Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

§1 IMPORTANT

1.1 The board of directors (the "**Board**"), supervisory committee (the "**Supervisory Committee**"), directors (the "**Directors**"), supervisors (the "**Supervisors**") and senior management of Tianjin Capital Environmental Protection Group Company Limited (the "**Company**") confirm that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of its contents.

This results announcement is the summary of the 2018 annual report of the Company and its subsidiaries (the "**Group**"). For detailed information, please read the 2018 annual report of the Group carefully.

1.2 PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the 2018 financial reports of the Group and have issued standard unqualified audit reports.

1.3 Mr. Liu Yujun, the Company's chairman, Ms. Peng Yilin, the officer in charge of the accounting function, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2018 annual report.

§2 COMPANY PROFILE

2.1 Basic information

Short name of the A shares	創業環保
Stock code of the A shares	600874
Stock exchange for listing of the A shares	Shanghai Stock Exchange
Short name of the H shares	Tianjin Capital
Stock code of the H shares	1065
Stock exchange for listing of the H shares	The Stock Exchange of Hong Kong Limited

2.2 Contact person and method

	Company Secretary to the Board	**Company Secretary in Hong Kong**	**Securities Affairs Representative**
Name	Niu Bo	Mona Y. Y. Cho	Guo Fengxian
Correspondence address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, The People's Republic of China (the "**PRC**")	22/F, Worldwide House, Central, Hong Kong	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Telephone number	86-22-23930128	852-21629620	86-22-23930128
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§3 ACCOUNTING DATA AND FINANCIAL INDICATORS

3.1 Major accounting data

Unit: 0'000 Currency: RMB

Major accounting data	2018	2017	Increase/decrease for the period as compared to the same period last year (%)	2016
Operating income	**244,751.5**	214,834.1	13.93	195,866.6
Net profit attributable to the shareholders of the Company	**50,116.8**	50,825.1	-1.39	44,316.8
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	**44,560.6**	46,887.7	-4.96	40,683.3
Net cash flow from operating activities	**69,264.6**	91,205.2	-24.06	40,367.0

	As at the end of 2018	As at the end of 2017	Increase/decrease as at the end of the period as compared to the end of the same period last year (%)	As at the end of 2016
Net assets attributable to the shareholders of the Company	**581,820.3**	511,704.0	13.70	474,437.7
Total assets	**1,568,744.8**	1,245,289.0	25.97	1,064,089.7

3.2 Major financial indicators

Currency: RMB

Major financial indicators	2018	2017	Increase/decrease for the period as compared to the same period last year (%)	2016
Basic earnings per share (RMB/share)	**0.35**	0.36	-2.78	0.31
Diluted earnings per share (RMB/share)	**0.35**	0.36	-2.78	0.31
Basic earnings per share after deduction of extraordinary items (RMB/share)	**0.31**	0.33	-6.06	0.29
Weighted average return on net assets ratio (%)	**9.05**	10.33	Decreased by 1.28 percentage points	9.71
Weighted average return on net assets ratio after deduction of extraordinary items (%)	**8.05**	9.53	Decreased by 1.48 percentage points	8.91

3.3 Extraordinary items

Unit: 0'000 Currency: RMB

Extraordinary items	Amount in 2018	Amount in 2017	Amount in 2016
Profit/loss from disposal of non-current assets	**-90.0**	-8.2	-68.1
Government grants recognized in current profit and loss, except for those closely related to normal business operation, in compliance with requirements of national policy and settled in certain amount which are constantly granted by government	**7,848.1**	5,343.3	4,336
Other non-operating income and expenses except for the above items	**-180.9**	-72.6	773.6
Effect on non-controlling interests	**-126.7**	-9.5	-147.6
Income tax effect	**-1,894.3**	-1,315.6	-1,260.4
Total	**5,556.2**	3,937.4	3,633.5

§ 4 DIRECTORS' REPORT

I. OPERATION DISCUSSION AND ANALYSIS

In 2018, under the leadership of the Board and in accordance with 2018 Operating Strategy and Business Plan of the Group, the management of the Company has continued to solidly promote the innovation and thorough implementation in basic management, technology R&D and market development and other operations, and steadily completed the following tasks with an aim of further consolidating and developing its core competitiveness:

1. **Giving full play to operational and construction advantages to ensure the quality and profits of projects so as to meet the requirements for enhancement of water quality standards**

   With increasingly stringent requirements of water environment management, the Company made full use of its operational and technological advantages to deepen management of operation of all water projects and achieve precise operation. While ensuring operational quality and safety, the Company adopted initiatives of income growth and cost savings to strive to reduce operating costs. At the same time, the daily maintenance of project agreements was carried out, and the unit price of the sewage treatment services was adjusted duly to ensure the level of income from projects.

   The Company strengthened the management of project construction to ensure the smooth implementation of project construction. Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant in the urban area of Tianjin achieved local standards compliance operation at the end of 2018.

2. **Continuing to promote market development and expand the scale of water business, and meanwhile expanding the scope of the industrial chain and improving comprehensive capabilities in environmental treatment**

   During the reporting period, the Company successively obtained a number of water PPP projects with newly-added sewage treatment capacity of 304,650 tons per day. Two of these projects involved the construction and operation of rural sewage treatment and ancillary pipeline networks, tapping into the rural water treatment field. The Company has also participated in and won the bid for construction of sponge city in Jiefang South Road District, Tianjin and acquired the electric heating project of Tianjin Miyun Road Community, achieving breakthroughs in the comprehensive treatment of water environment and the electric heating business field.

3. **Deepening management and innovation work. On the basis of establishing the management of the four business lines of market development, construction and management, operation and management and technological research and development, the Group set up regional companies, and combined its functional management authorization with business linear management to increase capabilities of regional comprehensive management and further enhance the Group's overall management efficiency.**

4. **The successfully issuance of 3+2 years corporate bonds of RMB1.1 billion has ensured the funding requirements of the Group's daily operations.**

5. **Continuing to promote R&D and striving to play the leading role in science and technology**

   Based on the existing projects, a R&D center will be built in the Jingu Sewage Treatment Plant to strengthen the scientific and technological R&D. During the reporting period, the Group carried out 28 scientific research projects and obtained 8 patents, including 3 invention patents and 5 utility model patents; there were 5 projects including 2 inventions and 3 utility models newly applied.

II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

1. Analysis on the overall results of operations during the reporting period

In 2018, the Group recorded an operating revenue of RMB2,447.5150 million, representing an increase of 13.93% as compared to that of last year. The operating costs were RMB1,558.5560 million, representing an increase of 21.51% as compared to that of last year. Net profit attributable to the Company was RMB501.1680 million, representing a decrease of 1.39% over last year. The decrease in net profit was mainly due to the increase in operating costs resulted from the increased volume of water treatment and improved water quality standards, as well as the significant increase in financial expenses resulted from the increase in exchange losses and debt financing.

2. Analysis of the principal business

During the reporting period, the Group's principal business segment did not change significantly compared with the previous year and are still engaged in the sewage treatment and construction of sewage treatment plant business, recycled water business, tap water supply, new energy heating and cooling supply business, toll collection business and transformation of achievements in technology research. It recorded operating income of RMB2,260.1320 million, representing an increase of 16.99% over the previous year.

3. Analysis of Other business

The Group's other business mainly includes the sewage treatment entrusted operation business via the technical service model, as well as the technical and engineering consulting business. During the reporting period, it realised an income for other business of RMB187.3830 million, representing a decrease of 13.41% over the previous year.

(I) ANALYSIS OF PRINCIPAL BUSINESSES

Analysis on changes in income statement and cash flow statement

Unit: 0'000 Currency: RMB

Item	Amount for the current period	Amount for the same period last year	Percentage change (%)
Operating revenue	244,751.5	214,834.1	13.93
Operating costs	155,855.6	128,269.9	21.51
Selling expenses	541.7	646.7	-16.24
Administrative expenses	12,909.6	13,974.9	-7.62
Research and development expenses	1,043.9	847.2	23.22
Financial expenses	16,198.6	10,033.9	61.44
Net cash flows from operating activities	69,264.6	91,205.2	-24.06
Net cash flows from investing activities	-242,270.2	-50,715.1	377.71
Net cash flows from financing activities	164,491.0	30,766.8	434.64
Investment gain	20.0	40.0	-50.00
Gains on disposals of assets	-37.3	0.0	-100.00
Non-operating income	688.4	387.0	77.88
Non-operating expenses	405.0	197.5	105.06
Profit or loss attributable to minority shareholders	2,561.2	1,094.4	134.03

1. Reason for change in operating revenue: It was mainly due to the increase in sewage treatment of existing projects and the commencement of operation of certain new sewage treatment projects and thus the income increased.

2. Reason for change in operating costs: It was mainly due to increased water volume and improved water quality standards which have resulted in significant increase in the cost per unit of the Group.

3. Reason for change in selling expenses: It was mainly due to the decrease in sales staff and thus staff expense decreased.

4. Reason for change in administrative expenses: It was mainly due to decreased expenses including expenses for secretary of the Board and audit fees.

5. Reason for change in research and development expenses: It was mainly due to increased expenditure based on the research and development plan of this year.

6. Reason for change in financial expenses: It was mainly because debt financing increased which resulted in the increase in interest expenses, and exchange loss increased as compared with last year.

7. Reason for change in net cash flows from operating activities: It was mainly due to the increase in cash outflows of the cost item arising from the enhanced water quality standards this year.

8 Reason for change in net cash flows from investing activities: It was due to the fact that investment expenses of various construction projects of the Company for this year were higher than those in the same period last year.

9. Reason for change in net cash flows from financing activities: It was mainly because the new debt financing for the current year is higher than that in the same period last year.

10. Reason for change in investment gain: It was mainly because the dividends received from Tianjin Beifang Rencaigang Company Limited (天津市北方人才港股份有限公司) this year was less that those received in the same period of last year.

11. Reason for change in gains on disposals of assets: It was mainly because of the asset losses arising from the disposals in this year, which was nil for the same period last year.

12. Reason for change in non-operating income: It was mainly due to special subsidies received by the Company which were higher than those for the same period last year.

13. Reason for change in non-operating expenses: It was mainly due to loss on disposals of assets and other expenses which were higher than those for the same period last year.

14. Reason for change in profit or loss attributable to minority shareholders: It was mainly due to increased in profit or loss attributable to minority shareholders calculated based on net profit of subsidiaries for this year after increasing minority interests.

1. Analysis of income and costs

During the reporting period, while striving for market expansion and increasing the scale of its main business, the Company continued to strengthen its project operation, on the one hand to improve the operation quality to meet increasingly stringent regulatory requirements, and strive for operating cost control through refined management; on the other hand to timely maintain project agreements and timely adjust the unit price of sewage treatment service fees for ensuring project income.

During the reporting period, the Group's principal businesses realized a total revenue of RMB 2,260.132 million, representing an increase of 16.99% over the previous year, mainly due to additional water projects and upward adjustment to the unit price of sewage treatment service fees for some projects during the reporting period. Costs for principal businesses amounted to RMB1,413.986 million, representing an increase of 21.98% over the previous year. This was on one hand due to increased business costs resulted from the above-mentioned increase in income, and on the other hand to the increased operating costs for meeting water quality standards of the transitional stage during the upgrade and renovation period of the four sewage treatment plants in Tianjin.

(1). Major business breakdown by industry, product and region

Unit: 0,000 Currency: RMB

Major business by industry

Industry	Operating revenue	Operating costs	Gross profit margin (%)	Increase/ decrease in operating revenue as compared to last year (%)	Increase/ decrease in operating costs as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)
Sewage treatment and construction of sewage treatment plants business	162,638	104,667	35.64	15.14	21.59	Decreased by 3.42 percentage points
Recycled water business	34,986	21,972	37.20	16.27	20.80	Decreased by 2.35 percentage points
Toll collection business	6,248	712	88.60	-0.29	—	Decreased by 0.04 percentage point
Tap water supply business	9,326	6,238	33.11	38.37	27.31	Increased by 5.81 percentage points
Cooling and heating supply business (Note 1)	9,102	5,879	35.41	27.75	20.32	Increased by 3.99 percentage points
Transformation of achievements in technology research (Note 2)	3,528	1,842	47.79	117.78	71.78	Increased by 13.96 percentage points
Others (Note3)	186	89	52.15	80.58	7.23	Increased by 32.73 percentage points

Major business by region

Region	Operating revenue	Operating costs	Gross profit margin (%)	Increase/ decrease in operating revenue as compared to last year (%)	Increase/ decrease in operating costs as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)
Beijing-Tianjin-Hebei Region (Note 4)	139,951	80,351	42.59	11.28	17.18	Decreased by 2.89 percentage points
Southwest Region (Note 5)	16,680	10,930	34.47	45.97	10.26	Increased by 21.22 percentage points
Northwest Region (Note 6)	19,756	15,805	20	39.6	51.85	Decreased by 6.46 percentage points
Central China Region (Note 7)	15,592	10,292	33.99	35.31	54.79	Decreased by 8.31 percentage points
Eastern China Region (Note 8)	30,242	21,179	29.97	11.9	11.28	Increased by 0.4 percentage points
Northeast Region (Note 9)	3,792	2,842	25.05	15.01	29.59	Decreased 8.43 percentage points

Note 1: The increase was because Tianjin Jiayuanbin Innovative Energy Technology Company Limited ("**Jiayuanbin**") and Tianjin Jiayuantian Innovative Energy Technology Company Limited ("**Jiayuantian**") have successively commenced operation.

Note 2: The increase was due to the increase in deodorization projects.

Note 3: The increase was because Tianjin Caring Technology Development Company Limited ("**Caring Company**") has newly added technical consultation business for denitrification systems, and for Yanyue (禹越), Lingang Wetland and other projects.

Note 4: Beijing-Tianjin-Hebei Region includes the four sawage treatment plants in Dongjiao, Xianyang Road, Jingu and Beichen of Tianjin as well as Anguo Capital Water Company Limited ("**Anguo Company**"), Tianjin Jing Hai Capital Water Co., Ltd. ("**Jinghai Company**"), Tianjin Jinning Capital Water Co., Ltd. ("**Jinning Capital Company**"), Tianjin Water Recycling Company Limited ("**Water Recycling Company**"), Caring Company, Tianjin Jiayuanxing Innovative Energy Technology Company Limited ("**Jiayuanxing**"), etc., and the increase was due to the increase in business volume as compared with compared with the same period of last year.

Note 5: Southwest Region includes Guizhou Capital Water Company Limited ("**Guizhou Company**") and Qujing Capital Water Company Limited ("**Qujing Company**"), and the increase was due to higher water prices.

Note 6: Northwest Region includes Xi'an Capital Water Co., Ltd. ("**Xi'an Company**"), Karamay Tianchuang Water Co., Ltd. ("**Karamay Company**"), Inner Mongolia Bayannur Capital Water Company Limited ("**Bayannur Company**") and Linxia Capital Water Co., Ltd. ("**Linxia Company**"), and the increase was due to increased income and cost of sewage, recycled water and tap water after the newly added Bayannur Project.

Note 7: Central China Region includes Fuyang Capital Water Company Limited ("**Fuyang Company**"), Wuhan Tianchuang Capital Environmental Protection Company Limited ("**Wuhan Company**"), Yingshang Capital Water Company Limited ("**Yingshang Company**"), Changsha Tianchuang Capital Water Co., Ltd. ("**Changsha Tianchuang Water**"), Changsha Tianchuang Environmental Protection Co., Ltd. ("**Changsha Tianchuang Environmental Protection**"), Anhui Capital Water Company Limited ("**Anhui Company**"), Honghu Tianchuang Water Company Limited (洪湖市天創水務有限公司) ("**Honghu Tianchuang**") and"Hefei Capital Water Company Limited (合肥創業水務有限公司) ("**Hefei Company**"). The increase was due to higher water price and commencement of operation of Changsha Tianchuang Environmental Protection.

Note 8: Eastern China Region includes Hangzhou Tianchuang Capital Water Company Limited ("**Hangzhou Company**") and Baoying Capital Water Company Limited ("**Baoying Company**").

Note 9: Northeast Region includes Dalian Chunliuhe Water Quality Purification Company Limited ("**Dalian Chunliuhe Company**"), Wendeng Capital Water Company Limited ("**Wendeng Company**") and Shangdong Capital Environmental Protection Technology Development Company Limited ("**Shandong Company**"). The increase was because Dalian Chunliuhe Company has commenced trial operation.

Description of major business by industry, product and region

Not applicable

(2). Analysis of production and sales volume

Not applicable

(3). Cost analysis

Unit:0,000 Currency:RMB

By industry

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Sewage treatment and construction of sewage treatment plants	Labor	12,999	9.19	11,725	10.11	10.87	Nil.
	Energy consumption (electricity)	20,977	14.84	19,767	17.05	6.12	Nil.
	Materials consumption	17,042	12.05	7,664	6.61	122.36	The material consumption has increased mainly due to the improvement in water quality and increase in the volume of sewage treatment after the upgrading and construction of sewage treatment plants.
	Depreciation and amortization	31,068	21.97	27,093	23.37	14.67	Nil.
	Other manufacturing costs	22,581	15.97	19,831	17.11	13.87	Nil.
	Subtotal	104,667	74.02	86,080	74.26	21.59	Nil.

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Tap water	Labor	1,060	0.75	776	0.67	36.60	The labor costs have increased mainly due to the newly-added Bayannur Project in this year.
	Energy consumption (electricity)	689	0.49	392	0.34	75.77	The electricity fee has increased mainly due to the newly-added Bayannur Project in this year and the increase in volume of water treatment of Qujing second tap water plants.
	Materials consumption (including the water resource fees)	2,969	2.10	2,673	2.31	11.07	Nil.
	Depreciation and amortization	1,411	1.00	982	0.85	43.69	The depreciation and amortization have increased mainly due to the newly-added Bayannur Project in this year.
	Other manufacturing costs	109	0.08	77	0.07	41.56	The repair expenses have increased mainly due to the newly-added Bayannur Project in this year.
	Subtotal	6,238	4.41	4,900	4.23	27.31	Nil.

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Recycled water	Labor	1,829	1.29	1,548	1.34	18.15	Nil.
	Energy consumption (electricity)	1,241	0.88	817	0.70	51.90	The electricity has increased mainly due to the newly-added Bayannur Project in this year.
	Materials consumption	895	0.63	595	0.51	50.42	The material consumption has increased mainly due to the increase in the water supply volume of Zhangguizhuang plant.
	Depreciation and amortization	3,023	2.14	3,742	3.23	-19.21	Nil.
	Other manufacturing costs	1,655	1.17	1,745	1.51	-5.16	Nil.
	Subtotal	8,643	6.11	8,447	7.29	2.32	Nil.
Recycled water pipe network connection	Construction cost	13,329	9.43	9,741	8.40	36.84	Settlement of pipe networks business increased, and the cost increased.
	Subtotal	13,329	9.43	9,741	8.40	36.84	Nil.
Energy supply	Labor	930	0.66	827	0.71	12.45	Nil.
	Energy consumption (electricity)	2,231	1.58	1,909	1.65	16.87	Nil.
	Materials consumption	64	0.05	59	0.05	8.47	Nil.
	Depreciation and amortization	1,833	1.30	1,502	1.30	22.04	Nil.
	Other manufacturing costs	821	0.58	589	0.51	39.40	It is mainly due to the increase in repair and maintenance expenses of equipment.
	Subtotal	5,879	4.16	4,886	4.21	20.32	Nil.

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Toll collection	Collection management fees	712	0.50	712	0.61	0	Nil.
	Subtotal	712	0.50	712	0.61	0	Nil.
Transformation of achievements in technology research	Expenditure for materials and facilities	1,753	1.24	986	0.85	77.79	It is mainly due to the increase in the sales of environmental protection equipment.
	Other manufacturing costs	89	0.06	86	0.07	3.49	It is mainly due to the decrease in labor costs.
	Subtotal	1,842	1.30	1,072	0.92	71.83	Nil.
Others	Other manufacturing costs	89	0.06	84	0.07	5.95	Nil.
	Subtotal	89	0.06	84	0.07	5.95	Nil.
Total		141,399	100.00	115,922	100.00	21.98	

Cost analysis and other explanation

Not applicable

(4). Major customers and major suppliers

Sales from the top five customers amounted to RMB1,424.743 million, accounting for 58% of total sales for the year; among which, sales from related parties was RMB66.320 million, accounting for 3% of total sales for the year.

Procurement from the top five suppliers amounted to RMB752.3113 million, accounting for 26.03% of total procurement for the year; among which, procurement from related parties was nil, accounting for 0% of total procurement for the year.

Other explanation

Nil.

2. Expenses

See the above analysis statement on relevant subjects changes in income statement and cash flow statement for details.

3. Research and development investment

Unit:0,000 Currency:RMB

Expensed research and development investment during the year	1,043,90
Capitalized research and development investment during the year	57.78
Total research and development investment	1,101,68
Percentage of total research and development investment over operating revenue (%)	0.45
Number of research and development personnel in the Company	92
Percentage of number of research and development personnel over the total number of personnel of the Company (%)	5.29
Ratio of capitalized research and development investment (%)	5.24

Explanation

Not applicable

4. Cash flow

See the above analysis statement on relevant subjects changes in income statement and cash flow statement for details.

(II) MAJOR CHANGES IN PROFITS CAUSED BY NON-PRINCIPAL BUSINESSES

Not applicable

(III) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: 0,000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Prepayments	2,353.1	0.15	12,477.0	1.00	-81.14	Mainly due to the transfer of prepayments of completed parts at the beginning of the year to retained profit upon recognition of the carry-over cost of sales of pipeline connection for recycled water using the percentage of completion method according to HKFRS 15 "Revenue from Contracts with Customers"
Other receivables	3,616.2	0.23	9,370.8	0.75	-61.41	Mainly due to the recovery of bid security for projects during the current year.
Non-current assets due within one year	2,278.9	0.15	–	–	100.00	Mainly due to the road toll fee collection due within one year.
Other current assets	15,668.8	1.00	8,544.9	0.69	83.37	Mainly due to the increase in input tax for value-added tax to be credited arising from acquisition of assets by the Company.
Available for sale financial assets	0.0	–	200.0	0.02	-100.00	Mainly due to the transfer of equity instrument investment under available-for-sale financial assets to FVOCI according to HKFRS 9 "Financial Instruments"
Financial assets at fair value through other comprehensive income (FVOCI)	200.0	0.01	0.0	–	100.00	Mainly due to the transfer of equity instrument investment under available-for-sale financial assets to FVOCI according to HKFRS 9 "Financial Instruments"
Long-term equity investments	19,500.0	1.24	0.0	–	100.00	Mainly due to the investment in the subsidiary, Tianjin Bihai Sponge City Co. Ltd, (天津碧海海綿城市有限公司) by the Company.
Construction in progress	15,093.9	0.96	2,065.7	0.17	630.69	Mainly due to the increased investment in non-franchise projects during the current year.
Intangible assets	1,029,883.3	65.65	690,641.8	55.46	49.12	Mainly due to the increased in the franchise projects in the current year.
Other non-current assets	18,517.5	1.18	59,843.3	4.81	-69.06	Mainly due to the transfer of the prepayment for the equity of the Bayannur Company.

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Short-term borrowings	20,000.0	1.27	49,900.0	4.01	-59.92	Mainly due to the repayment of short-term borrowings due.
Notes payable and trade payables	17,639.8	1.12	12,825.4	1.03	37.54	Mainly due to the payables for source water from subsidiaries.
Advances from customers	0.0	–	93,088.8	7.48	-100.00	Mainly due to the reclassification of advances from related parties contracted to contract liabilities according to HKFRS15 "Revenue from Contracts with Customers".
Contract liabilities	46,909.3	2.99	0.0	–	100.00	Mainly due to the reclassification of advances from related parties contracted to contract liabilities according to HKFRS15 "Revenue from Contracts with Customers".
Other payables	145,804.5	9.29	62,912.1	5.05	131.76	Mainly due to the increased payables for construction projects.
Non-current liabilities due within one year	24,336.9	1.55	87,009.2	6.99	-72.03	Mainly due to the repayment of the medium-term notes due within one year during the current year.
Other current liabilities	9.2	0.00	782.7	0.06	-98.82	Mainly due to the offsetting of maintenance costs provided for previous years.
Long-term borrowings	205,195.3	13.08	58,151.7	4.67	252.86	Mainly due to the newly added long-term borrowings of the Company.
Debentures payable	179,636.3	11.45	69,798.4	5.60	157.36	Mainly due to the newly added corporate debentures during the current year.
Provisions	1,006.9	0.06	3,293.0	0.26	-69.42	Mainly due to the offsetting of maintenance costs provided for previous years.
Minority interests	79,676.4	5.08	29,673.6	2.38	168.51	Mainly due to the increase in the minority interests of Bayannur Company.

(IV) INDUSTRY ANALYSIS

With the revision of Water Pollution Prevention and Control Law of the PRC, the local governments have been increasing the demands for the enhancement and assurance of the water environment quality. On one hand, the existing sewage treatment plants have gradually begun to upgrade in order to meet the higher discharge standards. On the other hand, the comprehensive management of water environment will become the mainstream demand of the market.

"National Plan for Construction of Urban Sewage Treatment and Recycling Facilities under the 13th Five-Year Plan" suggests that by the end of 2020, full coverage of urban sewage treatment facilities shall be achieved, and the black and odorous water of urban built districts above the prefecture level shall be controlled within 10%, and the urban sludge harmless disposal rate shall reach 75%, and the utilization rate of recycled water in cities and counties shall be raised further.

The above industry policies give the enterprises in the water utilities industry a lot of room for the market development, but they also put forward a great challenge for operation, market expansion, capital operation, technological development and research and other comprehensive capabilities of the enterprises.

Water Utilities Industry Analysis

1. Capacity and operation situation during the reporting period

Section	Capacity	Utilization rate of capacity (%)
Supply of tap water and industrial water	305,000 m³/day	47.2
Sewage treatment	3,560,000 m³/day	93.6
Recycled water	280,000 m³/day	44.6

District	Capacity	Scale of new production during the reporting period	Planned capacity of projects under construction	Estimated production time
Beijing-Tianjin-Hebei region	1,755,000 tons/day	0	350,000 tons/day	2019 to 2020
Central China	478,000 tons/day	0	376,650 tons/day	2019
Eastern China	650,000 tons/day	0	30,000 tons/day	2019 to 2020
Southwest	390,000 tons/day	0	0 tons/day	2019
Northwest	690,000 tons m³/day	0	135,000 tons/day	2019
Northeast	85,000 tons/day	0	120,000 tons/day	2019

2. Sales information

Unit: 0,000 Currency: RMB

Section	Sales revenue	Cost	Gross margin (%)	YoY Change (%)
Supply of tap water	9,326	6,238	33.11	5.81
Sewage treatment	162,638	104,667	35.64	-3.42
Recycled water	7,928	8,643	-9.02	28.98

(1). Section of supply of tap water

1.1 The average water price and pricing principle for each district, and adjustment during the reporting period

Unit: 0,000 Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Qujing	1.70	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment	Price adjustment by the cost factor adjustment method
Bayannur	2.35	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment	According to the relevant provisions of the Administrative Measures on the Price of Water Supplied to Municipalities

1.2 The average water price and pricing principle for each customer type, and adjustment during the reporting period

Unit: 0,000 Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	2.02	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment	Price adjustment by the cost factor adjustment method

(2). Section of sewage treatment

2.1 The average water price and pricing principle for each district, and adjustment during the reporting period

Unit: 0,000 Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Beijing-Tianjin-Hebei region	1.88	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Northeast	1.14	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Eastern China	1.3	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Central China	1.12	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Price of project in Chibi was adjusted from RMB1.07/m^3 to RMB1.15/m^3.	Price adjustment by the cost factor adjustment method
Northwest	1.29	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Southwest	1.01	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method

2.2 The average water price and pricing principle for each customer type, and adjustment during the reporting period

Unit: Yuan Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.24	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Price of project in Chibi was adjusted from RMB1.07/m^3 to RMB1.15/m^3.	Price adjustment by the cost factor adjustment method

3. Water quality of water sources of major water collection points

During the reporting period, the warer sources of Qujing No. 1, No. 2, and No. 3 Water Plants of the Company are Xiaoxiang Reservoir, Xihe Reservoir and Shuicheng Reservoir. According to the inspection information of Qujing Zhizhen Environmental Testing Co., Ltd.* (曲靖至臻環境檢測有限公司) in 2018, the water quality indicators of the three reservoirs met Class II surface water environmental quality standards (GB3838-2002). The supply project of tap water in Bayannur for Front Banner subsidies was Shengyuan Tap Water Plant. The water sources for the plant are Gongjiqu (公濟渠) underground water sources. According to the inspection information of the Institute of Water Resources for Bayannur* (巴彥淖爾市水利科學研究所) in 2018, the water quality indicators of 10 water source wells met The Standards for Drinking Water Quality (GB5749-2006).

4. **Supply of tap water**

Water supply	Sales volume	Difference of production and sales volume (%)	YoY Change (%)	Reason	Impact on the Company's operation
45,780,000 tons	45,780,000 tons	0	8.7	Water used for residents' living and urban greening has increased	No material impact
5,640,000 tons	5,640,000 tons	–	–	Supply of the industrial water has increased.	No material impact

5. **Significant capital expenditure**

Unit: 0,000 Currency: RMB

Total amount of capital expenditure plan during the reporting period	Source of capital	Capital cost	Project status
326,974	Own funds and bank borrowings	4.45%	See the table below

Among which: Project status

Unit: 0,000 Currency: RMB

Project operation model	Total project budget	Project Progress	The amount invested during the investment period	Accumulated and actual investment amount	Project revenue	If there is any significant change or significant difference in the project progress, the reasons shall be stated and disclosed
BOT Model (The Upgrading and Renovation Project of Tianjin Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant, and Karamay Phase II Project)	124,022.7	Completed	61,083.5	72,832.8	For details of revenue of the projects for Tianjin Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant, please see below "Major non-equity investment"; Karamay Phase II is under construction and there is no income.	Nil.
Hefei Taochong Sewage Water Treatment Plant PPP Project	58,590	Under construction	32,271	32,271	Under construction and no income	Nil.
Bayannur Sewage Treatment and wastewater Reuse and Water Supply PPP Project	106,760	The acquisition is completed.	68,760	106,760	Profit of RMB1.26 million in 2018.	Nil.

(V) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

During the reporting period, the Company's equity investment was distributed in water projects and hazardous waste business, and for the establishment of project companies or purchase of equity thereof. The total amount of equity investment in 2018 equals to RMB768.15 million.

(1) Major equity investment

(1) On 2 February 2018, the Board agreed to designate Jieshou Capital Water Company Limited* ("**Jieshou Company**"), an indirectly wholly-owned subsidiary of the Company, as the PPP project company for the investment, construction and exclusive operation of the existing and additional entrusted operation projects in Jieshou City. The total investment of the project is RMB279.9455 million, which would be financed by the Company by first increasing its capital contribution to Fuyang Company by RMB84 million, which would in turn increase the capital of Jieshou Company by the same amount, with the rest of the project funds to be provided by Jieshou Company with bank loans. Following the capital increase, the registered capital of Fuyang Company and Jieshou Company was RMB191.10 million and RMB89.00 million respectively, with their registered address and the scope of business remaining unchanged. The capital increase has been completed within the period.

(2) On 2 February 2018, the Board agreed to increase the capital of Baoying Company for the project capital of the Expansion of Xianhe Sewage Treatment Plant Project, with a total investment amount of RMB99.806 million. The capital increase was funded by the shareholders of Baoying Company in cash in proportion to their shareholdings. The Company contributed RMB21 million as it held 70% equity of Baoying Company, and Xianhe Sewage Treatment Plant of Baoying County contributed RMB9 million as it held 30% equity of Baoying Company. Following the capital increase, the registered capital of Baoying Company was increased from RMB53 million to RMB83 million. The capital increase has been completed within the period.

(3) On 24 May 2018, the Board agreed that Jiayuanxing should jointly establish Tianjin Jiayuanxin Innovative Energy Technology Company Limited (天津佳源鑫創新能源科技有限公司) ("**Jiayuanxin**") with Tianjin Kangyuan Electricity Engineering Company Limited* (天津康源電力工程有限公司) for the implementation of the heat supply ancillary project on the land parcel located at Miyun Road developed and constructed by Xiqing District of Tianjin City. The total investment of the project was RMB48.10 million, of which RMB5 million was sourced from Jiayuanxin's registered capital, with the remaining funds from the engineering supporting fees. Jiayuanxing held 60% equity of Jiayuanxin as it had contributed RMB3 million to its share capital, and Tianjin Kangyuan Electricity Engineering Company Limited held 40% equity of Jiayuanxin as it had contributed RMB2 million to its share capital. Jiayuanxin has been established within the period.

(4) On 8 June 2018, the Board agreed to jointly establish Honghu Tianchuang Water Co., Ltd. (洪湖市天創水務有限公司) ("**Honghu Tianchuang**") with Tianjin Second Municipal Highway Engineering Co., Ltd.("**Honghu Municipal**") l Water Pollution Control Center* (洪湖市水污染治理中心) and Tianjin Second Municipal by means of cash contribution. Honghu Tianchuang will be responsible for the investment, construction, operation and maintenance of the PPP project for the construction, upgrading and ancillary pipe networking of the rural sewage treatment plants in Honghu City. The total investment of the project was RMB437,769,500, which was financed with the registered capital of Honghu Tianchuang of RMB131,330,800, to which the Company has contributed RMB111,631,200, accounting for 85% of its total equity, Honghu Municipal Water Pollution Control Center has contributed RMB13,133,100, accounting for 10% of its total equity, and Tianjin Second Municipal has contributed RMB6,566,500, accounting for 5% of its total equity. Honghu Tianchuang has been established within the period.

(5) On 10 July 2018, the Board agreed to establish Shibinggui Capital Water Co. Ltd. ("**Shibinggui** "), which was responsible for the investment, financing, design, construction, operation, maintenance and transfer of the sewage treatment PPP projects in Shibing County and the townships under its jurisdiction, as well as the collection of sewage treatment service fees and pipeline network service fees. The total investment of the project was RMB99.5094 million, which was financed with the registered capital of Shibing Company of RMB29,852,800, to which Guizhou Company has contributed RMB28,564,300, accounting for 95.68% of its total capital, Guizhou Jiantianxia Construction Engineering Company Limited* (貴州建天下建築工程有限公司) has contributed RMB288,500, accounting for 0.97% of its total equity, and Shibing County Water Investment and Development Company Limited* (施秉縣水務投資開發有限公司), a representative of the government, has contributed RMB1,000,000, accounting for 3.35% of its total equity. The capital injection has been completed within the period.

(6) On 10 July 2018, the Board agreed to jointly establish a project company with Beijing OriginWater Technology Co., Ltd.*(北京碧水源科技股份有限公司) (the lead investor), Beijing Jiuan Construction & Investment Group Co., Ltd.*(北京久安建設投資集團有限公司) and Tianjin Haihe Construction Developing Investment Co., Ltd. ("**Haihe Company**"), a representative of the government. The project company will be responsible for the implementation of the PPP project for the construction of Sponge City in South Jiefang Road area in Tianjin. The total investment of the project was RMB2,521.13 million, which was financed with the registered capital of the project company of RMB650 million, to which Beijing OriginWater Technology Co., Ltd. has contributed RMB227.50 million accounting for 35% of its total equity, the Company has contributed RMB195.00 million, accounting for 30% of its total equity, Beijing Jiuan Construction Investment Group Co., Ltd. (北京久安建設投資集團有限公司) has contributed RMB32.50 million, accounting for 5% of its total equity and Haihe Company has contributed RMB195.00 million, accounting for 30% of its total equity. During the reporting period, the project company has been established under the name of Tianjin Bihai Sponge City Co. Ltd..

(7) On July 25, 2018, the Board agreed that Xi'an Company should invest RMB3.00 million to establish Xi'an Chuangye Intelligent Environment Testing Co., Ltd. (西安創業智慧環境檢測有限公司), which is to carry out the examination and testing business for its business partners, with prominent strategic significance in expanding the business scope of Xi'an Company and extending its industrial chain. The company has been established within the period.

(8) On 25 September 2018, the Board agreed to invest RMB205,956,800 to establish a wholly-owned subsidiary, Hefei Capital Water Co., Ltd.（合肥創業水務有限公司）(“**Hefei Company**”), for its investment in the construction of the PPP project for Taochong Sewage Treatment Plant in Hefei City. The estimated total investment of the project was approximately RMB585,895,000, which was financed with the registered capital of Hefei Company. Hefei Company has been established within the period.

(9) On 9 November 2018, the Board agreed to invest RMB62.00 million in the capital increase of a wholly-owned subsidiary of the Company, Wuhan Company for its capital increase in Chibi Capital Water Co,. Ltd. (“**Chibi Company**”), which would invest in the upgrade and expansion of the PPP project of the sewage treatment plant in Chibi. The estimated total investment is approximately RMB205.58 million. Following the capital increase, the registered capital of Wuhan Company will be increased to RMB201.9689 million. The capital increase has been completed within the reporting period.

(10) On 20 November 2018, the Board agreed to invest RMB54 million to jointly establish Deqing Capital Water Co., Ltd. (“**Deqing Company**”) (together with Deqing Qianlong Construction Development Co., Ltd. (德清乾龍建設發展有限公司) for the acquisition of the PPP project of Qianyuan Sewage Treatment Plant in Deqing County. The total investment of the project was approximately RMB279,820,000, which was financed with the registered capital of Deqing Company of RMB60 million, to which the Company has contributed RMB54 million, accounting for 90% of its share capital, and Deqing Qianlong Construction Development Co., Ltd., a representative of the government, has contributed RMB6 million, accounting for 10% of its share capital. The capital injection has been completed within the period.

(2) Major non-equity investment

As at the end of 2018, Jingu and Beicang projects were substantially completed. During the “upgrading and reconstruction” period, effective measures will be taken to ensure that the daily operation of the original Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant will not be affected. Moreover, in accordance with the “Supplementary Agreement of the Licensed Operation Agreement”, during the “upgrading and reconstruction” period, sewage treatment service fees will be charged in accordance with “Licensed Operation Agreement”. Therefore, no significant impact has been caused on the operating results of the Company during the reporting period.

(3) Financial assets measured by fair value

Not applicable

(6) DISPOSAL OF MAJOR ASSETS AND EQUITY INTEREST

Not applicable

(7) ANALYSIS OF MAJOR COMPANIES IN WHICH THE COMPANY HAS INVESTED

Unit: 0'000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products\ or Services	Registered Capital	Type of Legal Person	Percentage of interest	Asset Size	Net Assets	Net Profits
Water Recycling Company	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; manufacturing, installation, debugging and operation of water recycling facilities etc.	10,000	Limited Company	100%	127,097	43,141	9,191
Hangzhou Company	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training. And its technical services, technical training and other supporting services.	37,744.5	Limited Company	70%	110,983	68,243	5,999
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation and management of municipal sewage treatment plants and tap water and its supporting facilities; research and promotion of environment protection technology.	33,400	Limited Company	100%	61,432	40,257	2,755
Jiayuanxing	Tianjin	Development, consulting, service and transfer of energy conservation and energy technology; property management services.	19,195.05	Limited Company	100%	61,317	30,252	2,473
Caring Company	Tianjin	Environmental engineering management and technical advice etc.	3,333.33	Stock Limited Company	60%	14,398	11,534	945
Bayannur Company	Bayannur, Inner Mongolia	Processing of sewage water, production and sales of recycled water and supply of tap water	106,757.79	Limited Company	70%	113,160	111,119	126
Shandong Company	Shandong	Investment and construction of sewage treatment facilities	19,200	Limited Company	55%	24,347	12,306	-362

Water Recycling Company recorded revenue from principal operations of RMB345.01 million and operating profit of RMB129.57 million in 2018.

Hangzhou Company recorded revenue from principal operations of RMB284.06 million and operating profit of RMB82.88 million in 2018.

(8) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Not applicable

III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

(I) STATUS AND TRENDS OF THE INDUSTRY

In 2019, the Party Central Committee determined the major policy fundamentals of achieving stability in terms of employment, finance, foreign trade, foreign investment and expectations, boosting market confidence and continuing to tackle the three major issues. In the meanwhile, in respect of macro-policy, the countercyclical adjustment shall be enhanced and proactive fiscal policy and prudent monetary policy shall be implemented continuously with appropriate pre-adjustment and fine-tuning to stabilize total demand. The effect of the proactive fiscal policy shall be improved by carrying out tax and fees reduction on a larger scale and increasing the local government special bonds scale substantially. The prudent monetary policy shall be flexible to keep a reasonable and sufficient liquidity. The transition mechanism of the monetary policy shall be improved and the proportion of direct financing shall be increased to solve the problem of difficulties in and high cost of financing faced by the Company. Under the above macro-economic situation, both corporate operation and business expansion shall be carried out in conjunction with above environmental and economic features to introduce timely measures and appropriate adjustments. In particular, the corporate funds security and investment risks in market expansion shall be addressed. However, the outlook of the environmental protection industry is positive in general under the requirements of environmental governance, while the higher level of environmental standards also put forward higher requirements for the Company's comprehensive competitiveness.

After years of hard work, the Company's water projects has a total water supply scale of approximately 5.65 million cubic meters per day, involving water supply, sewage treatment and recycling, it has accumulated rich experience and capabilities in water project's market development and operation management, and it has become a domestic well-known water company. In recent years, the Company has also made achievements in fields such as sludge disposal, industrial wastewater treatment, hazardous waste disposal, new energy utilization, electric heating and sponge city. It has gradually built up comprehensive environmental service capabilities. In the future, the Company is capable and confident to participate in the competition in the key development areas of the environmental protection industry, creates revenue for shareholders, and contributes in building a Beautiful China.

(II) DEVELOPMENT STRATEGIES OF THE COMPANY

Positioning itself as a “comprehensive environmental service provider” and based on the development strategic objectives set out during the “13th Five-Year Plan” period, the Company will continue to promote the corporate development in all aspects. 2019 is the critical year in implementing the “13th Five-Year Plan”. The Company will continue to devote consistent efforts to realise new development and step across pedestals in the crucial stage of the “13th Five-Year Plan”. In respect of business development, the Company not only continues to consolidate its core business focusing on wastewater treatment, but also actively expands other promising environmental protection business. Through the optimization of its business structure, the Company is committed to build up its integrated environmental service capabilities supported by the whole industry chain. In 2019, the Company will focus on connecting fully with the market through the system by deepening reforms in order to facilitate the realization of strategic goals with improved comprehensive management. In addition, the Company will pay attention to risk control and technology research and development and always adhere to the development strategy of “technology-leading, capital-stimulating, moderate-scale and legal-protection”. On the one hand, it will enhance various risk controls in response to changes in external environment to ensure a stable and healthy corporate development. On the other hand, it will adhere to the technology-oriented concept and put more efforts into improving its independent innovative capability to achieve high quality development. The Company will continue to uphold the concept of openness and sharing, and contribute its own strength to the construction of a Beautiful China and green development.

(III) OPERATING PLANS

1. Progress of development strategy and operating plan of the Company during the reporting period

In 2018, the Group started to transform itself into a “comprehensive environmental service provider” and implemented the main business concepts of “technology-leading, capital-stimulating, moderate-scale and legal-protection”. Through comprehensive distribution, careful planning and solid progress, key progresses have been achieved in all aspects of work. With efforts of all employees, the operation strategy and operation plan formulated by the Board at the beginning of the year has basically been completed. The targets set on revenue, fees and costs have also been achieved successfully.

2. In 2019, the Company will use the "13th Five-Year" strategic plan as its guideline to consolidate staff's efforts and further develop new strategic businesses. It will deepen organizational and structural reforms, improve research and development system, focuses on the refined management as the major task and strive to achieve the upgrading of "enterprise positioning, market position and comprehensive capabilities", as a result, laying a solid foundation for the final realization of the "13th Five-Year" strategic objective of "China's well-known comprehensive environmental service provider". The business strategies in 2019 are as follows:

   (1) Strengthen technology-leading and improve core competitiveness

   The Company will build a technology-led and innovation-driven platform to guide technology research and business development and open up a new phase of corporate transformation and development led by technology. It will carry out technology research and accumulation based on market needs and make practical and good transformation of technology achievements to facilitate the improvement in quality and efficiency of main businesses and the development of strategic emerging business.

   (2) Continue to promote traditional business expansion while realizing industrial chain extension

   The Company will step up efforts in market development and expand the scale of water business. It will focus on the goals in three aspects, namely the optimization of industrial chains, expansion into new business areas and key technology and products, so as to realize the vertical development of industrial chain and business diversity.

   (3) Further enhance the institutional framework and strengthen basic management

   The Company will sort out and optimize the Group's management interface and hierarchy, improve internal control system construction and further implement the matrix management system in order to increase management efficiency and effectively guarantee the smooth implementation of the Group's strategic planning.

   (4) Reform the remuneration system and optimize appraisal mechanism for plans

   The Company will improve its remuneration system by benchmarking with the industry and the mechanism transition in order to build a market-driven remuneration system in line with the market situation, activate existing human resources, attract external talents and accelerate the overall improvement in professional ability of the staff team.

(5) Strengthen internal control supervision and enhance legal protection

The Company will also strengthen its internal control and supervision through internal controls and risks assessments, and strengthen the management of the Company's legal matters to ensure the proper legal and compliance reviews of various works.

(6) Strengthen the leading of the Party to provide solid safeguard for the Company's development

The Company will focus on the deep integration between the Party-building works and our major works, stick to the way of market-oriented reforms and give full play to the Party Committee's guiding role of "defining direction, making overall planning and supporting implementation" so as to provide solid political, talent and organizational safeguard to the Group's transformation and upgrading and escort our operation.

3. Income, expenses and cost plan

In 2019, it is expected that the main business of the Group will still mainly engage in sewage treatment business, and the annual sewage treatment will be not less than 1.2 billion cubic meters. With the higher discharge standards applicable to projects in Tianjin and other areas and the continuous increase in costs of various types of resources, energy and labor, the operation costs of projects increase. If there are no major changes in the prevailing national guidelines, policies and business environment, it is expected that amount of variation in revenue from and cost for sewage treatment service fee will not be higher than 20%.

4. Technology R&D investment plan

In 2019, the Group will invest not less than RMB18.00 million in technology research, development and technological reforms, and will continue to conduct research and development on the new technical processes and application technology in the areas of sewage water treatment and sludge treatment etc.

5. In 2019, the estimated capital expenditure is RMB3.3 billion, which will be mainly used for the upgrade of water projects, and the construction of new energy projects and hazardous waste projects.

In 2019, the capital required for the Group's operation and investment will be satisfied by the Group's existing credit, corporate bonds, equity financing, strategic cooperation and other channels.

(IV) POSSIBLE RISKS

(1) Risk of government credit

Given the characteristic of licensed operation in sewage treatment projects, the capital source of sewage treatment service fee comes mainly from the special sewage-treatment fee charged by the governments through the sales of tap water; the deficient amount will be supplemented by the local governments. The PPP packaging projects recently promoted usually include the investment and construction of infrastructure such as pipe networks. The investment of social capital is relatively huge, and the investment return relies mainly on the payment of sewage treatment service fee from the governments. Therefore, the singleness of capital source determines the importance and cruciality of the government credibility. Whether water utilities companies can recoup the investment as scheduled and obtain the expected rate of return depends on the level of government credibility. In case the risk related to government credibility occurs, the project companies will face cash flow problem, which may generate capital risks such as financial risks and financing risks.

(2) Risk of change in policy

Currently, the PRC is at the special phase of comprehensive in depth reform. For a long period in the future, there will be transformative changes in policies related to economy, finance, commodity prices, financial taxation and government functions, etc. The policy changes in commodity prices and taxation will directly influence the adjustment of water price. Various possible problems relating to PPP model may appear gradually in 3 to 5 years. During the exclusive license operation period lasting for 30 years, as a social investor, the Company needs to pay attention to the risk of changes in policy.

(3) Risk of operation and management

With the introduction of a series of energy-saving and emission reduction requirements under the national "13th Five-Year Plan", the standards for environmental governance will become more stringent. In order to meet the new standards, the demands for upgrading sewage treatment plants will gradually increase. Under this circumstance, on one hand, sewage treatment plants will face the risk of facing restructuring and operational risk. On the other hand, enterprises will also face the risk of adjusting the original licensed operation agreement.

2. Risk control measures

(1) Protect the Company's lawful interests by making full use of laws and regulations

Strengthening the concept of corporate governance in accordance with the laws by making full use of its overall legal advisory system and protecting lawful interests of the Company. Meanwhile, the Company calls for and supports the prompt establishment and perfection of "Licensed Operation Law" and "PPP Law" to further assure equality of the contracting parties, tighten up the performance assessment and profit distribution mechanisms, and provide for the government obligations to pay according to contracts and the rights for investors to get reasonable returns under the laws, so as to reduce the risk related to government credibility and the financial risk of the investors.

(2) Strengthen comprehensive risk management

Determine the target for comprehensive risk management; establish the institutional framework for comprehensive risk management to identify, analyse, assess and deal with possible hidden risks in different business links; improve the risk management system and establish a sound and comprehensive risk management system for the Company; improve its timing and efficiency of the comprehensive risk management of the Company; conduct the dynamic management and effective control over risks so as to reasonably ensure the achievement of the Company's strategic targets.

(3) Continue to raise the standards of operating management

As a listed company in the environmental protection field, the Company has control over production and operation risks in a timely manner through standardized management in accordance with relevant changes in policies. Specifically, our risk control measures include staff training, strengthening the consciousness of laws on environmental protection and improving the management and control levels of technologies; strengthening the maintenance and protection of facilities for proper preservation of asset value and stable operation; perfecting the monitoring of quality, promoting control over the whole process to ensure the end products could meet the standards of discharge; developing water environment remedy plans and safe production plans, so as to ensure careful operation and the best environmental performance of the Company under force majeure conditions.

(V) OTHERS

Not applicable

IV. FAILURE TO DISCLOSE AS PER RULES DUE TO INAPPLICABILITY OR SPECIAL REASONS, SUCH AS STATE SECRETS AND BUSINESS SECRETS

Not applicable

V. THE PROPOSAL ON THE PROFIT APPROPRIATION OR TRANSFER OF CAPITAL RESERVE FUND TO SHARE CAPITAL FOR THE REPORTING PERIOD AS REVIEWED BY THE BOARD

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2018 amounted to RMB501.17 million. After deduction of the statutory common reserve of RMB37.20 million drawn in accordance with the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the retained profit of RMB2,978.87 million at the beginning of the year, and less the distribution in 2018 of the 2017 cash dividend of RMB0 million, the actual profit distributable to the shareholders for this year amounted to RMB3,442.84 million.

In 2018, as the Company's application for the non-public issuance of A shares has been approved by the China Securities Regulatory Commission, the Company is proceeding with the relevant fundraising work. According to the requirements of Article 18 of the Administrative Measures for Securities Issuance and Underwriting, where a listed company with a plan for issuance of securities has any plan for profit distribution or conversion of capital reserve into share capital which has not yet been submitted to its shareholders' general meeting for voting, or it has been approved by the shareholders' general meeting but has not been implemented yet, the issuance of securities shall be proceeded after such plan has been implemented. Considering the various factors such as the long-term development of the Company, shareholders' interests and the validity period of the approval for the non-public issuance of A shares, the Company did not conduct profit distribution in 2017

Considering that the Company is still in the development stage and cooperating with the capital expenditure arrangement in 2019 of Company for external project development, the Company intends to distribute to all of its Shareholders in the form of every 10 share with cash dividends of RMB1.06 (gross tax) with a total amount of RMB151.29 million in 2018 according to the profit appropriation policy of the Company. The amount of cash dividends accounted for 30.19% of the Company' s distributable profit realized in 2018. The capital reserve in 2018 will not be transferred to the share capital.

The distribution proposal is subject to the consideration and approval at the 2018 general meeting of the Company.

§ 5 FINANCIAL ACCOUNTING REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(All amounts in Rmb thousand unless otherwise stated)

	Note	**Year ended 31 December**	
		2018	2017
		RMB' 000	RMB' 000
Revenue from contracts with customers	3(a)	**2,447,515**	1,931,928
Tax expenses and surcharge		**(49,688)**	(57,464)
Cost of sales		**(1,568,995)**	(1,167,688)
Gross profit		**828,832**	706,776
Selling expenses	4	**(5,417)**	(6,467)
Administrative expenses	4	**(142,069)**	(151,447)
Other income	3(b)	**173,023**	278,600
Other gains /(losses) - net	5	**2,461**	(8,335)
Operating profit		**856,830**	819,127
Finance income		**53,779**	34,195
Finance costs		**(215,765)**	(134,534)
Finance costs - net	6	**(161,986)**	(100,339)
Profit before income tax		**694,844**	718,788
Income tax expense	7	**(168,064)**	(199,593)
Profit for the year		**526,780**	519,195
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year		**526,780**	519,195
Total comprehensive income for the year is attributable to:			
Owners of the Company		**501,168**	508,251
Non-controlling interests		**25,612**	10,944
		526,780	519,195
Earnings per share for profit attributable to the equity holders of the Company (in RMB Yuan):			
Basic earnings per share	8	**0.35**	0.36
Diluted earnings per share	8	**0.35**	0.36

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December	
		2018	2017
		RMB' 000	RMB' 000
ASSETS			
Non-current assets			
Land use rights		**60,358**	36,717
Property, plant and equipment		**497,580**	404,488
Intangible assets		**10,314,469**	6,869,701
Investment properties		**84,052**	86,820
Investments accounted for using the equity method		**195,000**	—
Financial asset at fair value through other comprehensive income		**2,000**	—
Available-for-sale financial assets		**–**	2,000
Long-term receivables		**253,686**	294,956
Other non-current assets		**109,181**	598,433
		11,516,326	8,293,115
Current assets			
Inventories		**13,991**	18,112
Trade receivables	10	**2,091,760**	1,932,058
Prepayments		**23,531**	124,770
Other current assets		**179,477**	85,449
Other receivables		**36,162**	93,708
Cash and cash equivalents		**1,808,543**	1,893,689
Restricted cash		**17,658**	11,989
		4,171,122	4,159,775
Total assets		**15,687,448**	12,452,890

	Note	As at 31 December	
		2018	2017
		RMB' 000	RMB' 000
LIABILITIES			
Non-current liabilities			
Borrowings		**4,114,683**	1,543,388
Deferred revenue		**2,101,085**	2,129,064
Deferred income tax liabilities		**138,812**	120,259
Provisions for other liabilities and charges		**10,069**	32,930
Other non-current liabilities		**38,000**	40,000
		6,402,649	3,865,641
Current liabilities			
Trade payables	11	**176,398**	128,254
Contract liabilities		**469,185**	–
Advances from customers		**–**	930,888
Wages payables		**53,942**	44,550
Income tax and other taxes payables		**68,893**	63,741
Dividend payable		**1,912**	1,912
Other payables		**1,456,133**	633,672
Borrowings		**443,369**	1,370,456
		2,669,832	3,173,473
Total liabilities		**9,072,481**	7,039,114
Net assets		**6,614,967**	5,413,776
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**1,427,228**	1,427,228
Other reserves		**948,131**	879,022
Retained earnings		**3,442,844**	2,810,790
		5,818,203	5,117,040
Non-controlling interests		**796,764**	296,736
Total equity		**6,614,967**	5,413,776

Notes to the condensed consolidated financial statement
For the year ended 31 December 2018
(All amounts in Rmb thousand unless otherwise stated)

1 Basis of preparation

(a) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards（'HKFRS'）and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(b) Historical cost convention

The financial statements have been prepared on the historical cost basis.

(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:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenues from Contracts with Customers

The Group had to change its accounting policies and apply simplified transition approach without restating comparative information following the adoption of HKFRS 9 and HKFRS 15.

(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:

HKFRS 16 Leases

HKFRS 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.

The standard will affect primarily the accounting for the Group' s operating leases. As at the reporting date, the Group has no non-cancellable operating lease commitments, and the Group does not expect the new guidance to have a significant impact on the financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Change in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(a) Impact on the financial statements

(i) HKFRS 9 and HKFRS 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.

Balance sheet (extract)	**31 December 2017 RMB'000**	**HKFRS 15 RMB'000**	**HKFRS 9 RMB'000**	**1 January 2018 Restated RMB'000**
ASSETS				
Non-current assets				
Financial asset at fair value through other comprehensive income	–	–	2,000	2,000
Available-for-sale financial assets	2,000	–	(2,000)	–
	8,293,115	–	–	8,293,115
Current assets				
Contract assets	–	6,249	–	6,249
Inventories	18,112	(6,249)	–	11,863
Trade receivables	1,932,058	–	(2,658)	1,929,400
Prepayments	124,770	(91,230)	–	33,540
	4,159,775	(91,230)	(2,658)	4,065,887
Total assets	12,452,890	(91,230)	(2,658)	12,359,002

Balance sheet (extract)	31 December 2017 RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 Restated RMB'000
LIABILITIES				
Non-current liabilities	3,865,641	–	–	3,865,641
Current liabilities				
Trade payables	128,254	9,866	–	138,120
Contract liabilities	–	591,017	–	591,017
Advances from customers	930,888	(930,388)	–	–
Income tax and other taxes payables	63,741	68,031	–	131,772
	3,173,473	(261,974)	–	2,911,499
Total liabilities	7,039,114	(261,974)	–	6,777,140
Net assets	5,413,776	170,744	(2,658)	5,581,862
EQUITY				
Capital and reserves attributable to the Company' s equity holders				
Retained earnings	2,810,790	170,744	(2,658)	2,978,876
	5,117,040	170,744	(2,658)	5,285,126
Non-controlling interests	296,736	–	–	296,736
Total equity	5,413,776	170,744	(2,658)	5,581,862

(b) HKFRS 9 Financial Instruments

(i) Imapirment of financial assets

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

- trade receivables
- other financial assets at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group' s retained earnings and equity is disclosed in the table in note 2(a) above.

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

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance 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.

On that basis, the additional loss allowance on 1 January 2018 is RMB2,658,000.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and long-term receivables. Applying the expected credit risk model resulted in the recognition of no additional loss allowance on 1 January 2018 (previous loss allowance was nil) and a further increase in the allowance by RMB10,000 and RMB138,000 for other receivables and long-term receivables respectively in 2018.

(c) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules prospectively and has not restated comparatives for the 2017 financial year.

The Group previously recognised revenue from the sales of pipeline connection for recycled water when the connection is finished.

The application of HKFRS 15 requires that revenue and cost are recognised by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the actual outcomes achieved up to the end of the reporting period as a percentage of total contract amount.

To reflect this change in policy, the Group further recognised a revenue of RMB328,755,000 which resulted in the decrease in advances from customers of RMB339,871,000. And the Group recognised additional cost of RMB101,096,000, correspondingly the amount of prepayment decreased by RMB91,230,000 and the amount of trade payables increased by RMB9,866,000. The contract liability recognised on 1 January 2018 was RMB591,017,000, which was reclassified from advances from customers. Thus, income tax and other taxes payables increased by RMB68,031,000, including the increase of income tax of RMB56,915,000.

In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18 / HKAS 11 carrying amount 31 December 2017	Reclassification	Remeasurements	HKFRS 15 carrying amount 1 January 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	124,770	–	(91,230)	33,540
Contract liabilities	–	591,017	–	591,017
Advances from customers	930,888	(591,017)	(339,871)	–
Trade payables	128,254	–	(9,866)	138,120
Income tax and other taxes payables	63,741	–	68,031	131,772

The impact on the Group' s retained earnings as at 1 January 2018 is as follows:

	2018
	RMB'000
Retained earnings - after HKFRS 9 restatement (Note 2(b))	2,808,132
Restatement of revenue and cost of sales for pipeline collection project	227,659
Increase in income tax	(56,915)
Adjustment to retained earnings from adoption of HKFRS 15	170,744
Opening retained earnings 1 January - HKFRS 9 and HKFRS 15	2,978,876

The impact on the Group is respect of the application of HKFRS 15 for the year ended 31 December 2018:

	31 December 2018 Result without adoption RMB'000	HKFRS 15 RMB'000	31 December 2018 Result with adpotion RMB'000
Revenue from contracts with customers	2,446,200	1,315	2,447,515
Tax expenses and surcharge	(49,688)	–	(49,688)
Cost of sales	(1,567,030)	(1,965)	(1,568,995)
Gross profit	829,482	(650)	828,832
Selling expenses	(5,417)	–	(5,417)
Administrative expenses	(142,069)	–	(142,069)
Other income	173,023	–	173,023
Other gains /(losses) - net	2,461	–	2,461
Operating profit	857,480	(650)	856,830
Finance income	53,779	–	53,779
Finance cost	(215,765)	–	(215,765)
Finance cost- net	(161,986)	–	(161,986)
Profit before income tax	695,494	(650)	694,844
Income tax expense	(168,226)	162	(168,064)
Profit for the year	527,268	(488)	526,780
Profit is attributable to:			
Owners of the Company	501,656	(488)	501,168
Non-controlling interests	25,612	–	25,612
	527,268	(488)	526,780

The impact on the Group is respect of the application of HKFRS 15 for the year ended 31 December 2018 (continued):

Balance sheet (extract)	**31 December 2018 Result without adoption**	**HKFRS 15**	**31 December 2018 Result with adoption**
	RMB'000	**RMB'000**	**RMB'000**
Non-current assets			
Land use rights	60,358	—	60,358
Property, plant and equipment	497,580	—	497,580
Intangible assets	10,314,469	—	10,314,469
Investment properties	84,052	—	84,052
Investments accounted for using the equity method	195,000	—	195,000
Financial asset at fair value through other comprehensive income	2,000	—	2,000
Available-for-sale financial assets	—	-	—
Long-term receivables	253,686	—	253,686
Other non-current assets	109,181	—	109,181
	11,516,326	—	11,516,326
Current assets			
Inventories	13,991	—	13,991
Trade receivables	2,091,760	—	2,091,760
Prepayments	121,947	(98,416)	23,531
Other current assets	186,391	(6,914)	179,477
Other receivables	36,162	—	36,162
Cash and cash equivalents	1,808,543	—	1,808,543
Restricted cash	17,658	—	17,658
	4,276,452	(105,330)	4,171,122
Total assets	15,792,778	(105,330)	15,687,448

The impact on the Group is respect of the application of HKFRS 15 for the year ended 31 December 2018 (continued):

Balance sheet (extract)	31 December 2018 Result without adoption RMB'000	HKFRS 15	31 December 2018 Result with adoption RMB'000
Non-current liabilities			
Borrowings	4,114,683	–	4,114,683
Deferred revenue	2,101,085	–	2,101,085
Deferred income tax liabilities	138,812	–	138,812
Provisions for other liabilities and charges	10,069	–	10,069
Other non-current liabilities	38,000	–	38,000
	6,402,649	–	6,402,649
Current liabilities			
Trade payables	171,752	4,646	176,398
Contract liabilities	–	469,185	469,185
Advances from customers	810,372	(810,372)	–
Wages payables	53,942	–	53,942
Income tax and other taxes payables	7,938	60,955	68,893
Dividend payable	1,912	–	1,912
Other payables and others	1,456,133	–	1,456,133
Borrowings	443,369	–	443,369
	2,945,418	(275,586)	2,669,832
Total liabilities	9,348,067	(275,586)	9,072,481
Net assets	6,444,711	170,256	6,614,967
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,427,228	–	1,427,228
Other reserves	948,131	–	948,131
Retained earnings	3,272,588	170,256	3,442,844
	5,647,947	170,256	5,818,203
Non-controlling interests	796,764	–	796,764
Total equity	6,444,711	170,256	6,614,967

3 Segment information

An analysis of revenue and contributions to operating profit for the year by principal activities is as follows:

(a) Analysis of the Group' s revenue and other income

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	2,447,515	1,931,928
Other income	173,023	278,600
Total	2,620,538	2,210,528

(b) Analysis of other income

	2018		2017	
	Income RMB'000	Cost RMB'000	Income RMB'000	Cost RMB'000
VAT refund	99,512	—	134,540	—
Government grants	73,140	—	50,730	—
Contract operation service	—	—	147,706	(111,286)
Technical services	—	—	56,802	(5,491)
Construction management	—	—	—	—
Rental	—	—	7,695	(4,266)
Others	371	—	4,610	(2,440)
	173,023	—	402,083	(123,483)

As adoption of HKFRS 15 Revenue from contracts with customers, management reviewed all kinds of income and expenses. Contract related revenue has been reclassified from other income to revenue from contracts with customers. Contract related cost has been reclassified from other incomet to cost of sales.

(c) Operating segment analysis

Management has determined the operating segments based on the reports reviewed by the Strategy Steering Committee at managers operating meeting held regularly that are used to make strategic decisions for the purpose of allocating resources and assessing performance.

The meeting considers the business from both service and geographical perspectives. From a service perspective, management assesses the performance of processing of sewage water and construction of related facilities, recycled water and pipeline connection, heating and cooling services, tap water operations and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment is mainly the achievement of technology research. The assets are allocated based on the operations of the segment and the physical location of assets. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

Other services include contract operation services, lease of office building or apartments and provide technical services etc. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column.

The Strategy Steering Committee assesses the performance of the operating segments based on a measure of profit before income tax, which is measured in the approach consistent with that in the financial statements.

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2018 and 2017 respectively is as follows:

(i) For the year ended 31 December 2018

	Sewage processing and facility construction services								
	Tianjin plants RMB'000	Hangzhou plant RMB'000	Other plants RMB'000	Recycled water and pipeline connection RMB'000	Heating and cooling services RMB'000	Tap water operations RMB'000	Sale of environmental protection equipment RMB'000	All other segments RMB'000	Group RMB'000
Segment revenue	858,211	284,062	484,102	349,860	91,015	93,261	35,282	251,722	2,447,515
Timing of revenue recognition:									
At a point in time	–	–	–	–	–	–	–	–	–
Over time	858,211	284,062	484,102	349,860	91,015	93,261	35,282	251,722	2,447,515
Segment expense	(607,310)	(201,086)	(376,977)	(213,545)	(57,905)	(76,419)	(29,044)	(190,385)	(1,752,671)
Results before share of profits of an associate	250,901	82,976	107,125	136,315	33,110	16,842	6,238	61,337	694,844
Profit before income tax									694,844
Income tax expense									(168,064)
Profit for the year									526,780
Segment assets	6,430,423	1,090,937	5,136,425	863,109	611,827	376,511	48,816	934,400	15,492,448
Investment accounted for using the equity method									195,000
Total assets									15,687,448
Total liabilities	5,838,269	349,501	1,351,428	816,293	290,659	40,542	9,711	376,078	9,072,481
Other information									
-Interest income	33,398	1,748	2,218	14,206	792	15	386	1,016	53,779
-Interest expenses	(145,836)	(15,461)	(31,211)	(57)	(2,138)	(2,319)	(18)	(1,734)	(198,774)
-Depreciation	(235)	–	(4,217)	(25,071)	(16)	(48)	(513)	(14,730)	(44,830)
-Amortization	(131,095)	(60,781)	(114,353)	(5,157)	(18,310)	(14,061)	(1,026)	(1,639)	(346,422)
-Capital expenditures	**(923,737)**	**–**	**(2,499,828)**	**(182,955)**	**(45,520)**	**(150,780)**	**(2,871)**	**(162,481)**	**(3,968,172)**

(ii) For the year ended 31 December 2017

	Sewage processing and facility construction services								
	Tianjin plants RMB'000	Hangzhou plant RMB'000	Other plants RMB'000	Recycled water and pipeline connection RMB'000	Heating and cooling services RMB'000	Tap water operations RMB'000	Sale of environmental protection equipment RMB'000	All other segments RMB'000	Group RMB'000
Segment revenue	798,592	252,000	361,897	300,897	71,250	67,401	16,200	63,691	1,931,928
Timing of revenue recognition									
At a point in time	798,592	252,000	361,897	300,897	71,250	67,401	16,200	63,691	1,931,928
Over time	–	–	–	–	–	–	–	–	–
Segment expense	(477,667)	(184,031)	(297,390)	(187,260)	(48,133)	(56,228)	(23,005)	60,574	(1,213,140)
Results before share of profits of an associate	320,925	67,969	64,507	113,637	23,117	11,173	(6,805)	124,265	718,788
Profit before income tax									718,788
Income tax expense									(199,593)
Profit for the year									519,195
Segment assets	5,679,104	1,147,042	2,690,885	1,549,175	593,280	215,711	13,508	564,185	12,452,890
Total assets									12,452,890
Total liabilities	4,262,871	424,806	791,116	1,099,796	240,864	42,317	3,583	173,761	7,039,114
Other information									
-Interest income	13,504	1,389	1,566	1,769	682	20	–	363	19,293
-Interest expenses	(77,589)	(18,458)	(26,997)	(194)	(2,785)	(3,345)	–	(2,064)	(131,432)
-Depreciation	(120)	–	(343)	(37,206)	(127)	–	(776)	(5,163)	(43,735)
-Amortization	(126,851)	(57,448)	(86,167)	(212)	(14,889)	(9,815)	–	(1,031)	(296,413)
-Capital expenditures	(54,723)	(47,713)	(700,929)	(1,720)	(141,813)	–	–	(42,130)	(989,028)

4 Expenses by nature

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	2018 RMB'000	2017 RMB'000
Amortisation of intangible assets and land use rights	346,422	296,413
Utilities	314,546	254,272
Employee benefit expenses	286,101	266,877
Raw materials and consumables used	190,667	80,659
Cost of recycling water pipeline connection service	152,892	84,528
Repair and maintenance expenses	105,194	91,088
Sewage mud processing fee	97,018	75,220
Depreciation of property, plant and equipment and investment properties	44,830	43,735
Factory environment, detection and fire prevention expenses	29,355	26,144
Construction cost of environmental equipment	18,613	2,762
Network maintenance costs	17,416	19,175
Consulting service expenses	15,274	12,434
Travel, meeting and business entertainment expenses	14,403	10,174
Provision of financial assets	12,973	11,698
Toll road management fee	7,120	7,120
Office expenses	7,054	6,458
Expenses of secretary of the board	4,475	5,227
Auditors' remuneration - audit	3,300	4,200
Other taxes	2,464	2,021
Others	46,364	25,397
	1,716,481	1,325,602

5 Other gains/(losses) - net

	2018 RMB'000	2017 RMB'000
Government grants	5,341	2,703
Loss on disposal of property, plant and equipment	(900)	(82)
Impairment of other current assets	–	(10,230)
Others	(1,980)	(726)
	2,461	(8,335)

6 Finance costs- net

	2018 RMB'000	2017 RMB'000
Interest expenses of borrowings	233,574	131,714
Less: Capitalised interest	(34,800)	(282)
Net interest expenses	198,774	131,432
Less: Interest income	*(53,779)*	*(19,293)*
- long-term receivables	*(10,029)*	*(10,511)*
- bank deposits	(43,750)	(8,782)
Exchange loss/(gain)	16,543	(14,902)
Others	448	3,102
	161,986	100,339

For the year ended 31 December 2018, the exchange loss on the long-term payables denominated in JPY and US dollar amounted to approximately RMB17 million (2017: exchange gain of RMB 15 million).

7 Income tax expense

	2018 RMB'000	2017 RMB'000
Current income tax	163,631	205,442
Increase/(Decrease) in deferred tax liabilities	4,433	(5,849)
	168,064	199,593

8 Earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the Company of approximately RMB501 million (2017: RMB508 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2017: 1,427 million shares).

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares. Diluted earnings per share are calculated using the same bases as described above for calculating basic earnings per share.

	2018	**2017**
	RMB'000	**RMB'000**
Profit attributable to owners of the Company	501,168	508,251
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (RMB yuan)	0.35	0.36

9 Dividends

There was no dividend paid in 2018 (2017: RMB 136 million, RMB 0.095 per share).

10 Trade receivables

	31 December 2018	**31 December 2017**
	RMB'000	**RMB'000**
Receivables from third parties	2,089,992	1,897,344
-Trade receivables	2,079,697	1,895,444
-Notes receivable	10,295	1,900
Receivables from related parties	51,352	68,815
	2,141,344	1,966,159
Less: allowance for impairment of trade receivables (note(a))	(49,584)	(34,101)
	2,091,760	1,932,058

(a) Impaired trade receivables

(i) The aging of trade receivables is analysed below:

	31 December 2018		31 December 2017	
	Amount	**% of total balance**	**Amount**	**% of total balance**
	RMB'000		**RMB'000**	
Within 1 year	1,468,039	68	1,268,394	64
1 to 2 years	649,268	29	666,168	34
2 to 3 years	15,464	1	11,914	1
3 to 4 years	7,024	1	19,683	1
4 to 5 years	1,549	1	—	—
Total	2,141,344	100	1,966,159	100

(ii) As at 31 December 2018, provision for bad debts by individual is analyzed as below:

	Carrying amount	**Expected credit loss rate**	**Impairment**	**Reasons**
	RMB'000		**RMB'000**	
Tianjin Water Authority Bureau	1,582,240	0.05%	(791)	i)
Qujing Sewage Company	140,296	24.49%	(34,357)	ii)
Hangzhou Municipal Facilities Supervision Center (杭州市市政設施監管中心)	43,545	0.05%	(21)	i)
Hangzhou Sewage Company	18,198	0.05%	(9)	i)
Guiyang Water Authority Bureau	39,243	0.05%	(2)	i)
Xi'an Infrastructure Investment Group	16,608	0.05%	(14)	i)
Tianjin Qudong Culture Media Co. LTD	7,910	100.00%	(7,910)	iii)
Total	1,848,040		(43,104)	

i) As these customers are provincial governments or their representatives, whose ability to meet their contractual cash flow obligations may not be weakened even if there are adverse changes in the economic and business situation over a long period, the receivables of the Group from Tianjin Water Authority Bureau, from Xi'an Urban Infrastructure Construction Investment Group Co., Ltd., from Hangzhou Sewage Company, from Hangzhou Municipal Facilities Supervision Center (杭州市市政設施監管中心) and from Guiyang Water Authority Bureau have a lower credit risk, based on the analysis of historical payment records and forward-looking measurement. Therefore, the Company estimates that the lifetime expected credit loss rate of the receivables is 0.05%.

ii) Receivables from Qujing City Water General Company comprise regular sewage treatment fee, tap water fee and price compensation. As the receivables of regular sewage treatment fee and tap water fee have a longer collection period than ordinary government customers and they have higher credit risk, the Group estimates that the lifetime expected credit loss rate is 3%; Considering the debtor's actual performance capacity, historical collection experience and the ageing of the receivables, the Group concludes that the receivables of price compensation have been defaulted and estimates that the lifetime expected credit loss rate is 100%.

iii) Receivables from Tianjin Qudong Culture Media Co., Ltd. has applied enforcement and got approval from people' s court. Thus, the Company concludes that the receivables have been defaulted and estimates that the lifetime expected credit loss is 100%.

(iii) As at 31 December 2018, provision for bad debts by respective groupings is analysed as below:

Group - banker's acceptance

As at 31 December 2018, the Group measures bad debt provision in accordance with the lifetime expected credit loss for the entire duration, and no provision is deemed necessary. The Group considers that there is no significant credit risk in banker's acceptance and no major loss will be caused by bank default.

Group - Non-provincial government customers

	31 December 2018		
	Carrying amount	Loss allowance	
	Amount	Expected credit loss rate	Amount
	RMB'000		RMB'000
Undue	42,605	0.010%	(4)
1-90 days overdue	37,570	0.050%	(19)
90-180 days overdue	26,128	0.200%	(52)
＞180 days overdue	64,790	0.500%	(324)
	171,093		(399)

Group - others

	31 December 2018		
	Carrying amount	Loss allowance	
	Amount	Expected credit loss rate	Amount
	RMB'000		RMB'000
Undue	34,821	0.100%	(35)
1-30 days overdue	28,277	0.500%	(141)
30-90 days overdue	20,246	2.000%	(405)
＞90 days overdue	28,572	5.000%	(5,500)
	111,916		(6,081)

(iv) The accured bad debt provision in this year is RMB 18,731 thousand, and the bad debts provision collected or reversed is RMB 5,096 thousand. The main reversed amounts are as follow:

Significant bad debt provision reversed or collected is illustrated below:

	Reason for collected or reversed	**Basis and rationality of bad debts provision**	**Amount of collected or reversed RMB'000**	**Method of collected of reversed**
Tianjin Xinghe Paper Company Ltd.	Trade receivables collected	Long Aging	4,020	Collected by cash
Others	Trade receivables collected	Long Aging	1,886	Collected by cash
			5,906	

The bad debt provision of RMB4,020 thousand for receivables from Tianjin Xinghe Paper Co. Ltd is reversed in this year, the corresponding book value of trade receivables is RMB4,020,000.

11 Trade payables

As at 31 December 2018, the majority of trade payables are in connection with purchases of inventories, out of which trade payable of approximately RMB33 million (2017: RMB30million) are aged over one year. It is mainly the source water fee payable. As the Group has not recovered the relevant source water treatment fee, the payment has not been finally settled.

§6 SALE AND PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the reporting period, the Company or its subsidiaries did not purchase, sell and redeem any securities of the Company or its subsidiaries.

§7 CORPORATE GOVERNANCE CODE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the year, in compliance with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

§ 8 MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of practice in respect of securities transactions conducted by the Directors with standards not lower than those prescribed in Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. During the reporting period, all Directors have complied with the Model Code for securities transactions conducted by the Directors.

§ 9 PUBLIC FLOAT

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

§ 10 PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association of the Company and there is no restriction against such rights under the laws of the PRC.

§ 11 AUDIT COMMITTEE

On 31 July 2001, the Board approved the establishment of the audit committee (the "**Audit Committee**") to review and supervise the financial reporting procedures and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2018 with the Directors.

§12 REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in this preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

By Order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
27 March 2019

As at the date of this announcement, the Board comprises three executive Directors: Mr. Liu Yujun, Ms. Wang Jing and Mr. Niu Bo; three non-executive Directors: Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong; and three independent non-executive Directors: Mr. Di Xiaofeng, Mr. Guo Yongqing and Mr. Wang Xiangfei.