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

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

(Stock Code: 3768)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL SUMMARY

For the year ended 31 December 2018, the Group's:

- revenue amounted to approximately RMB1,430 million, representing an increase of 16.8% from 2017;
- profit before tax amounted to approximately RMB415 million, representing an increase of 11.5% from 2017;
- profit attributable to equity holders of the Company amounted to approximately RMB349 million, representing an increase of 11.6% from 2017; and
- earnings per share amounted to approximately RMB0.34, representing an increase of 3.0% from 2017.

The Board proposes to distribute a final cash dividend of RMB0.1714 per share (tax inclusive) (2017: RMB0.1527 per share (tax inclusive)), totaling RMB176,389,625.40 (tax inclusive) (2017: RMB157,145,249.70 (tax inclusive)) to all shareholders whose names appear on the Company's registers of shareholders of domestic shares and H shares as at Tuesday, 2 July 2019. The distribution is subject to shareholders' approval at the 2018 Annual General Meeting to be convened on Friday, 21 June 2019. The expected dividend distribution date is Thursday, 8 August 2019.

The board of directors (the "**Board**") of Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**") announces the audited results of the Company and its subsidiaries (collectively, the "**Group**", "**we**", "**us**" or "**our**") for the year ended 31 December 2018 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2017, as following:

I. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

		As at 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**469,125**	445,974
Long-term prepayments		**–**	450,000
Property, plant and equipment		**3,053,604**	2,342,663
Receivables under service concession arrangements	*11*	**1,120,398**	529,997
Amounts due from customers for construction contracts	*12*	**291,687**	238,383
Intangible assets		**184,558**	135,099
Investments in associates		**15,074**	15,257
Prepayments for acquisition of subsidiaries		**–**	43,356
Deferred income tax assets		**50,196**	32,957
		5,184,642	4,233,686
Current assets			
Receivables under service concession arrangements	*11*	**15,408**	13,747
Inventories		**12,921**	7,515
Amounts due from customers for construction contracts	*12*	**18,911**	12,296
Financial assets at fair value through profit or loss		**170,000**	–
Available-for-sale financial assets		**–**	80,000
Trade and other receivables	*13*	**942,551**	386,397
Cash and cash equivalents		**1,079,714**	1,291,170
Restricted cash		**17,916**	–
		2,257,421	1,791,125
Total assets		**7,442,063**	6,024,811

CONSOLIDATED BALANCE SHEET (Continued)

	Note	As at 31 December 2018 *RMB'000*	2017 *RMB'000*
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital		**1,029,111**	1,029,111
Other reserves		**1,452,284**	1,413,937
Retained earnings		**1,413,378**	1,257,039
		3,894,773	3,700,087
Non-controlling interests		**6,148**	6,114
Total equity		**3,900,921**	3,706,201
LIABILITIES			
Non-current liabilities			
Deferred revenue		**222,530**	157,479
Borrowings		**1,764,699**	1,091,625
Deferred income tax liabilities		**63,374**	39,848
		2,050,603	1,288,952
Current liabilities			
Trade and other payables	*14*	**379,708**	369,850
Current income tax liabilities		**84,589**	60,238
Borrowings		**1,014,505**	599,570
Contract liabilities	*14*	**11,737**	–
		1,490,539	1,029,658
Total liabilities		**3,541,142**	2,318,610
Total equity and liabilities		**7,442,063**	6,024,811

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	3	**1,429,787**	1,223,825
Cost of sales	6	**(900,753)**	(723,335)
Gross profit		**529,034**	500,490
Selling expenses	6	**(14,175)**	(13,875)
Administrative expenses	6	**(135,991)**	(124,490)
Research and development expenses	6	**(4,160)**	(7,282)
Net impairment losses on financial and contract assets	2.2.2(b)	**(17,562)**	–
Other income	4	**110,525**	93,291
Other gains/(losses) – net	5	**2,052**	(4,817)
Operating profit		**469,723**	443,317
Finance income		**56,924**	33,706
Finance costs		**(111,243)**	(104,754)
Finance costs – net	7	**(54,319)**	(71,048)
Share of results of associates		**(183)**	156
Profit before income tax		**415,221**	372,425
Income tax expense	8	**(65,494)**	(58,336)
Profit for the year		**349,727**	314,089
Profit attributable to:			
– The equity holders of the Company		**348,549**	313,077
– Non-controlling interests		**1,178**	1,012
		349,727	314,089
Other comprehensive income/(loss)		**3,282**	(1,847)
Total comprehensive income for the year		**353,009**	312,242

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

		Year ended 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
Attributable to:			
– The equity holders of the Company		**351,831**	311,230
– Non-controlling interests		**1,178**	1,012
		353,009	312,242
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted earnings per share	*9*	**0.34**	0.33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. CORPORATE INFORMATION

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

The Group is principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards and Hong Kong Companies Ordinance

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

(b) Historical cost convention

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

(c) New and amended standards adopted by the Group

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(d) New standards and interpretations not yet adopted

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

Standards	**Effective for annual periods beginning on or after**
IFRS 16 "Leases"	1 January 2019
Interpretation 23, "Uncertainty over Income Tax Treatments"	1 January 2019
Amendments to IFRS 9, "Prepayment Features with Negative Compensation"	1 January 2019
Amendments to IAS 19, "Plan Amendment, Curtailment or Settlement"	1 January 2019
Amendments to IAS 28, "Long-term Interests in Associates and Joint Ventures"	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation. Except as described below, the Group considers that the application of amendments to IFRS, amendments to IASs and the new interpretations is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in the future.

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies

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

2.2.1 Impact on the consolidated financial statements

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

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

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

2.2.2 IFRS 9 Financial Instruments – Impact of adoption

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

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

(a) Classification and measurement

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

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

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

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

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

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

(b) Impairment of financial assets

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

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

(b) Impairment of financial assets (Continued)

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

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations not under common control

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Subsidiaries (Continued)

2.3.1 Consolidation (Continued)

(b) Business combination under common control

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

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

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

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

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

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

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

(d) Disposal of subsidiaries

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

3 SEGMENT INFORMATION

The chief operating decision-maker has been identified as executive directors of the Company. Management has determined the operating segments based on reports reviewed by the executive directors of the Company for the purpose of allocating resources and assessing performance.

The executive directors of the Company consider the business from product and service perspective. The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including management service and transportation service.

The executive directors of the Company assess the performance of the operating segments based on the measurement of revenue and operating profit.

Unallocated assets consist of deferred income tax assets and investments in associates. Unallocated liabilities consist of deferred income tax liabilities and current income tax liabilities.

Capital expenditure comprises mainly additions to land use rights, property, plant and equipment and intangible assets.

(a) Revenue from all services

The revenue of the Group are set out as follows:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Wastewater treatment	**1,159,075**	1,037,163
Operating services – under TOO model	**820,400**	739,620
Operating services – under TOT/BOT model	**65,775**	37,029
Construction services – under BT model	**42,881**	158,800
Construction services – under BOT model	**205,461**	82,213
Finance income	**24,558**	19,501
Reclaimed water supply and running water supply	**115,254**	68,520
Operating services of reclaimed water supply – under TOO model	**14,395**	8,262
Operating services of running water supply – under TOT/BOT model	**11,684**	10,251
Construction services – under BT model	**38,322**	5,657
Construction services – under BOT model	**49,009**	42,491
Finance income	**1,844**	1,859
Others	**155,458**	118,142
Management services	**88,977**	100,098
Transportation services	**3,649**	3,025
Construction services-under BT model	**13,881**	–
Others	**48,951**	15,019
	1,429,787	1,223,825

3 **SEGMENT INFORMATION (Continued)**

(b) **Segment information**

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2018 is as follows:

	For the year ended 31 December 2018			
Business segment	**Wastewater treatment** *RMB'000*	**Water supply** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**1,159,075**	**115,254**	**155,458**	**1,429,787**
Segment gross profit	**480,070**	**8,372**	**40,592**	**529,034**
Segment profit	**434,413**	**3,591**	**31,719**	**469,723**
Finance income				**56,924**
Finance costs				**(111,243)**
Share of results of associates				**(183)**
Profit before income tax				**415,221**
Other information				
Depreciation of property, plant and equipment	**165,986**	**8,269**	**21,315**	**195,570**
Amortisation of land use rights	**10,636**	**–**	**–**	**10,636**
Amortisation of intangible assets	**9,374**	**–**	**–**	**9,374**
Capital expenditure	**660,985**	**34,201**	**316,586**	**1,011,772**

	As at 31 December 2018			
Business segment	**Wastewater treatment** *RMB'000*	**Water supply** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment assets	**6,246,112**	**361,018**	**769,663**	**7,376,793**
Unallocated:				
Deferred income tax assets				**50,196**
Investments in associates				**15,074**
Total assets				**7,442,063**
Segment liabilities	**2,889,297**	**132,348**	**371,534**	**3,393,179**
Unallocated:				
Deferred income tax liabilities				**63,374**
Current income tax liabilities				**84,589**
Total liabilities				**3,541,142**

3 **SEGMENT INFORMATION (Continued)**

(b) **Segment information (Continued)**

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2017 is as follows:

	For the year ended 31 December 2017			
Business segment	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Revenue from external customers	1,037,163	68,520	118,142	1,223,825
Segment gross profit	446,773	4,233	49,484	500,490
Segment profit/(loss)	403,171	(844)	40,990	443,317
Finance income				33,706
Finance costs				(104,754)
Share of results of associates				156
Profit before income tax				372,425
Other information				
Depreciation of property, plant and equipment	153,654	9,035	3,262	165,951
Amortisation of land use rights	9,810	–	–	9,810
Amortisation of intangible assets	5,880	–	–	5,880
Capital expenditure	205,626	23,691	483	229,800

	As at 31 December 2017			
Business segment	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	5,605,826	352,835	17,936	5,976,597
Unallocated:				
Deferred income tax assets				32,957
Investments in associates				15,257
Total assets				6,024,811
Segment liabilities	2,199,632	13,608	5,284	2,218,524
Unallocated:				
Deferred income tax liabilities				39,848
Current income tax liabilities				60,238
Total liabilities				2,318,610

3 **SEGMENT INFORMATION (Continued)**

(c) Geographical information

The Group has derived almost all of its business in the PRC, hence, geographical segment information is not considered necessary.

(d) Information about major customers

The major customer Groups from whom the individual customer Group's revenue amounted to 10% or more of the Group's total revenue were as below:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Customer A	**555,045**	493,298
Customer B	**208,867**	201,604
	763,912	694,902

The customer portfolio of the Group is concentrated, which is consistent with the industry practise. If the customer A or customer B substantially defaults in payment or terminates the business relationship with the Group, it could materially affect the Group's financial position and results of operations.

4 **OTHER INCOME**

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Government grants:	**93,709**	80,029
– relating to property plant and equipment	**6,555**	11,671
– relating to research and development activities	**4,683**	11,764
– relating to tax refund *(Note (a))*	**82,471**	56,594
Interest income from cash and cash equivalents	**3,508**	3,307
Interest income from structured deposits	**4,198**	7,615
Others	**9,110**	2,340
	110,525	93,291

(a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, companies who sell self-produced products made with integrated utilised resources or provides labor services for integrated utilization of resources can enjoy the policy of value-added tax ("**VAT**") refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% tax refund proportions respectively.

5 OTHER GAINS/(LOSSES) – NET

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Losses on disposal of property, plant and equipment – net	**(80)**	(85)
Gains on disposal of land use right – net	**–**	964
Donation	**(591)**	(3,763)
Others	**2,723**	(1,933)
	2,052	(4,817)

6 EXPENSES BY NATURE

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Depreciation of properties, plant and equipment	**195,570**	165,951
Utilities and electricity	**102,519**	87,555
Employee benefit expenses	**151,269**	99,420
Costs of wastewater and water distribution services	**82,685**	49,120
– Material costs	**57,966**	37,063
– Costs for sludge and water hyacinth treatment	**24,719**	12,057
Cost of construction services	**334,880**	289,161
Taxes and levies	**37,183**	40,035
Transportation costs	**9,562**	9,001
Repair and maintenance costs	**20,367**	26,411
Commission charge	**9,053**	8,289
Amortisation of land use rights	**10,636**	9,810
Office expenditures	**10,980**	8,344
Labour costs	**31,063**	25,581
Professional expenses	**21,873**	13,548
Material used in research and development activities	**4,160**	2,433
Amortisation of intangible assets	**9,374**	5,880
Auditor's remuneration	**3,491**	3,580
Listing expenses	**–**	13,255
Miscellaneous	**20,414**	11,608
Total cost of sales, selling expenses,administrative expenses and research and development expenses	**1,055,079**	868,982

7 FINANCE COSTS – NET

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance income:		
– Interest income from term deposits	**3,641**	–
– Interest income charged to related parties	**34,111**	26,314
– Interest income arising from construction contracts	**19,172**	7,392
	56,924	33,706
Finance costs:		
– Interest expenses on unsecured borrowings	**(81,582)**	(47,397)
– Interest expenses on corporate bonds	**(21,315)**	(30,952)
– Interest expenses on secured borrowings	**(30,224)**	(3,811)
– Total interest expenses on borrowings	**(133,121)**	(82,160)
– Less: borrowing costs capitalised in property, plant and equipment	**8,401**	6,615
– Interest expenses – net	**(124,720)**	(75,545)
– Exchange loss	**13,941**	(29,130)
– Others	**(464)**	(79)
	(111,243)	(104,754)
Finance costs – net	**(54,319)**	(71,048)

8 INCOME TAX EXPENSE

The amounts of income tax expense charged to the consolidated statement of comprehensive income represent:

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**78,821**	64,476
Deferred income tax	**(13,327)**	(6,140)
Income tax expense	**65,494**	58,336

The Group was not subject to Hong Kong profits tax during the year ended 31 December 2018 as there was no assessable income arising in or derived from Hong Kong.

8 INCOME TAX EXPENSE (Continued)

Under the Law of the PRC on Corporate Income Tax (the "**CIT Law**") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries during the year ended 31 December 2018, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

(a) China's west region development policy (the "**West Region Development Policy**") is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in west region of China. During the year ended 31 December 2018, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

(b) In addition to the West Region Development Policy, the Company also qualifies as a "High-tech Enterprise" and enjoys a 15% enterprise income tax rate during the year ended 31 December 2018 (2017: 15%).

(c) Certain newly upgraded wastewater treatment facilities meet the criteria provided in the catalogue for public basic infrastructure projects qualified for CIT preferential treatments, and are entitled to three years' exemption from CIT followed by three years of a 50% tax reduction on relevant taxable income derived from such new projects.

(d) Certain subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments as its major raw materials and enjoyed 10% deduction of CIT.

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**415,221**	372,425
Tax calculated at the domestic CIT rate applicable	**103,805**	93,106
Tax effect of:		
Expenses not deductible for tax purpose *(Note (i))*	**89**	870
Preferential tax rate of the Company and certain subsidiaries *(Note (a) and (b))*	**(36,820)**	(35,085)
Income not subject to income tax *(Note (c))*	**(895)**	(126)
Share of results of associates	**(27)**	(23)
Others	**(658)**	(406)
Income tax expense	**65,494**	58,336

(i) Expenses not deductible for tax purpose primarily include expenses without valid invoices, welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law, write-off of inventories and receivables without tax authorities' approval.

9 EARNINGS PER SHARE

(a) Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	For the year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company *(RMB'000)*	**348,549**	313,077
Weighted average number of ordinary shares in issue *(thousand)*	**1,029,111**	947,760
Basic earnings per share *(RMB)*	**0.34**	0.33

(b) The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the year ended 31 December 2018.

10 DIVIDENDS

	For the year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(a) Final dividend for the year ended 31 December 2017 of RMB0.1527 (2016: RMB0.1) per share *(Note (i))*	**157,145**	102,911
(b) Dividends not recognised at the end of the Reporting Period		
In addition to the above dividends, the Board have recommended the payment of 2018 final dividend of RMB 0.1714 per share (2017 – RMB0.1527). The aggregate amount of the above proposed dividend expected to be paid in 2019 out of retained earnings at 31 December 2018, but not recognised as a liability at year end, is:	**176,390**	157,145

(i) As approved by the Board on 26 March 2018, the Company declared a dividend of RMB157,145,000 in respect of the accumulated distributable profit as at 31 December 2017. The declaration of the dividend has been reflected as an appropriation of retained earnings during the year ended 31 December 2018. The dividends were paid out during the year ended 31 December 2018.

11 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain arrangements with governmental authorities in the PRC under TOT or BOT models in respect of its wastewater treatment and water supply services (the "**Facilities**"). These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for those arrangements under TOT models; (ii) constructing the Facilities for those arrangements under BOT models; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 24.6 to 45.2 years (the "**Service Concession Periods**"), and the Group will be paid for its services over the Service Concession Periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

The consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The effective interest rate fell within the range from 6.51% to 9.23%.

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	**15,485**	13,747
Loss allowance	**(77)**	–
	15,408	13,747
Non-current portion:		
Receivables under service concession arrangements	**1,126,028**	529,997
Loss allowance	**(5,630)**	–
	1,120,398	529,997
	1,135,806	543,744

In respect of the Group and Company's receivables under service concession arrangements, the various group companies have different credit policies, depending on the locations in which they operate. Collection of receivables under service concession arrangements are closely monitored in order to minimise any credit risk associated with the receivables.

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in the PRC, as grantors in respect of the Group's service concession arrangements.

12 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Costs incurred to date plus recognised profits less recognised losses		
Current portion:		
Amounts due from customers for construction contracts	**19,006**	12,296
Loss allowance	**(95)**	–
	18,911	12,296
Non-current portion:		
Amounts due from customers for construction contracts	**293,153**	238,383
Loss allowance	**(1,466)**	–
	291,687	238,383
	310,598	250,679

To measure the expected credit losses, amounts due from customers for construction contracts have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2017 and 2018, provision of approximately, nil and RMB1,561,000 was made against the gross amounts to amounts due from customers for construction contracts.

13 TRADE AND OTHER RECEIVABLES

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

As at 31 December 2018, the fair values of the current portion of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2018, the carrying amounts of trade and other receivables are denominated in RMB.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the life time expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2018, a provision of approximately RMB9,654,000 (2017: Nil) was made against the gross amounts to trade receivables.

To measure the expected credit losses, other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2018, a provision of approximately, RMB640,000 (2017: Nil) was made against the gross amounts to other receivables.

13 TRADE AND OTHER RECEIVABLES (Continued)

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

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

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

14 TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

Trade and other payables

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**31,006**	3,802
Other payables due to:	**106,923**	71,899
– Related parties	**21,918**	18,171
– Local government	**3,790**	4,416
– Third parties	**81,215**	49,312
Consideration payable for acquisition of subsidiaries	**23,619**	12,690
Staff salaries and welfare payables	**46,091**	28,667
Advance from customers	**–**	6,124
– Related parties	**–**	4,222
– Local government	**–**	101
– Third parties	**–**	1,801
Payables on acquisition of property, plant and equipment due to:	**69,755**	84,297
– Related parties	**17,212**	32,521
– Third parties	**52,543**	51,776
Payables on acquisition of land use rights from related parties	**58,194**	58,194
Interest payables	**2,982**	2,021
Accrued taxes other than income tax	**41,138**	102,156
	379,708	369,850

Contract Liabilities

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contract liabilities		
– Related parties	**1,362**	–
– Local government	**8,516**	–
– Third parties	**1,859**	–
	11,737	–

14 TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES (Continued)

(a) As at 31 December 2018, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers,staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

(b) During the year ended 31 December 2018, the Group's trade and other payables are denominated in RMB.

(c) Aging analysis of trade payables to third parties at the respective balance sheet dates is as follows:

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

15 BUSINESS COMBINATIONS

During the year ended 31 December 2018, the Group acquired equity interests in certain subsidiaries from independent third parties. Details of the acquisitions are as follows:

(i) On 19 January 2018, the Group acquired 100% of the equity interests in Zhuji Dongdaciwu Wastewater Co. Ltd. (諸暨市東大次塢污水處理有限公司 "**Dongda Water**") at a consideration of RMB83,443,000. After the acquisition, Dongda Water became a directly owned subsidiary of the Group.

Dongda Water's principal activity is wastewater treatment, and it was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 19 January 2018
	RMB'000
Consideration:	
Cash consideration	**83,443**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**53**
Receivables under service concession arrangements	**64,123**
Intangible assets	**57,671**
Property, plant and equipment	**66**
Inventories	**115**
Trade and other receivables	**14,346**
Trade and other payables	**(38,513)**
Deferred tax liabilities	**(14,418)**
Total identifiable net assets	**83,443**

Intangible assets of RMB57,671,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2018 contributed by Dongda Water was approximately RMB32,204,000. Dongda Water also contributed profit of approximately RMB4,077,000 over the same period.

15 BUSINESS COMBINATIONS (Continued)

(ii) On 25 January 2018, the Group acquired 100% of the equity interests in Leshan Debei'ao Water Co. Ltd. (樂山德貝奧水務有限公司 "**Debei'ao Water**"), at a consideration of RMB80,230,000. After the acquisition, Debei'ao Water became a directly owned subsidiary of the Group.

Debei'ao Water's principal activity is wastewater treatment, and was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 25 January 2018
	RMB'000
Consideration:	
Cash consideration	**80,230**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**117**
Amount due from customers for construction contracts	**50,170**
Receivables under service concession arrangements	**86,739**
Property, plant and equipment	**673**
Trade and other receivables	**2,372**
Trade and other payables	**(59,841)**
Total identifiable net assets	**80,230**

Receivables under service concession arrangements of RMB86,739,000 was recognised as at the acquisition date.

The revenue included in the consolidated financial statements of the Group since the acquisition date to 31 December 2018 contributed by Debei'ao Water was approximately RMB3,413,000. Debei'ao Water also contributed net loss of approximately RMB114,000 over the same period.

15 BUSINESS COMBINATIONS (Continued)

(iii) On 8 October 2018, the Group acquired 100% of the equity interests in Liuyang Hongyu Thermal Power Co. Ltd. (瀏陽市宏宇熱電有限公司 "**Hongyu Thermal Power**"), at a consideration of RMB41,402,600. After the acquisition, Hongyu Thermal Power became a directly owned subsidiary of the Group.

Hongyu Thermal Power's principal activity is thermal production, and it was acquired as part of the Group's expansion in the industry. Details of the fair value of assets acquired and liabilities assumed from the acquisition are as follows:

	As at 8 October 2018 ***RMB'000***
Cash consideration:	41,403
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	2,534
Land use rights	33,787
Property, plant and equipment	131,866
Inventories	7,995
Trade and other receivables	36,590
Deferred tax assets	3,329
Borrowings	(15,000)
Trade and other payables	(146,103)
Deferred revenue	(2,000)
Deferred tax liabilities	(8,526)
Total identifiable net assets	44,472
Add: gains from business combination	(3,069)
Net assets acquired	41,403

The revenue included in the consolidated income statement of the Group since the acquisition date to 31 December 2018 contributed by Hongyu Thermal Power was approximately RMB37,276,000. Hongyu Thermal Power also contributed net profit of approximately RMB4,555,000 over the same period.

(iv) The following table summarised the cash flows from the acquisitions and acquisition-related costs for the year ended 31 December 2018:

	Year ended 31 December 2018 ***RMB'000***
Total cash consideration	**205,076**
Less: Change in consideration payable in respect of acquisition of subsidiaries	**(10,929)**
Cash and cash equivalents in the subsidiaries acquired	**(2,704)**
Change in prepayments	**(43,356)**
Cash outflows from the acquisitions of subsidiaries	**148,087**

16 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed below and elsewhere in the notes to the financial statements set out above, there is no other material subsequent event undertaken by the Company or by the Group after 31 December 2018:

(a) Dividend

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

(b) Entrusted loan provided to Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司 "Xindu Investment")

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

(c) Syndicated loan agreement

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

II. MANAGEMENT DISCUSSION AND ANALYSIS

A. OPERATING ENVIRONMENT

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

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

1. Overview of Wastewater Treatment Industry

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

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

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

2. Overview of Reclaimed Water Industry

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

3. Overview of Municipal Water Supply Industry

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

B. DEVELOPMENT STRATEGY AND PROSPECTS

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

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

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

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

C. BUSINESS REVIEW

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

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

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

Wastewater Treatment Projects

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

Reclaimed Water Business

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

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

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

Running Water Business

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

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

D. FINANCIAL REVIEW

1. Consolidated Results of Operations

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

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

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

a. Revenue

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

- Our wastewater treatment segment's revenue increased from RMB1,037.2 million for the year ended 31 December 2017 to RMB1,159.1 million for the year ended 31 December 2018, increased by RMB121.9 million or 11.8%, primarily due to the consolidation of Liuyang Hongyu Water Treatment Co., Ltd.* (瀏陽市宏宇水務有限公司, currently known as Liuyang Dianchi Water Treatment Co., Ltd.* (瀏陽滇池水務有限公司), hereafter referred to as "**Hongyu Water**") into the Group from October 2017, which resulted in increase of wastewater treatment revenue by RMB13.5 million for the year. It was also attributable to the consolidation of Dianchi Water (Laos) Sole Proprietorship Co., Ltd.* (滇池水務(老撾)獨資有限公司) ("**Dianchi Water (Laos)"**) into the Group from August 2016, which resulted in increase of BOT construction revenue by RMB18.8 million for the year based on the percentage of completion method. Since the consolidation of Dongda Water into the Group from January 2018, wastewater treatment revenue increased by RMB31.8 million in 2018. Since the consolidation of Debei'ao Water into the Group from December 2017, BOT construction revenue increased by RMB3.4 million in 2018. We acquired Kunming No. 10 Water Purification Plant and obtained revenue of RMB50.3 million in 2018.

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

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

* *For identification purposes only*

b. Cost of sales

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

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

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

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

* *For identification purposes only*

c. ***Gross margin***

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

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

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

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

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

d. Selling expenses

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

e. Administrative expenses

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

f. Research and development expenses

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

g. Net impairment losses on financial and contract assets

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

h. Other income

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

i. ***Other gains/(losses) – net***

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

j. ***Operating profit***

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

k. ***Finance income***

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

l. ***Finance costs***

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

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

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

n. ***Income tax***

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

o. Total comprehensive income

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

2. Liquidity and Capital Resources

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

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

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

a. Net cash generated from/used in operating activities

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

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

b. *Net cash used in investing activities*

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

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

c. *Net cash generated from financing activities*

Our net cash generated from financing activities primarily represents borrowings.

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

3. Working Capital

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

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

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

a. Receivables under service concession arrangements

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

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

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

b. Inventories

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

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

c. Amounts due from customers for construction contracts

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

d. Trade and other receivables

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

e. ***Trade and other payables***

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

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

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

Our trade and other payables increased by RMB9.8 million, or 2.6%, to RMB379.7 million as of 31 December 2018 from RMB369.9 million as of 31 December 2017. The increase was mainly because the newly acquired Dongda Water, Debei'ao Water and Hongyu Thermal Power increased accounts payables by approximately RMB21.1 million in 2018 and the balance of salaries and wages payables increased by approximately RMB12.7 million in 2018, which was mainly due to an increase in salary levels and year-end bonuses for the year.

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

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

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

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

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

Notes:

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

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

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

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

4. Indebtedness

a. Borrowings

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

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

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

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

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

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

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

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

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

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

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

b. *Commitments*

(a) Capital commitments

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

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

(ii) Acquisition of equity interests in subsidiaries:

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

(b) Operating lease commitments – the Group as lessee

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

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

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

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

c. Capital expenditure

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

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

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

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

5. Off-balance sheet arrangements

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

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

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

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

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

- Approximately 23.16% (or RMB248.31 million) will be used for BOT/BOO wastewater treatment and running water supply projects;

- Approximately 8.32% (or RMB89.2 million) will be used to acquire TOT/TOO wastewater treatment and running water supply projects;

- Approximately 0.15% (or RMB1.56 million) will be used to repay loan interest; and

- Approximately 10% (or RMB107.23 million) will be used for daily operation of the Group.

7. Foreign exchange risk and management

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

8. Employees and remuneration policies

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

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

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

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

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

9. Contingent liabilities

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

10. Material charges on assets

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

11. Major investment and acquisition

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

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

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

III. 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.

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

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

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

IV. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES DEALINGS BY THE DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

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

V. 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.

VI. AUDIT COMMITTEE

The Audit Committee is mainly responsible for reviewing and supervising the procedures for financial reporting and internal control of the Company. The Audit Committee of the Company has reviewed the audited annual results for the year ended 31 December 2018 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

VII. FINAL DIVIDEND

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

The proposal regarding the distribution of 2018 final dividend shall be confirmed subject to the approval of the 2018 Annual General Meeting.

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

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

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

VIII. CLOSURE OF REGISTER OF SHAREHOLDERS

For the purpose of determining H shareholders' entitlement to attend the 2018 Annual General Meeting of the Company, the H share register of shareholders of the Company will be closed from Wednesday, 22 May 2019 to Friday, 21 June 2019 (both days inclusive), during which no transfer of shares will be registered. In order to attend the 2018 Annual General Meeting, H share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 21 May 2019. The H share shareholders of the Company whose names appear on the Company's register of shareholders for H shares as at Friday, 21 June 2019 are entitled to attend the 2018 Annual General Meeting.

In order to determine the shareholders who are entitled to receive the above-mentioned final dividend, the register of members of the Company will be closed from Thursday, 27 June 2019 to Tuesday, 2 July 2019 (both days inclusive). To be eligible to receive the final dividend for the year ended 31 December 2018 (subject to the approval of the Company's shareholders), unregistered holders of H shares of the Company shall lodge relevant share transfer documents with the Company's H share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 26 June 2019.

IX. PUBLICATION OF ANNUAL REPORT

The annual report for the year ended 31 December 2018 of the Company will be dispatched to the holders of H shares of the Company in due course pursuant to the requirements of the Listing Rules and available for public viewing and downloading on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.kmdcwt.com).

By order of the Board
Kunming Dianchi Water Treatment Co., Ltd.
Guo Yumei
Chairperson

Kunming, the PRC, 22 March 2019

As of the date of this announcement, the Board comprises Ms. Guo Yumei and Mr. Luo Yun, as executive Directors; Ms. Ma Ce and Ms. Song Hong, as non-executive Directors; and Mr. Yin Xiaobing, Mr. He Xifeng and Mr. Sin Lik Man, as independent non-executive Directors.