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

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

(Stock Code: 3768)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL SUMMARY

For the year ended 31 December 2019, the Group's:

- revenue amounted to approximately RMB1,834 million, representing an increase of 28.2% from 2018;
- profit before tax amounted to approximately RMB438 million, representing an increase of 5.5% from 2018;
- profit attributable to equity holders of the Company amounted to approximately RMB368 million, representing an increase of 5.7% from 2018; and
- earnings per share amounted to approximately RMB0.36, representing an increase of 5.9% from 2018.

The Board proposes to distribute a final cash dividend of RMB0.125 per share (tax inclusive), totaling RMB128,638,875.00 (tax inclusive) to all shareholders whose names appear on the Company's registers of shareholders of domestic shares and H shares as at Tuesday, 30 June 2020. The expected dividend distribution date is Thursday, 6 August 2020.

The board (the "**Board**") of directors (the "**Directors**") of Kunming Dianchi Water Treatment Co., Ltd. (the "**Company**") is pleased to announce the audited results of the Company and its subsidiaries (collectively, the "**Group**", "**we**", "**us**" or "**our**") for the year ended 31 December 2019 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2018, as following:

I. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

		Year ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Revenue	*3(a)*	**1,833,542**	1,429,787
Cost of sales	*6*	**(1,195,618)**	(900,753)
Gross profit		**637,924**	529,034
Selling expenses	*6*	**(13,140)**	(14,175)
Administrative expenses	*6*	**(126,082)**	(135,991)
Research and development expenses	*6*	**(5,719)**	(4,160)
Net impairment losses on financial and contract assets		**(8,829)**	(17,562)
Other income	*5*	**86,512**	110,525
Other (losses)/gains – net	*4*	**(974)**	2,052
Operating profit		**569,692**	469,723
Finance income		**61,408**	56,924
Finance costs		**(192,709)**	(111,243)
Finance costs – net	*7*	**(131,301)**	(54,319)
Share of results of associates		**(241)**	(183)
Profit before income tax		**438,150**	415,221
Income tax expense	*8*	**(68,072)**	(65,494)
Profit for the year		**370,078**	349,727
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on consolidation		**871**	3,282
Total comprehensive income for the year		**370,949**	353,009

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

		Year ended 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Profit attributable to:			
– The equity holders of the Company		**368,411**	348,549
– Non-controlling interests		**1,667**	1,178
		370,078	349,727
Total comprehensive income attributable to:			
– The equity holders of the Company		**369,282**	351,831
– Non-controlling interests		**1,667**	1,178
		370,949	353,009
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
– Basic and diluted earnings per share	*9*	**0.36**	0.34

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

		As at 31 December	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Land use rights		**–**	469,125
Right-of-use assets		**464,182**	–
Property, plant and equipment		**3,058,900**	3,053,604
Receivables under service concession arrangements	*11*	**1,381,995**	1,120,398
Amounts due from customers for construction contracts	*12*	**516,266**	291,687
Intangible assets		**199,420**	184,558
Investments in associates		**14,833**	15,074
Deferred tax assets		**52,990**	50,196
		5,688,586	5,184,642
Current assets			
Receivables under service concession arrangements	*11*	**7,548**	15,408
Inventories		**22,636**	12,921
Amounts due from customers for construction contracts	*12*	**27,578**	18,911
Financial assets at fair value through profit or loss		**246,327**	170,000
Trade and other receivables	*13*	**2,225,415**	942,551
Cash and cash equivalents		**1,290,199**	1,079,714
Restricted cash		**67,966**	17,916
		3,887,669	2,257,421
Current liabilities			
Trade and other payables	*14*	**486,848**	379,708
Income tax payables		**75,273**	84,589
Borrowings		**701,320**	1,014,505
Lease liabilities		**3,786**	–
Contract liabilities	*14*	**7,238**	11,737
		1,274,465	1,490,539
Net current assets		**2,613,204**	766,882
Total assets less current liabilities		**8,301,790**	5,951,524

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Non-current liabilities		
Deferred revenue	**266,354**	222,530
Borrowings	**3,865,047**	1,764,699
Lease liabilities	**1,495**	–
Deferred tax liabilities	**74,473**	63,374
	4,207,369	2,050,603
NET ASSET	**4,094,421**	3,900,921
Capital and reserves		
Share capital	**1,029,111**	1,029,111
Other reserves	**1,489,179**	1,452,284
Retained earnings	**1,569,375**	1,413,378
Equity attributable to the equity holders of the Company	**4,087,665**	3,894,773
Non-controlling interests	**6,756**	6,148
TOTAL EQUITY	**4,094,421**	3,900,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

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

The Company and its subsidiaries (together, the "**Group**") are principally engaged in the development, design, construction, operation and maintenance of water supply and wastewater treatment facilities in the PRC.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

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

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

Adoption of new/revised IFRSs

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

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

Annual Improvements Project – 2015-2017 Cycle

IFRS 3: Previously held interest in a joint operation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new/revised IFRSs (Continued)

Annual Improvements Project – 2015-2017 Cycle (Continued)

IFRS 11: Previously held interest in a joint operation

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

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

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

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

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

IAS 23: Borrowing costs eligible for capitalisation

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

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

IFRIC 23: Uncertainty over Income Tax Treatments

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

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

Amendments to IAS 19: Employee Benefits

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

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

Amendments to IAS 28 Investments in Associates and Joint Ventures

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new/revised IFRSs (Continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

IFRS 16: Leases

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

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

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

As lessee

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

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

As lessee – leases previously classified as operating leases

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

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

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

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

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

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

2. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Adoption of new/revised IFRSs (Continued)

IFRS 16: Leases (Continued)

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

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

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

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

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

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

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

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

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

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

Based on the foregoing, as at 1 January 2019:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of measurement

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

Basis of consolidation

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

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

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

Allocation of total comprehensive income

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

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

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

Subsidiaries

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

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

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

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

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

Future changes in IFRSs

At the date of approving these consolidated financial statements, the IASB has issued the following new/revised IFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to IASs 1 and 8	*Definition of Material* [1]
Amendments to IAS 39, IFRSs 7 and 9	*Interest Rate Benchmark Reform* [1]
Amendments to IFRS 3	*Definition of a Business* [2]
IFRS 17	*Insurance Contracts* [3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* [4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [5]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after 1 January 2022
5 The effective date to be determined

The management of the Group does not anticipate that the adoption of the new/revised IFRSs in future periods will have any material impact on the Group's consolidated financial statements.

3. SEGMENT INFORMATION

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

The executive directors of the Company consider the business from product and service perspective.

The Group's reportable segments are as follows:

- Wastewater treatment;
- Water supply; and
- Others, including thermal production, management service, transportation service and treasury functions.

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

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

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

(a) Revenue

The revenue of the Group are set out as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within IFRS 15		
Wastewater treatment	**1,213,810**	1,159,075
Operating services – under TOO model	**823,658**	820,400
Operating services – under TOT/BOT model	**79,396**	65,775
Construction services – under BT model	**67,118**	42,881
Construction services – under BOT model	**180,345**	205,461
Finance income	**63,293**	24,558
Reclaimed water supply and running water supply	**304,857**	115,254
Operating services of reclaimed water supply – under TOO model	**18,102**	14,395
Operating services of running water supply – under TOT/BOT model	**14,507**	11,684
Construction services – under BT model	**44,005**	38,322
Construction services – under BOT model	**184,431**	49,009
Finance income	**43,812**	1,844
Others	**314,875**	155,458
Management services	**139,108**	88,977
Transportation services	**4,252**	3,649
Construction services – under BT model	**35,291**	13,881
Thermal production	**110,587**	37,276
Others	**25,637**	11,675
	1,833,542	1,429,787

The revenue from contracts with customers within IFRS 15 is recognised over time, except the transportation services is recognised at a point in time.

3. SEGMENT INFORMATION (Continued)

(b) Segment information

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2019 are presented as below:

	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Revenue from external customers	**1,213,810**	**304,857**	**314,875**	**1,833,542**
Segment gross profit	**514,145**	**57,622**	**66,157**	**637,924**
Segment profit	**472,382**	**34,737**	**62,573**	**569,692**
Finance income				**61,408**
Finance costs				**(192,709)**
Share of results of associates				**(241)**
Profit before income tax				**438,150**
Other information				
Depreciation of property, plant and equipment	**188,247**	**5,716**	**19,839**	**213,802**
Depreciation of right-of-use assets	**10,090**	**–**	**3,834**	**13,924**
Amortisation of intangible assets	**8,787**	**2,482**	**438**	**11,707**
Write-off of intangible asset	**9,458**	**–**	**–**	**9,458**
Capital expenditure	**205,189**	**34,040**	**25,479**	**264,708**

Segment assets and liabilities as at 31 December 2019 are presented below:

	Wastewater treatment *RMB'000*	Water supply *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets	**6,760,731**	**743,269**	**2,004,432**	**9,508,432**
Unallocated:				
Deferred tax assets				**52,990**
Investments in associates				**14,833**
Total assets				**9,576,255**
Segment liabilities	**3,879,507**	**385,147**	**1,067,434**	**5,332,088**
Unallocated:				
Deferred tax liabilities				**74,473**
Income tax payables				**75,273**
Total liabilities				**5,481,834**

3. **SEGMENT INFORMATION (Continued)**

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

Segment revenue and result (i.e. the operating profit) and other information for the year ended 31 December 2018 are presented below:

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

Segment assets and liabilities as at 31 December 2018 are presented below:

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

3. **SEGMENT INFORMATION (Continued)**

(c) **Geographical information**

The Group's operations are principally located in the PRC, hence, geographical segment information is not considered necessary.

(d) **Information about major customers**

The major customers whose revenue amounted to 10% or more of the Group's total revenue were as below.

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Customer A	**543,279**	555,045
Customer B	**230,505**	208,867
	773,784	763,912

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

4. **OTHER (LOSSES)/GAINS – NET**

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
(Losses)/Gains on disposal of property, plant and equipment – net	**(577)**	80
Donation	**(33)**	(591)
Gains on bargain purchase	**–**	3,069
Others	**(364)**	(506)
	(974)	2,052

5. OTHER INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Government grants:	**33,595**	93,709
– relating to property plant and equipment	**15,855**	6,555
– relating to research and development activities	**321**	4,683
– relating to tax refund *(Note (a))*	**17,419**	82,471
Interest income from cash and cash equivalents	**882**	3,508
Interest income from structured deposits	**899**	4,198
Net fair value gain of financial assets at FVPL	**46,327**	–
Others	**4,809**	9,110
	86,512	110,525

(a) Pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax ("**VAT**") Policies for Products Made through and Labor Services for Integrated Utilisation of Resources issued by the State Administration of Taxation in the PRC, companies which sell self-produced products made with integrated utilised resources or provides labor services for integrated utilisation of resources can enjoy the policy of value-added tax refund upon collection from 1 July 2015. The wastewater treatment business and the reclaimed water supply business of the Group which fall into the catalogue are qualified to enjoy 70% and 50% (2018: 70% and 50%) VAT refund respectively.

6. EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**213,802**	195,570
Utilities, electricity and office expenditures	**92,021**	83,738
Employee benefit expenses	**161,088**	151,269
Costs of wastewater and water distribution services	**105,597**	82,685
Cost of construction services	**489,553**	334,880
Taxes and levies	**27,409**	37,183
Repair and maintenance costs	**21,349**	20,367
Commission charge	**8,642**	9,053
Depreciation of right-of-use assets	**13,924**	–
Amortisation of land use rights	**–**	10,636
Subcontracting costs	**44,972**	31,063
Professional expenses	**17,659**	21,873
Material used in research and development activities	**5,719**	4,160
Amortisation of intangible assets	**11,707**	9,374
Auditor's remuneration	**3,302**	3,491
Write off of intangible assets	**9,458**	–
Fuels expenses	**80,590**	29,761
Miscellaneous	**33,767**	29,976
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**1,340,559**	1,055,079

7. FINANCE COSTS – NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Finance income:		
– Interest income from term deposits	**361**	3,641
– Interest income charged to related parties	**61,047**	34,111
– Interest income arising from construction contracts	**–**	19,172
	61,408	56,924
Finance cost:		
– Interest expenses on unsecured borrowings	**(40,609)**	(81,582)
– Interest expenses on corporate bonds	**(31,015)**	(21,315)
– Interest expenses on secured borrowings	**(86,668)**	(30,224)
– Total interest expenses on borrowings	**(158,292)**	(133,121)
– Less: borrowing costs capitalised in property, plant and equipment	**8,610**	8,401
– Finance charges on lease liabilities	**(382)**	–
– Interest expenses – net	**(150,064)**	(124,720)
– Exchange (loss)/gain	**(41,642)**	13,941
– Others	**(1,003)**	(464)
	(192,709)	(111,243)
Finance costs – net	**(131,301)**	(54,319)

8. INCOME TAX EXPENSE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current tax	**57,139**	78,821
Under provision in prior years	**2,629**	–
	59,768	78,821
Deferred tax	**8,304**	(13,327)
Income tax expense	**68,072**	65,494

In March 2018, the two-tiered profits tax rates regime was signed into law of Hong Kong, under which, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of corporations incorporated in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the years ended 31 December 2019 and 2018, Hong Kong Profits Tax has not been provided as the Group has no assessable profits arising in or derived from Hong Kong.

Under the Law of the PRC on Corporate Income Tax (the "**CIT Law**") and implementation Regulations of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries during the year ended 31 December 2019, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the respective local tax authorities, which was discussed as follows:

(a) China's western region development policy (the "**Western Region Development Policy**") is a preferential tax ruling issued by the State Administration of Taxation of the PRC for companies whose business fall into the catalogue of encouraged industries and located in western region of China. During the years ended 31 December 2019 and 2018, the Company and certain subsidiaries qualified for the Western Region Development Policy were granted the preferential income tax rate of 15%.

(b) In addition to the Western Region Development Policy, the Company also qualifies as a "High-tech Enterprise" and enjoys a 15% enterprise income tax rate during the years ended 31 December 2019 and 2018.

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

(d) Certain PRC subsidiaries use the resources stipulated in the catalogue for comprehensive utilisation of resources project qualified for CIT preferential treatments enjoyed 10% deduction of CIT.

8. INCOME TAX EXPENSE (Continued)

Reconciliation of taxation	Year ended 31 December 2019 *RMB'000*	2018 *RMB'000*
Profit before income tax	**438,150**	415,221
Tax calculated at the domestic CIT rate applicable	**109,538**	103,805
Expenses not deductible for tax purpose *(Note (i))*	**249**	89
Preferential tax rates of the Company and certain subsidiaries *(Note (a), (b), and (d))*	**(39,566)**	(36,820)
Additional deduction allowance for research and development expenses	**(615)**	(514)
Income not subject to income tax *(Note (c))*	**(4,836)**	(895)
Under provision in prior years	**2,629**	–
Share of results of associates	**36**	(27)
Others	**637**	(144)
Income tax expense	**68,072**	65,494

(i) Expenses not deductible for tax purpose primarily include expenses without valid invoices, welfare and entertainment expenses exceeding the tax deduction limits under the CIT Law.

9. EARNINGS PER SHARE

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

	Year ended 31 December 2019	2018
Profit attributable to equity holders of the Company *(RMB'000)*	**368,411**	348,549
Weighted average number of ordinary shares in issue *(thousand)*	**1,029,111**	1,029,111
Basic earnings per share *(RMB)*	**0.36**	0.34

The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the year ended 31 December 2019.

10. DIVIDENDS

		Year ended 31 December	
		2019	2018
		RMB'000	*RMB'000*
(a)	Final dividend for the year ended 31 December 2018 of RMB0.1714 (2017: RMB0.1527) per share *(Note i)*	**176,390**	157,145
(b)	Dividends not recognised at the end of the Reporting Period		
	In addition to the above dividends, since year end the directors have recommended the payment of 2019 final dividend of RMB0.125 per share (2018 – RMB0.1714). The aggregate amount of the proposed dividend expected to be paid in 2020 out of retained earnings at 31 December 2019, but not recognised as a liability at year end, is	**128,639**	176,390

(i) As approved by the annual general meeting on 21 June 2019, the Company declared a dividend of RMB176,389,625.40 in respect of the accumulated distributable profit as at 31 December 2018. The declaration of the dividend has been reflected as an appropriation of retained earnings during the year ended 31 December 2019. The dividends were paid out during the year ended 31 December 2019.

11. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

The Group has entered into certain arrangements with governmental authorities in the PRC under TOT or BOT models in respect of its wastewater treatment and water supply services (the "**Facilities**"). These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for those arrangements under TOT models; (ii) constructing the Facilities for those arrangements under BOT models; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 20 to 30 years (the "**Service Concession Periods**"), and the Group will be paid for its services over the service concession periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the term of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authorities in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

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

The effective interest rate fell within the range from 5.10% p.a. to 9.23% p.a..

11. RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS (Continued)

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

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Receivables under service concession arrangements		
Current portion:		
Receivables under service concession arrangements	**7,550**	15,485
Loss allowance	**(2)**	(77)
	7,548	15,408
Non-current portion:		
Receivables under service concession arrangements	**1,382,480**	1,126,028
Loss allowance	**(485)**	(5,630)
	1,381,995	1,120,398
	1,389,543	1,135,806

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

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

12. AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Costs incurred to date plus recognised profits less recognised losses		
Current portion:		
Amounts due from customers for construction contracts	**28,030**	19,006
Loss allowance	**(452)**	(95)
	27,578	18,911
Non-current portion:		
Amounts due from customers for construction contracts	**521,948**	293,153
Loss allowance	**(5,682)**	(1,466)
	516,266	291,687
	543,844	310,598

To measure the expected credit losses, amounts due from customers for construction contracts have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2019, a provision of approximately RMB6,134,225 (2018: RMB1,561,000) was made against the gross amounts to amounts due from customers for construction contracts.

13. TRADE AND OTHER RECEIVABLES

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

As at 31 December 2019, the fair values of the current portion of trade and other receivables of the Group, except for the prepayments which are not financial assets, approximated their carrying amounts.

As at 31 December 2019, the carrying amounts of trade and other receivables are principally denominated in RMB. The trade receivables are due for payment upon presentation of invoices.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the life time expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2019, a provision of approximately RMB16,294,264 (2018: RMB9,653,996) was made against the gross amounts to trade receivables.

To measure the expected credit losses, other receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information. As at 31 December 2019, a provision of approximately RMB3,472,016 (2018: RMB640,019) was made against the gross amounts to other receivables.

13. TRADE AND OTHER RECEIVABLES (Continued)

(a) Aging analysis of gross trade receivables at the end of Reporting Period, based on the invoice dates, are as follows:

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

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

(b) The Company entered into the Entrusted Loan Contracts with Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司, "**Xindu Investment**"), Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司, "**Kunming Bus**"), and Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, "**DIG**") with some major PRC banks on 17 January 2019, 3 April 2019 and 17 April 2019 respectively. Pursuant to the Entrusted Loan Contract, the Group entrusted these major PRC banks to grant loans of RMB400 million, RMB300 million, and RMB300 million to Xindu Investment, Kunming Bus, and DIG respectively. The loans to Xindu Investment and Kunming Bus of RMB400 million and RMB300 million have been settled subsequent to year end.

14. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables to third parties	**150,971**	31,006
Other payables due to:	**146,012**	106,923
– related parties	**14,635**	21,918
– local government	**1,791**	3,790
– third parties	**129,586**	81,215
Consideration payable for acquisition of subsidiaries	**21,209**	23,619
Staff salaries and welfare payables	**42,285**	46,091
Payables for acquisition of property, plant and equipment due to:	**46,207**	69,755
– related parties	**16,040**	17,212
– third parties	**30,167**	52,543
Payables for acquisition of land use rights from related parties	**58,194**	58,194
Interest payables	**4,586**	2,982
Accrued taxes other than income tax	**17,384**	41,138
Total trade and other payables	**486,848**	379,708

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

14. TRADE AND OTHER PAYABLES/CONTRACT LIABILITIES (Continued)

(a) As at 31 December 2019, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities. The trade payables are normally granted with credit terms ranging from 30 to 90 days.

(b) During the year ended 31 December 2019, the Group's trade and other payables are principally denominated in RMB.

(c) Aging analysis of trade payables to third parties at the end of the Reporting Period is as follow:

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

15. EVENTS AFTER REPORTING PERIOD

In addition to the events disclosed elsewhere in these consolidated financial statements, the Group had the following subsequent events:

(a) Dividend

Pursuant to a resolution of the Board of the Directors dated 27 March 2020, the Company has proposed dividend of RMB0.125 per share (inclusive of tax), which is RMB128,638,875.00 in total (inclusive of tax). The proposal is subject to approval at the annual general meeting of the Company.

(b) Provision of entrusted loans

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

(c) Impacts of COVID-19

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

II. MANAGEMENT DISCUSSION AND ANALYSIS

A. OPERATING ENVIRONMENT

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

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

1. Overview of Wastewater Treatment Industry

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

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

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

2. Overview of Reclaimed Water Industry

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

3. Overview of Municipal Water Supply Industry

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

B. DEVELOPMENT STRATEGY AND PROSPECTS

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

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

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

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

C. BUSINESS REVIEW

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

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

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

Wastewater Treatment Projects

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

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

Reclaimed Water Business

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

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

Running Water Business

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

D. MAJOR RISKS

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

Capital-intensive characteristics of the industry

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

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

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

Requirements of water quality standards

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

Force majeure events

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics may restrict business in the areas affected and adversely affect our business and results of operations. For example, at the beginning of the Chinese New Year of 2020, the epidemic of novel coronavirus was spreading rapidly in a serious condition. In this epidemic, we have adopted a series of measures for prevention and control of the epidemic to ensure production and operation. While ensuring the safety of the personnel and property of the Company, we ensured that various wastewater treatment plants, reclaimed water supply facilities and running water supply facilities were operating normally so as to guarantee that, during the epidemic, the quality of wastewater treatment, reclaimed water and running water supply fulfilled relevant standards. Nevertheless, affected by the epidemic and at the request of the local government to postpone resumption of work, the Company's construction projects were postponed, directly resulting in postponement of commencement of the projects which directly affected the ability to achieve the expected construction periods of the projects. For locations of the projects requiring labor and materials, various measures were adopted such as suspension of work and production as well as restrictions on movement of personnel and materials logistics, etc. which indirectly affected the actual construction progress of the projects. Meanwhile, affected by the epidemic, there was a shortage of labor and material with a relevant increase in expenditures, resulting in an expected increase in costs. Moreover, as the business of the Company is water treatment, revenue is generated from the local governments. In light of an unremitting effort to combat against the epidemic, the fiscal expenditures of the local governments are required to be utilized as a priority to combat against the epidemic which may have an impact on the timing of settlement of receivables from local government, thereby adversely affecting our business, financial condition and operating performance.

E. FINANCIAL REVIEW

1. Consolidated Results of Operations

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

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

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

a. Revenue

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

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

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

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

b. ***Cost of sales***

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

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

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

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

c. ***Gross margin***

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

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

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

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

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

d. Selling expenses

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

e. Administrative expenses

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

f. Research and development expenses

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

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

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

h. *Other income*

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

i. *Other losses/(gains) – net*

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

j. *Operating profit*

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

k. ***Finance income***

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

l. ***Finance costs***

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

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

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

n. ***Income tax***

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

o. ***Total comprehensive income***

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

2. Liquidity and Capital Resources

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

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

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

a. Net cash used in operating activities

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

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

b. Net cash used in investing activities

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

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

c. Net cash generated from financing activities

Our net cash generated from financing activities primarily represents borrowings.

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

3. Working Capital

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

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

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

a. ***Receivables under service concession arrangements***

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

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

b. Inventories

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

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

c. Amounts due from customers for construction contracts

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

d. Trade and other receivables

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

e. Trade and other payables/Contract liabilities

Trade and other payables

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

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

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

Contract liabilities

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

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

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

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

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

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

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

Notes:

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

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

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

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

4. Indebtedness

a. Borrowings

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

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

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

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

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

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

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

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

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

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

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

b. Commitments

(a) Capital commitments

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

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

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

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

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

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

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

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

c. *Capital expenditure*

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

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

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

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

5. Off-balance sheet arrangements

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

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

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

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

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

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

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

7. Exchange rate risk and management

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

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

8. Employees and remuneration policies

Relationship with Employees

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

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

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

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

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

9. Contingent liabilities

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

10. Material charges on assets

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

11. Major investment and acquisition

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

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

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

12. Advance to an Entity

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

The Company entered into the Entrusted Loan Contract with Kunming Bus Group Co., Ltd.* (昆明公交集團有限責任公司) ("**Kunming Bus**") and Kunming Branch of China CITIC Bank Corporation Limited ("**CITIC Bank**") on 3 April 2019, pursuant to which the Company entrusts CITIC Bank to provide a RMB300 million loan to Kunming Bus. The annual interest rate is 8.5%. The loan was repaid in January 2020.

The Company entered into the Entrusted Loan Contract with Kunming Development and Investment Group Co., Ltd.* (昆明發展投資集團有限公司) (" **Kunming Development**") and CITIC Bank on 17 April 2019, pursuant to which the Company entrusts CITIC Bank to provide a RMB300 million loan to Kunming Development. The annual interest rate is 8.5%. The loan will expire on 17 April 2020.

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

III. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

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

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

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

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

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

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

VI. AUDIT COMMITTEE

The Audit Committee is mainly responsible for reviewing and supervising the procedures for financial reporting and internal control of the Company. The Audit Committee has reviewed the audited annual results for the year ended 31 December 2019 and considered that the Group has adopted applicable accounting policies and made adequate disclosures in relation to preparation of relevant results.

VII. FINAL DIVIDEND

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

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

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

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

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

VIII. CLOSURE OF REGISTER OF SHAREHOLDERS

For the purpose of determining H shareholders' entitlement to attend the 2019 Annual General Meeting of the Company, the H share register of shareholders of the Company will be closed from Wednesday, 20 May 2020 to Friday, 19 June 2020 (both days inclusive), during which no transfer of shares will be registered. In order to attend the 2019 Annual General Meeting, H share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 19 May 2020. The H share shareholders of the Company whose names appear on the Company's register of shareholders for H shares as at Friday, 19 June 2020 are entitled to attend the 2019 Annual General Meeting.

In order to determine the shareholders who are entitled to receive the above-mentioned final dividend, the register of members of the Company will be closed from Thursday, 25 June 2020 to Tuesday, 30 June 2020 (both days inclusive). To be eligible to receive the final dividend for the year ended 31 December 2019 (subject to the approval of the Company's shareholders), unregistered holders of H shares of the Company shall lodge relevant share transfer documents with the Company's H share registrar, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 24 June 2020.

IX. PUBLICATION OF ANNUAL REPORT

The annual report for the year ended 31 December 2019 of the Company will be dispatched to the holders of H shares of the Company in due course pursuant to the requirements of the Listing Rules and available for public viewing and downloading on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.kmdcwt.com).

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

Kunming, the PRC, 27 March 2020

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