emissions are processed in strict accordance with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Discharge Standard of Urban Sewage Treatment Plants (《城鎮污水處理廠排放標準》) (GB18918-2002), the Evaluation Standard of the Operating Performance of Urban Sewage Treatment Plants (《城鎮污水處理廠運營質量評價標準》) (CJJ/T228-2014) and other relevant regulations, and standards. Our sewage treatment plant in Dianchi Lake Basin has completed upgrading and reconstruction in 2011 and its effluent quality has reached Class I Standard A standard. In particular, the main effluents such as Ammonia nitrogen(NH3-N), Chemical Oxygen Demand (COD), Total phosphorus (T-P) and Total nitrogen (T-N) were 90%, 73%, 77% and 48% lower than the emission limits of national Class I Standard A standard in 2019, respectively.

1. *Exhaust gas*

During our production and operation, exhaust gas is mainly generated from sewage treatment. In the process of transportation and purification of wastewater, odor, methane and other gases generated by water flow turbulence, microbial reaction, sludge treatment and other activities are small in quantity, instead of main emissions of the Company. The Company collected and treated exhaust gas generated during operation through process technologies such as ion deodorization and biological deodorization. The Company also developed a comprehensive work plan to monitor the concentration of exhaust gases. During the Reporting Period, the emission concentration of hydrogen sulfide, ammonia, methane and odor were 0.002 mg/m^3, 0.06 mg/m^3, 0.0009% and 14 (dimensionless) respectively, all of which were below the emission limit and met the national emission requirements.

The greenhouse gas directly generated in our production and operation process was limited, mainly from the fuel consumed by sludge transportation and a small part from the fuel consumed by production and office, while indirect greenhouse gas emissions mainly came from consumption of purchased electricity and energy. During the Reporting Period, direct greenhouse gas emissions were calculated as CO2 equivalents of 3,661.8 tons and indirect greenhouse gas emissions were calculated as CO2 equivalents of 177,380.4 tons. Gases such as nitrogen oxides, sulfur oxides and carbon dioxide, etc. are not characteristic pollution factors of our industry and their emissions are extremely limited, making them difficult to measure.

Although the exhaust gas is not the main emissions of sewage treatment, the Company has continuously optimized treatment technology, perfected production management system and minimized generation of exhaust gas in order to reduce the impact of exhaust gas. The Company strengthens greening arrangement of the plant area through plant greening of isolation around the source of odor gas to ensure normal operation of biological and ion processing facilities by collecting and treating exhaust gas. The Company also expands the scope of monitoring by adopting quarterly monitoring to monitor whether the concentration of hydrogen sulfide, ammonia, methane and odor in the plant area meets the standards.

Electricity cost is the main component of our total production and operation costs. While continuously improving the quality of operation and management, we have been encouraging support for innovations of improvement in energy conservation and consumption reduction by setting up special project awards each year to reward units and individuals who have made outstanding contributions in energy conservation and consumption reduction. At the same time, the Company actively responds to the national energy conservation and emission reduction publicity work, formulates work plans and programs and publicizes and cultivates employees' energy conservation habits.

2. *Wastewater*

The Company's main business is sewage treatment, operation of water supply facilities, reclaimed water utilization, etc. We receive wastewater and reduce the waste in it by way of treatment and purification, in order to minimize the impact of wastewater on the environment and protect the ecological environment of rivers and lakes. In 2019, the chemical oxygen demand reduction of the Company's operating plants was 174,000 tons, ammonia nitrogen reduction was 14,000 tons and the total phosphorus reduction was 3,400 tons.

Wastewater generated in our operation includes domestic sewage, backwash water of equipment and some water for forestation in our plants. All the wastewater will be transferred to sewage treatment plants collected either by circulation networks or by municipal pipe network and then discharged if they meet discharge standard after treatment. During the Reporting Period, the emission of our Chemical Oxygen Demand (COD), ammonia nitrogen (NH3-N) and total phosphorus (TP) was 9,426 tons, 341 tons and 87 tons, respectively.

3. *Sludge*

In 2019, we produced dry sludge of 72,353 tons in aggregate during the production and operation, and the dry sludge produced in the treatment of every 10,000 tons of wastewater was 1.07 tons.

We strictly adhere to the relevant required standards such as the Technical Regulations of Operation, Maintenance and Safety for Municipal Wastewater Treatment Plant (CJJ60-2011) (《城鎮污水處理廠運行、維護及安全技術規程》(CJJ60-2011)), the Quality of Sludge for Municipal Wastewater Treatment Plant (GB 24188-2009) (《城鎮污水處理廠污泥泥質》(GB24188-2009)) and sludge disposal and landscaping sludge quality for municipal wastewater treatment plant (GB/T23486-2009) (《城鎮污水處理廠污泥處置園林綠化用泥質》(GB/T23486-2009)) and conduct inspection on the quality of sludge at least quarterly. Subject to the requirements under the management system on measurement, transportation and disposal, we ensure the sludge treatment process to be in compliance with the national standards and criteria. We are committed to reducing the impact of sludge on the environment. The moisture content of sludge is tested and monitored every day and sludge dewatering process parameters are adjusted in time so that the moisture content of sludge can be steadily reduced and sludge production can be decreased. We have completed the construction of sludge source reduction facilities of 240 tons/day. This measure has helped us achieve 13,600 tons of sludge reduction.

4. *Other wastes*

The non-hazardous waste generated by the Company in the production and operation process is mainly wastepaper. Due to the small amount of production, there is no statistical data on the production amount of non-hazardous waste generated. We reduce generation of non-hazardous waste through source control. In 2019, we purchased 13.8 tons of paper according to schedule. At the same time, we adopted highly efficient and environmentally friendly printing and scanning equipment to promote paperless office and reduce paper use. We encouraged paper to be printed on both sides to reduce paper waste. As for the hazardous waste oil produced during the operation of machinery and equipment and the hazardous waste liquids generated in the process of examination, they are the main sources of hazardous waste. The Company sets up waste holding areas according to the relevant national regulations and the measures to prevent wind dispersal, leakage and runoff, and commissions the qualified third parties to dispose the waste by batch. The total amount of hazardous waste in 2019 was 41.14 tons which was entrusted to a third-party compliance unit for unified disposal. The Company regulates the maintenance and management of mechanical equipment and inspection instrument and uses equipment oil and inspection liquids on a reasonable basis to avoid production of unnecessary waste oil and waste liquids.

The Company will continuously strengthen maintenance and management of mechanical equipment and inspection instrument, use equipment oil and inspection liquids on a reasonable basis and update mechanical equipment and inspection instrument in a timely manner to keep them in a stable working condition to reduce the amount of waste oil and waste liquids.

A2. Use of Resources

Dianchi Water is a leading wastewater treatment and reclaimed water supply services provider in Yunnan Province, the PRC. As "finished products", our outlet water strictly complies with the relevant national and local standards such as the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》) without using resources such as packing materials. The raw water of the Company's water supply business is obtained from water sources designated by local governments. Therefore, we do not have any water sourcing issues.

The Company advocates the use of video conferencing, and supports long-distance, real-time information exchange and collaborative conferences with multi-media technologies such as real-time audio and video, so as to reduce office costs, improve work efficiency and promote a low-pollution and low-emission green office.

The Company conducts daily monitoring on energy, water and other raw materials and arranges monthly statistical analysis on their consumption. The Company formulated a target evaluation mechanism at the beginning of 2019 and strived to improve its resource utilization rate by adopting strict process supervision.

1. Energy consumption

Electricity costs account for a large part of the production costs of water enterprises. Kunming Power Supply Bureau of Yunnan Power Grid Company Limited is our main power supplier. In 2019, all the factories operated by the Company consumed electricity of approximately 212,000 thousand kWh in aggregate.

In order to increase energy utilization rate, the Company, supported by the platforms designed especially for water projects under the 12th Five-Year Plan of the State, carried out technological transformation on energy saving and consumption reduction in respect of key devices with large energy consumption and low efficiency, including lifting pump, air blower, aeration system and sludge dewatering system. The average energy consumption rate per ton of sewage treatment decreased by 20% from 0.29 kWh in 2012 to 0.23 kWh in 2019. The Company actively conducted power marketization transactions and gave priority to wind electricity and electricity supplied by hydropower plants, which not only used clean energy, but also reduced its electricity cost. The electricity cost of the Company decreased by approximately RMB22.00 million in 2019.

The Company encourages all its staff to save energy during work hours. The Company also encourages its staff to use electric vehicles fueled by clean energy and use public transport more frequently.

2. Water consumption

In 2019, all the factories operated by the Company consumed running water of approximately 169,000 tons in aggregate and water consumption per ton of sewage treatment is 0.25 kg.

The Company has Kunming's only reclaimed water distribution system in the main urban area, and the production of the reclaimed water supply business has increased year by year. The Company's reclaimed water, which has been widely used for landscaping, cleaning roads, industrial production and recharging riverway and waterscape, has approximately 420 company subscribers. As of 31 December 2019, the Company had 7 wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 52,000 m^3. Reclaimed water customers of the Company include commercial and industrial establishments, enterprises and public institutions in Kunming.

A3. Environment and Natural Resources

The Company performs environmental impact assessment on all the projects constructed according to the relevant laws and regulations of the PRC. The Company applies “simultaneous design, construction and operation” acceptance check as required after a project has been put into operation to ensure that the construction and operation of the project meet the requirements of the relevant laws, regulations and policies. For wastewater treatment, the principal business of the Company, with the support of its R&D departments, the Company further lowered our effluent quality indicators and improved its waste removal efficiency by adopting measures such as technical innovation and process and operation optimization. For example, after applying its proprietary technologies and over the limit phosphorus removal technology, Kunming No. 1 Water Purification Plant’s effluent COD (Chemical Oxygen Demand) level decreased by 50%, NH_3–N (Ammonia nitrogen in the form of Water with free ammonia (NH_3) and Ammonia ion (NH_4^+)) level decreased by 57%, TN (Total nitrogen) level decreased by 32%, TP (Total phosphorus) level decreased by 80% and BOD (Biochemical Oxygen Demand) level decreased by 48% and energy consumption decreased by 17% from 2012 to 2019.Kunming No. 2 Water Purification Plant’s energy consumption decreased by 41%, effluent COD level decreased by 51%, NH_3-N level decreased by 46%, TN level decreased by 17%, TP level decreased by 52% and BOD level decreased by 46% from 2012 to 2019. As a result of our technological research and development, the overall effluent quality of our facilities in Kunming main city area improved significantly: COD decreased by 46%, TP by 63%, NH_3-N by 62%, TN by 30% and BOD by 44% from 2012 to 2019, which greatly reduced the pollution load brought by the tail water from wastewater treatment plants to natural water. As of 31 December 2019, 97% of the Company designed wastewater treatment capacity reached the National Class I Standard A standard. For pollution sources that produce noises during the production process, such as fan equipment, the Company has taken measures such as installing blimps to reduce their impacts on surrounding environment. The Company strictly implements a running time from 8:00 a.m. to 10:00 p.m. for the dehydration machine rooms in its factories close to residential areas while night running is strictly forbidden, so as to minimize the impacts on environment. At the same time, the Company has a well-established testing system to obtain noise level which is used to guide its production.

B. SOCIAL

The Company strictly complies with applicable laws and regulations on labour protection such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) to guarantee equal employment. We are against any recruitment discrimination concerning age, marital status, race, social status, religious belief, disability, gender, sexual orientation or political background etc. The Company and related subsidiaries strictly comply with various national laws and regulations in relation to human resources. employees are legally entitled to the benefits, remunerations and holidays required by any law. The Company establishes the Measures on Human Resources Management (Trial) (《人力資源管理辦法(試行)》) and the Interim Measures for the Administration on Remuneration (《薪酬管理暫行辦法》), etc. to satisfy the arrangement on the recruitment, internal transfer, dismissal, training, promotion, performance evaluation, and remuneration and benefit of employees, and ensure that no employees are discriminated due to race, age and gender, etc. Besides, the employment of child labor is strictly prohibited and we are against forced labor of any kind, striving to let all the employees work with respect in an equal and harmonious work environment.

The Company provides training to promote ethical standard and provides complaint channels to allow our staff to make a confidential complaint. Through staff participation, training, reward and other promotion activities of safety awareness, we provide our staff with a healthy and safe working environment. We also provide safety equipment to staff and organize regular physical examinations for our staff in order to prevent them from occupational harm and occupational diseases.

B1. Employment

We have comprehensive human resources policies covering recruitment, remuneration, staff benefits, and performance etc. and strictly abide by applicable laws and regulations on labour protection to guarantee equal employment. The Company is against any recruitment discrimination concerning age, marital status, race, social status, religious belief, disability, gender, sexual orientation or political background etc. The Company guarantees equal opportunity and fair treatment for all levels of staff and job applicants in recruitment, internal transfer, dismissal, training, promotion, performance evaluation and remuneration. Besides, we have the same remuneration structure for both male and female staff.

1. Recruitment

In terms of personnel recruitment, the Company employs talents based on the principles of openness, fairness, competition and selection, and publicly recruits in the society. The Company also strictly enters into labour employment contracts with employees in accordance with labour laws and regulations to effectively protect the rights and interests of employees.

2. Remuneration

The Company has established a competitive salary system based on the importance of an employee's position and by reference to the operating strategy of the Company and the industry and the region's salary level. Besides, the Company strictly follows relevant national laws and regulations and continuously improves the staff benefits, pays various statutory social insurances according to the laws and regulations and ensures that the staff are entitled to statutory holidays, paid annual leaves, marriage leaves and maternity leaves. 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 paid leaves. In terms of performance assessment, the Company has built a result and goal-oriented employee performance appraisal system covering various aspects, such as the performance, ability and attitude etc. of the staff. The promotion and salary review of staff is determined by the result of that appraisal appropriately. The Company has also formulated standardized conditions and procedures for dismissing employees and arbitrary dismissal is not allowed. In order to create a healthy, diversified and harmonious working environment, all the matters concerning promotion, salary review and post transfer will be considered in an objective way according to staff performance and the business condition of the Company. During the Reporting Period, the Company was not aware of any material non-compliance cases in relation to human resources laws and regulations.

3. *Retirement Schemes*

The Company participates in a social pension scheme established by the PRC government. The Company is required to contribute a certain percentage of the relevant employees' salaries to the social pension scheme. The Company also sets up a corporate annuity system for purchase of supplementary retirement insurance for our staff. The Company calculates the interest so attributed under the agreed percentage of annuity plan based on staff's service years upon their retirement. Save as disclosed above, the Company is not required to operate any other retirement benefits for its employees during the year.

4. *Staff Benefits*

In addition to statutory employee benefits for full time staff including social security scheme, marriage leave, maternity leave, paternity leave and funeral leave, the Company offers different fringe benefits, for instance, festival bonus, work allowance under special conditions, labour protection, working meal and commuter allowance. The Company also purchases accident insurance and provides additional hospitalization medical insurance for our employees.

(1) As of the end of the Reporting Period, the total number of employees of the Company by gender, employment type, age group and geographical region is detailed in the table below:

	Male to female ratio		Employment type		Age distribution				
Region	**Male**	**Female**	**Contract system**	**Labor dispatch system**	**Under 25**	**26-35**	**36-45**	**46-55**	**Over 55**
Southwest region (Yunnan, Guizhou, Sichuan)	690	343	775	258	102	447	248	196	40
Eastern China region (Anhui, Jiangsu, Zhejiang)	45	33	64	14	4	26	16	22	10
Central China region (Hunan)	104	30	134	0	4	45	32	43	10
Overseas region (Hong Kong)	4	5	9	0	0	7	2	0	0

(2) During the Reporting Period, the Company's employee turnover and proportion by gender, age group and geographical region are detailed in the table below:

Region	Total turnover	Male to female ratio		Age distribution					Turnover rate
		Male	Female	Under 25	26-35	36-45	46-55	Over 55	
Southwest region (Yunnan, Guizhou, Sichuan)	28	18	10	4	15	6	3	0	2.71%
Eastern China region (Anhui, Jiangsu, Zhejiang)	3	3	0	0	1	1	1	0	3.85%
Central China region (Hunan)	8	6	2	1	3	1	0	3	5.97%
Overseas region (Hong Kong)	1	1	0	0	1	0	0	0	11.11%

B2. Health and Safety

The Company has been certified to quality, environmental and occupational health management system standards in 2013, and sets up a safety management system in accordance with national and local laws and regulations including the Fire Protection Law of the People's Republic of China, the Production Safety Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the Special Equipment Safety Law and Yunnan Province Safety Production Regulations to establish a safety management system and comprehensively research, deploy and address issues arising in the course of production safety management. The Company regularly arranges occupational health medical examination for all employees every year. During the Reporting Period, the rate of coverage of medical examination of the Company's employees was 100%.

During the operation and management process of the Company, the Company attaches great importance to occupational health and safety protection and takes various measures to provide a healthy and safe production environment for all employees mainly through: firstly, all staff member enter into a letter of responsibility for safety objectives and implement safety production responsibilities at all levels. Secondly, the Company conducts safety checks on a regular basis and arranges regular lectures on production safety and fire safety work meeting to eliminate any hidden danger at work site promptly and eliminate occurrence of safety production accidents. Thirdly, the Company organizes trainings regularly such as occupational health training, safety management training, road traffic safety training, fire training and drills to improve employees' awareness and ability of occupational health and safety. Fourthly, the Company organizes health check-ups for employees every year, distributes labor protection supplies and inspects their wearing regularly. There have been no production safety accidents in the past three years. The number of deaths and disability due to work was 0% and there were no workdays lost due to work-related injuries.

B3. Development and Training

In order to meet the Company's operation and management needs, we focus on development of strategic plans and implementation of training by actively constructing a learning enterprise, creating a learning team and formulating a multi-category, multi-level and multi-form training pattern, of which the Company developed a "comprehensive training platform for learning mobile, intelligent management and content digitization" in 2019. The overall optimization of organization, implementation and management of training will support continuous enhancement of the Company's talent training and training capabilities to promote the Company's sustainable and healthy development. In 2019, a total of 28 training sessions on management, job skills, new employees, comprehensive ability and business ability improvement were conducted, with a total of 3,164 trainees at each level and a total of 24,745 training hours.

For management training, the Company targets on management talents to provide specialized technical knowledge courses such as sewage treatment, water quality monitoring, equipment maintenance and reclaimed water, etc. to compensate for the technical shortcomings of the management and promote rapid growth of compound talents with "technical management". In terms of job skills training, the Company organizes standardized operation trainings such as sewage treatment, laboratory monitoring, reclaimed water treatment and sludge disposal to comprehensively improve the standardized operation level of various business categories so as to serve the development of enterprises.

In terms of new employee training, the Company integrates theoretical learning, classroom interaction and discussion as well as on-site practice and combines corporate culture management, company development strategies, external macro market environment, industry development opportunities, risk prevention and control as well as expertise of various business sectors. As high-quality backup talents, new employees will receive targeted and comprehensive training.

In terms of training for improving comprehensive and business abilities, the Company increases awareness of China's ecological and environmental issues through organization of training on environmental pollution incidents and emergency response and communication psychology, to improve leadership, execution, cooperation and resilience effectively.

During the Reporting Period, the Company's training statistics classified by employee level are as follows:

Training ratio of middle and senior staff: 91.1%	The average duration of study: 29.5 hours
Training ratio of general employees: 59.9%	The average duration of study: 31.3 hours

During the Reporting Period, the Company's training statistics classified by employee gender are as follows:

Training ratio of male employees: 62.0%	The average duration of study: 29.9 hours
Training ratio of female employees: 65.5%	The average duration of study: 33.8 hours

After years of construction and accumulation, the Company continuously increased the strength of training resources and formed a team of part-time lecturers with technical and management skills. Through internal and external links, the Company continuously maintained, improved and enriched the teaching staff and joined China Eco-Environmental Industry and Education Alliance to strengthen exchanges with industry associations and internationally renowned institutions.

B4. Labor Rules

Prohibition of Employing Child Labor or Forced Labor

The Company strictly follows state and local regulations regarding recruitment and hire of employees such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Prohibition of Child Labor Provisions (《禁止使用童工規定》), etc. and will not hire applicants who fail to meet requirements set out in relevant laws and regulations. In addition, the Company conducts reference check on employees based on information provided, and those who are found to have treated will not be hired. The Company sticks to a human resource policy that highlights gender equality and ethnic equality and prohibits employment of child labor and forced labor. During the Reporting Period, the Company did not have any breach of laws and regulations that impose ban on employment of child labor and forced labor.

B5. Supply Chain Management

Principal suppliers of the Company are power suppliers who provide electricity for its facilities, construction contractors who design and construct its facilities and suppliers of raw materials including wastewater treatment chemicals and other equipment maintenance consumables.

Except for utility service providers, the Company has established a centralized procurement policy for selected suppliers. The Company has internally established the Intermediary Agency Selection and Employment Management Measures (《中介機構選聘管理辦法》), the Contract Management Measures (《合同管理辦法》), the Production Operation Procurement Management Measures (Trial) (《生產運行採購工作管理辦法(試行)》) and other systems to standardize management of various activities of the entire procurement process of the Company. Under such policy, subsidiaries of the Company are required to solicit bids from different suppliers. The Company adopts the principle of fairness, impartiality and openness to select qualified suppliers in the form of public bidding where the project is located. The discipline inspection and supervision department performs supervision duties during the bidding process. The Company selects suppliers based on product price, product environmental protection requirements, quality, and timely delivery of products. We encourage and prioritize our cooperation with suppliers who have environmental protection and safety certifications. Green development concepts, such as construction safety and environmental protection, have been included in our construction contracts and performance evaluation. Meanwhile, we learn about the supplier's reputation from the Internet, bid evaluation experts, using enterprises and other channels, including whether there are environmental and social complaints and lawsuits related reports, and take the investigation results as one of the reference factors of cooperation.

All supply contracts will be required to be reviewed and approved by the headquarter which will conduct periodic tests to check the quality of the delivered products. The Company has sourced raw materials from a few local suppliers in proximity to Kunming in order to benefit from the economies of scale and easy transportation, which allows faster and cheaper delivery of raw materials. The Company has readily available alternative suppliers in the market who offer similar raw materials with terms comparable to its existing suppliers. To mitigate the risks associated with any reliance on its major suppliers, the Company periodically seeks potential alternative suppliers and obtains quotations from such suppliers with the view to keeping in contact with potential suppliers.

During the Reporting Period, major suppliers of the Company are independent third parties based in China, most of which are concentrated in Southwest China, of which Yunnan Branch of Guizhou Construction Engineering Group, a state-owned enterprise, provides project construction services for us. The Company's other major suppliers include Kunming Power Supply Bureau of Yunnan Power Grid Co. which provides power for our operations, construction contractors such as Inner Mongolia Yingang Construction Group Co., Ltd. and Jiangxi Geo-Engineering (Group) Corporation, etc. which undertake the construction portions of our projects and raw materials providers such as Kunming Kejingyuan Environmental Protection Technology Co., Ltd., Shenzhen Pufeisi Environmental Protection Technology Co., Ltd. and Yunnan Senjie Environmental Engineering Co., Ltd. which provide water treatment chemicals and others materials for the operation and maintenance of our facilities.

B6. Product Responsibilities

The Company attaches great importance to product quality and strictly complies with relevant laws and regulations such as the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》), the Management Regulations for Checking and Accepting Completed Installations of Environmental Protection of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) and Urban Water Supply Regulations (《城鎮供水條例》),etc. With reference to its own conditions, it sets up and implements an internal standardization management system on basis of GB/T24001-2016 Environmental Management System – General Guidelines on Implementation (GB/T24001-2016《環境管理體系要求及使用指南》), GB/T19001-2016 Quality Management System – Requirements (GB/T19001-2016《質量管理體系要求》) and GB/T28001-2011 Occupational Health and Safety Management System – Requirements (GB/T28001-2011《職業健康安全管理體系要求》).

The Company attaches great importance to intellectual property work and incorporates intellectual property into the Company's strategy of "self-invigoration through science and technology". Through establishment of an intellectual property management system oriented to transformation and application of results, the Company implements normative management of intellectual property. The Company also establishes a special agency and formulates corresponding project approval documents for project approval, clarifying that a patent search is necessary to be performed before project approval by issuing an intellectual property search report on whether patent protection or patent infringement will be obtained in the future. An intellectual property protection and early warning mechanism is established to better protect the Company's intellectual property without infringing the intellectual property rights of others.

The Company puts much emphasis on product quality by executing and implementing the Company's internal standardized management system to ensure that the quality of effluent water is stable and up to standards. During the Reporting Period, there was no return of products sold or for safety and health reasons without receiving customer complaints concerning products and services. Each key process in the course of production is under real-time data monitoring, and relevant data a retransferred directly to the central monitoring system of each plant and to the monitoring platform of the Company. Operators strictly execute the Standardized Operation Manual (標準化運行手冊) which has been adapted under the "one manual for one plant" principle that highlights respective conditions of each plant, thus ensuring smooth operation of each process. The Company also monitors inlet and outlet water quality. Daily water quality monitoring is entrusted to environmental monitoring companies with CMA (China Metrology Accreditation) certificates. Every day, water sample is tested in the morning, and test report is issued in the afternoon. Therefore, the Company obtains feedback timely and is able to make production instructions, thus ensuring that outlet water meet discharge standards. Furthermore, the Company has an online monitoring system which monitors inlet and outlet water quality for 24 hours per day. Monitoring data are transferred simultaneously to municipal and provincial-level comprehensive monitoring and management platforms on pollution sources. Wastewater after treatment meets requirements as set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》(GB18918-2002)).

Our customers are primarily local governments. Regarding the information from customers, the Company has an information management system and a complete platform of collection, transmission, accumulation and integration. The Company regularly upgrades its information platform management software, eliminates and replaces problematic hardware facilities with regular maintenance, backup and hierarchical management of the system to ensure reliability of the system. In response to the government's confidentiality requirements, each department of the Company has formulated corresponding confidentiality plans in accordance with confidentiality regulations of the government and the Company to ensure the timeliness, accuracy, security and confidentiality of customer information.

B7. Anti-corruption Efforts

The Company is in strict observance with relevant laws, regulations and regulatory requirements, such as the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Law on Tendering and Bidding of the People's Republic of China (《中華人民共和國招標投標法》), the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) and the Interim Provisions on Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) and has been always taking zero-tolerance attitude toward preventing and combating corruption by ways of external supervision, improving the internal anti-corruption systems and putting in place the long-acting anti-corruption mechanism within the Company.

1. Perform the Main Responsibility of the Party Committee and promote strict Party governance

In 2019, the Party Committee of the Company focused on the requirements of corporate Party building in the new era and set the discussion of the Party committee as a presage procedure for the Board and the management in making decisions on major issues. During the year, 31 Party Committee meetings were held and a total of 228 "Three Important and One Large Matters" were considered and approved. The Company implemented the education activities of "Remain True to Our Original Aspiration and Keep Our Mission Firmly in Mind" and supervised the headquarters and subsidiaries to establish 62 long-term mechanisms. The Company held 9 themed activities such as vocational skills competition of "Promoting the spirit of Craftsmanship and Building a Renaissance Dream Together" and environmental protection and popular science social practice of "Popular Science and Environmental Protection, Building a Beautiful China". The Company completed a total of 13 questions and 50 rectification targets in 6 aspects through the municipal Party Committee's inspection and feedback. The completion rate of rectification was 100%. The Company made 7 integrity dialogues with high-risk departments and conscientiously conducted 10 pre-service conversations with newly selected and appointed mid-level cadres.

2. *Perform the supervision responsibilities of the Commission for Discipline Inspection and build a strong anti-corruption fortress*

The Company earnestly implements the responsibility system of the establishment of the Party's discipline and integrity and strengthens relevant knowledge and training in anti-corruption cases. The Company signed the Responsibility Documents for Construction of "single position with dual duties" of Incorrupt Party with 5 team members and signed the Responsibility Documents for Construction of Incorrupt Party for the year with the heads of party organizations of 6 subsidiaries. The Company submitted 20 reports such as various work reports, supervision and inspection tables and various statistical tables to Kunming Municipal SASAC's Discipline Inspection Team and Kunming Municipal SASAC on time, submitting a total of 240 reports throughout the year.

The Company strictly implements the requirements of strengthening Party discipline and performs supervision duties seriously by correctly utilizing the"four patterns" for discipline and accountability. Throughout the year, for the clues of the questions and the letters from the masses handed over by the Provincial and Municipal Commission for Discipline Inspection and the Kunming Municipal Commission for Discipline Inspection, State-owned Assets Supervision and Administration Commission, 3 visits and correspondences were handled. Clues were found within the Company for investigation and handle for 4 times involving 16 people held accountable, of which 1 person received serious inner-Party warnings, 1 person received inner-Party warnings, 2 people received written warnings, 3 people were recorded a serious demerit on administration, 1 person was recorded a demerit on administration, 1 person was demoted on administration, 1 person received degradation on administration, 2 people received cautionary lectures and 4 people were verbally reminded. There were no corruption lawsuits during the reporting period.

The Company establishes an effective linkage mechanism to prevent extortion, fraud and money laundering. First, popularizing the study on risk knowledge and strengthening the risk awareness; second, signing target responsibility statement on safe production and environment protection and responsibility statement for target operation to strengthen the operating management; third, further improving the procedures of the review and execution of contracts; and fourth, establishing an effective linkage mechanism to prevent extortion, fraud and money laundering, with an aim to effectively prevent extortion, fraud and money laundering.

B8. Community Investment

According to the arrangement of poverty alleviation work in Kunming City, the Company endeavors to help the poor households in Yidaikuai village of Zhuanlong Town and organized helpers to carry out the work of assisting the households. The Company paired up to help 58 households in Huangtupo village of Zhuanlong Town, Luquan County to eliminate poverty. The Company actively assisted Xundian County in economic improvement and fulfilled the social responsibility of listed companies. The Company has established a leading group for poverty alleviation work. Poverty alleviation team members selected in 2019 served as leaders of the village working team. As of 31 December 2019, the Company visited poverty-stricken households in Yidaikuai village of Zhuanlong Town for three times and organized all party members and cadres targeted for help to donate supplies to village committees and primary schools in which poor households were visited and received condolences. The Company helped targeted poverty alleviation and organized employees of the Company to purchase agricultural and sideline products by contacting poverty alleviation areas to help farmers to be divorced from poverty.

As the largest scale of sewage treatment in Yunnan Province and a Hong Kong listed environmental protection enterprise, the Company continuously promotes the concepts of green environmental protection, ecological civilization and sustainable development. Dianchi Water also takes a part in contributing to the change of the community. While fulfilling the task of environmental protection and treatment, the Company also takes social responsibility in environmental protection education as an important task. Relying on the environmental protection infrastructures operated and managed in various regions, the Company receives social organizations, colleges and citizens to participate in environmental protection and social practice activities every year. Through the radiation effects of these visitors and volunteers, the ecological environmental protection knowledge and ideas are disseminated to the whole society, forming a sound atmosphere in which all employees pay attention to environmental protection and participate in environmental protection. With the efforts of each water volunteer, we continue to promote the concepts of green environmental protection, ecological civilization and sustainable development. Through volunteer services such as environmental protection activities entering campuses and communities, online environmental protection knowledge interaction and sewage treatment plant public open days, environmental protection and science popularization can be conducted, so that ecological environmental protection knowledge and concepts are disseminated to the whole society.

As a water environmental protection enterprise, we actively advocate harmony and integration in society and environment. The Company will continue to fulfill its social responsibilities enthusiastically, adhere to the core values of “enthusiastic about charitable causes and giving back to the society” sustainably and actively participate in caring community activities to strive to become an outstanding corporate citizenship.