DCWT 滇池水务

KUNMING DIANCHI WATER TREATMENT CO.,LTD

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

ANNUAL REPORT 2017

臻於至善 源遠流長

CONSUMMATION AND SUSTAINABILITY

Contents

CHAPTER ONE CORPORATE INFORMATION

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

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

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

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

WEBSITE OF THE COMPANY
www.kmdcwt.com

STOCK CODE
03768

LEGAL REPRESENTATIVE OF THE COMPANY
Ms. Guo Yumei

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

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

INDEPENDENT AUDITOR
PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

HONG KONG LEGAL ADVISER TO THE COMPANY
Latham & Watkins
18th Floor, One Exchange Square
8 Connaught Place
Central
Hong Kong

PRC LEGAL ADVISER TO OF THE COMPANY
Yunnan Beichuan Law Firm
Room 101, Unit 1, Building 204
Jinxing District
Panlong District
Kunming, Yunnan Province
PRC

H SHARE REGISTRAR
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

BOARD OF DIRECTORS

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

Non-executive Directors
Mr. Zeng Feng
Ms. Song Hong

Independent Non-executive Directors
Mr. Wong Man Chung Francis
Mr. Yin Xiaobing
Mr. He Xifeng

CORPORATE INFORMATION

BOARD COMMITTEES

Audit Committee

Mr. Wong Man Chung Francis *(Chairperson)*
Mr. Zeng Feng
Mr. Yin Xiaobing

Remuneration and Appraisal Committee

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

Nomination Committee

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

Strategy and Investment Decision Committee

Ms. Guo Yumei *(Chairperson)*
Mr. Luo Yun
Mr. Yin Xiaobing

BOARD OF SUPERVISORS

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

PRINCIPAL BANKS

China Everbright Bank
Kunming Dianchi Road Sub-branch
Project & Design Unit Building
No. 1177 Dianchi Road
Xishan District, Kunming
Yunnan Province
PRC

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

Ping An Bank
Kunming Chuncheng Sub-branch
1st Floor, Baifuqi Commercial Plaza
No. 32 Wujing Road
Guandu District, Kunming
Yunnan Province
PRC

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

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

LETTER FROM THE CHAIRPERSON

Dear Shareholders,

The report to the 19th National Congress of the Communist Party of China (“**19th CPC National Congress**”) established “Building a Beautiful China” as a significant goal in the all-out efforts to build a modern socialist country, stipulating that we shall endeavour to resolve pressing environmental issues, and deeming pollution prevention as one of the three tough battles to be won for the building of a moderately prosperous society. In 2017, with the listing on The Stock Exchange of Hong Kong Limited as our new starting point, Kunming Dianchi Water Treatment Co., Ltd. (“**Dianchi Water**” or the "**Company**") proactively seized the opportunities presented by the new era and actively participated in the national ecological and environmental protection strategy. Leveraging the advantages of Hong Kong’s capital market platform and resources and the credit added value brought about by the listing, and taking advantage of the opportunities presented by national ecological and environmental strategy, we strengthened and enhanced the people’s well-being and promoted the sustained and healthy development of the economy and society. By continuously improving our governance structure, promoting managerial and technological innovation, accelerating talent cultivation and recruitment, further solidifying the principal business of wastewater treatment, and proactively exploring the market investment business, we fully achieved the objectives of “stronger main businesses, stable reserves and guaranteed increment” established at the beginning of the year, delivering satisfactory results for the market and investors.

Performance Review:

In 2017, the Company further embraced the development philosophy of “Thriving through Technology, Talents and Corporate Culture” to drive strong development of core principal businesses as well as new businesses, maintaining robust and fast-growing momentum for business performance and fully enhancing the capability and quality of serving the market project regions and the green ecological development of the state.

In 2017, the revenue of the Company amounted to RMB1,224 million, representing an increase of 33.76% as compared with 2016. Net profit attributable to shareholders of the Company amounted to RMB313 million, representing an increase of 13.85% as compared with 2016.

With respect to principal activities, our technological innovations came into fruition, and the capability for production operation and management steadily improved. Through the promotion of technological innovation and the application of technological results to front-line production operation, we further refined, standardized, and informationized production operation and management, maintaining an advanced level of wastewater treatment technology and operation management in the industry. In 2017, the Company’s per capita annual wastewater treatment was 1.4 million cubic metres, representing approximately 107% of the same for the previous year, and was more than three times of the national average of 400,000 cubic metres in the industry; the average power consumption per ton of water was approximately 23.33% lower than the national average; and during the year, we were granted two invention patents, two patents for utility models, and two software copyrights.

In 2017, the designed capacity of wastewater treatment of Dianchi Water increased to 2.28 million m^3/day, and the wastewater treatment volume completed for the year hit a record high for the same period in history, with such main indicators for treated water as ammonia nitrogen, Chemical Oxygen Demand (COD), Total Phosphorus (T-P), and Total Nitrogen (T-N) being 91.8%, 79.24%, 72% and 44.73%, respectively, lower than the emission limit for national Grade One Level A standard. Sales of the reclaimed water increased robustly, with operating revenue from the reclaimed water business amounting to RMB20.05 million, representing a year-on-year growth of 53.64%.

With respect to our market investments, we have accelerated business expansion and our investment amount hit a record high. We acquired projects in Sichuan, Hunan and other provinces, spanning our business activities across East China, Central China and Southwest China. We entered industrial wastewater (electroplating wastewater, printing and dyeing wastewater, etc.) treatment market that provided higher investment returns and expanded our presences in the industry chain to watershed treatment and decentralized wastewater treatment in rural areas. Through the enhancement of our abilities to consolidate domestic and overseas market resources, we increased projects reserves and entered into investment and cooperation framework agreements with Wuhua District (五華區), the Tourist Resort (度假區), Xishan District (西山區), Shilin County (石林縣), and Xundian County (尋甸縣) of Kunming, Yunnan Province, as well as Golden Triangle Economic Special Zone in Laos. It is planned to invest a total of RMB15 billion for the next five years in projects covering water resources, water environment, water culture and others.

Prospects:

As new atmosphere is taking shape in the new era, we must take new actions to fulfil our new missions. The year 2018 marks the beginning of the development contemplated by the 19th CPC National Congress and is critical for the implementation of the "13th Five-Year Plan" to achieve green development and for the building of a beautiful China. It is also the opening year after the listing for Dianchi Water to develop in the new era of "Start-up and Innovation" and to fully improve our services in the market project regions as well as the quality and standard of national ecological civilization construction. In face of the new opportunities and challenges presented by the new era, the Company will firmly grasp the new opportunities resulted from the national policies and industry development following the 19th CPC National Congress to proactively adapt to the macro-economic transformation, integrate itself into the national ecological and environmental development strategy, improve the gathering capabilities of the capital market, give play to its position as a financing and talent attraction, and ramp up market business investment to steadily improve the Company's business performance.

Adhering to the strategic layout of "focusing on one business while diversifying into other businesses" and positioning itself as an integrated service provider of systematic solutions in the field of water environment treatment, the Company will tap into favourable policies and development opportunities in the environmental protection industry, promote the complementary development of the Company's physical operation and capital operation to boost the continuous improvement of the Company's competitiveness in the industry and business performance.

We will continue to solidify our wastewater treatment business and related principal businesses, accelerate technological innovation and the transformation and application of technological results, achieve the introduction, integration and application of key technologies, maintain our technological lead in the industry, steadily improve our operation and management capabilities, and enhance the quality and capability of serving the regions where our market projects are located and the national ecological civilization construction.

We will capitalize on Yunnan Province's unique geographic advantage and the investment opportunities presented by the "One Belt, One Road" strategy to extend the coverage of our market business, focusing on development in relevant regions in China and selectively venturing into South Asian and Southeast Asian markets to gradually explore the global market.

We will focus on expanding the investment business in the upstream and downstream industry chain and in high added-value segments of the water business by accelerating our expansion into upstream and downstream business in the industry chain such as water resource protection, comprehensive watershed treatment, solid waste disposal, and water culture, and accelerating our expansion in such segments as industrial wastewater treatment, treatment of slightly-polluted water, and treatment of pollution in rural areas and towns.

We will continue to leverage our advantages in teamwork, technology, capital, and talent to improve our innovative drivers and system design, optimize organizational structure and business process, accelerate talent recruitment, cultivation and reserve, integrate internal resources, and improve management efficacy.

In compliance with the requirements on standardized operation of listed companies and international corporate governance, we will continue to establish complete corporate management and control systems that are fully adaptive to international and national market environments to achieve prudent financial and operational management, prevent operating risks, and continuously enhance operating performance. This will enable us to provide shareholders with sustainable returns, contribute Dianchi Water's expertise and solutions to the protection of lucid waters and lush mountains and the building of a beautiful China, and reward shareholders, customers and the society with steady and fast business growth.

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

Guo Yumei
Chairperson

Kunming, the PRC, 26 March 2018

CHAPTER THREE DEFINITIONS

"Aziying Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 10 October 2016, with service effective as of 1 August 2016, in relation to the entrusted operation of the Aziying Water Purification Plant
"Baiyuhe Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 10 October 2016, with service effective as of 1 August 2016, in relation to the entrusted operation of the Baiyuhe Water Purification Plant
"Baiyukou Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 10 October 2016, with service effective as of 1 August 2016, in relation to the entrusted operation of the Baiyukou Water Purification Plant
"Board" or "Board of Directors"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Company" or "Issuer"	Kunming Dianchi Water Treatment Co., Ltd. (昆明滇池水務股份有限公司), a joint stock company established in Yunnan Province, the PRC with limited liability on 23 December 2010 in accordance with PRC laws, and, if the context requires, including its predecessors and subsidiaries
"Controlling Shareholder"	has the meaning ascribed thereto in the Listing Rules and refers to Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004
"Debei'ao Water"	Leshan Debei'ao Water Limited (樂山德貝奧水務有限公司), a subsidiary directly owned by the Company
"Dianyuanzhen Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 10 October 2016, with service effective as of 1 August 2016, in relation to the entrusted operation of the Dianyuanzhen Water Purification Plant
"Director"	director of the Company
"Domestic Shares"	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC incorporated entities

"Group", "We", "us" or "our/our Group"	the Company and its subsidiaries
"H Share"	overseas listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
"Haikou Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 10 October 2016, with service effective as of 1 August 2016, in relation to the entrusted operation of the Haikou Water Purification Plant
"HK$" or "Hong Kong dollars" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Hongyu Water"	Liuyang Hongyu Water Treatment Co., Ltd. (瀏陽市宏宇水務有限公司) , a subsidiary directly owned by the Company
"Hongze Water"	Hongzetianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司), a subsidiary directly owned by the Company
"Kunming Dianchi Investment"	Kunming Dianchi Investment Co. Ltd. (昆明滇池投資有限責任公司), a company established in Yunnan Province, the PRC with limited liability on 13 October 2004, which is the Controlling Shareholder of the Company
"Kunming DIG"	Kunming Development Investment Group Co. Ltd. (昆明發展投資集團有限公司), a company with limited liability incorporated in the PRC on 27 January 2010, which is a shareholder of the Company
"Kunming No. 9 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 28 August 2015 in relation to the entrusted operation of the Kunming No. 9 Water Purification Plant

"Kunming No. 10 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 28 August 2015 in relation to the entrusted operation of the Kunming No. 10 Water Purification Plant
"Kunming No. 11 Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 10 October 2016, with service effective as of 4 August 2016, in relation to the entrusted operation of the Kunming No. 11 Water Purification Plant
"Kunming SASAC"	the State-owned Assets Supervision and Administration Commission of the Kunming People's Government (昆明市人民政府國有資產監督管理委員會), a government agency that performs investor's responsibilities, supervises and manages the state-owned assets of the enterprises under the supervision of the Kunming municipal government (excluding financial enterprises), shoulders the responsibility of supervising the preservation and increment of the value of the state-owned assets of the supervised enterprises, and is responsible for drafting local laws and regulations on the management of the state-owned assets
"Latest Practicable Date"	26 March 2018, being the latest practicable date for the inclusion of certain information and data in this annual report prior to its publication
"Libao Water"	Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司), a subsidiary directly owned by the Company
"Listing"	listing of the H Shares on the Hong Kong Stock Exchange
"Listing Date"	the date, being 6 April 2017, on which the Company's H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Luolonghe Rain Water Station Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company dated 10 October 2016, with service effective as of 1 August 2016, in relation to the entrusted operation of the Luolonghe Rain Water Station (currently renamed as Luolonghe Water Purification Plant)

"Non-competition Agreement"	the non-competition agreement entered into between the Controlling Shareholder and the Company dated 25 April 2016
"Prospectus"	the prospectus of the Company dated 24 March 2017 in relation to the initial public offering and the listing of H Shares on the Stock Exchange
"Qutang Water"	Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司), a subsidiary directly owned by the Company
"RMB" or "Renminbi"	the lawful currency of the PRC. Unless otherwise herein specified, all amounts are expressed in RMB
"Reporting Period"	2017 (1 January 2017 to 31 December 2017)
"Sayingpan Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company, effective as of 1 August 2016, in relation to the entrusted operation of the Sayingpan Water Purification Plant
"Sichuan Debei'ao"	Sichuan Debei'ao Environmental Technology Industrial Co., Ltd. (四川德貝奧環保科技實業有限公司), a limited liability company incorporated in the PRC
"Weilai Luzhou"	Sichuan Weilai Luzhou Municipal Public Engineering Co., Ltd. (四川未來綠洲市政公用工程有限公司), a limited liability company incorporated in the PRC
"Yunlong Water Purification Plant Entrusted Operation Management Agreement"	the service agreement entered into between the Controlling Shareholder and the Company, effective as of 1 August 2016, in relation to the entrusted operation of the Yunlong Water Purification Plant

GLOSSARY OF TECHNICAL TERMS

"BOD"	Biochemical Oxygen Demand, which is the amount of dissolved oxygen consumed by microorganisms to break down organics present in a given water sample under certain conditions over a specific time period. It is widely used as an indication of the organic quality of water
"BOO"	Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government
"BOT"	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
"BT"	Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
"CAGR"	compound annual growth rate, which is the annual growth rate over a specified period of time longer than one year
"pre-trial operation"	a stage in the project construction process as prescribed by the PRC government in accordance with the Provisions on Municipal Projects Design Budget Estimate Making, Jian Biao [2011] No. 1) (《市政工程設計概算編製辦法》(建標[2011] 1號)) issued by the Ministry of Housing and Urban-Rural Development where a facility under construction is tested for its operational functionality and further developed to qualify for regulatory approvals and enter commercial operation

CHAPTER FOUR GLOSSARY OF TECHNICAL TERMS

"COD"	Chemical Oxygen Demand, the corresponding mass concentration of oxygen for the amount of oxidant consumed when strong oxidant is used to deal with a given water sample and is measured with mg/L. It has different ways according to the oxidizing agent, such as potassium permanganate (expressed as COD, also known as CODmn) and potassium dichromate (expressed as CODcr)
"TOO"	Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns according to the concession agreement entered into by the enterprise and the government
"TOT"	Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the property rights or operation rights of constructed wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
"utilization rate"	the actual volume of water supplied or wastewater treated divided by the designed volume of water supplied or wastewater treated for a given period
"wastewater treatment"	use of physical, chemical and biological methods to remove pollutants from wastewater or to turn pollutants into innoxious substances before discharging it into a water body or reclaiming it for reuse
‘weighted average utilization rate"	the total actual daily volume of water supplied or wastewater treated divided by the total designed volume of water supplied or wastewater treated for a given period within a given set of facilities

CHAPTER FIVE SUMMARY OF OPERATING AND FINANCIAL DATA

The following table sets out our key operating and financial data for the periods or as of the dates indicated. The key operating data is extracted from the "Business" section disclosed in the Prospectus. The key financial data is extracted from the audited consolidated financial statements disclosed in the Prospectus and the 2017 annual report.

SUMMARY OF OPERATING DATA

	As at 31 December			
	2017	2016	2015	2014
Capacity *('000 m^3 per day)*				
Wastewater treatment	**1,807**	1,544	1,165	1,127
Reclaimed water supply	**52**	44	44	32
Running water supply	**64**	56	46	–

	For the year ended 31 December			
	2017	2016	2015	2014
Volume *('000 m^3 per period indicated)*				
Wastewater treatment	**550,872**	517,911	454,159	423,420
Reclaimed water supply	**6,883**	5,846	5,790	5,146
Running water supply	**8,998**	4,749	1,627	–

	For the year ended 31 December			
	2017	2016	2015	2014
Utilization Rate				
Wastewater treatment	**93.9%**	92.8%	109.4%	103.7%
Reclaimed water supply	**36.3%**	36.3%	36.1%	44.1%
Running water supply	**38.5%**	26.7%	23.1%	–

SUMMARY OF CONSOLIDATED BALANCE SHEET

	As at 31 December			
	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets	4,233,686	3,824,035	3,564,803	2,609,204
Current assets	1,791,125	779,456	1,296,136	1,161,413
Total assets	6,024,811	4,603,491	4,860,939	3,770,617
EQUITY				
Total equity	3,706,201	2,499,410	2,219,315	2,328,486
LIABILITY				
Non-current liabilities	1,288,952	858,437	1,286,476	333,842
Current liabilities	1,029,658	1,245,644	1,355,148	1,108,289
Total liabilities	2,318,610	2,104,081	2,641,624	1,442,131
Total equity and liabilities	6,024,811	4,603,491	4,860,939	3,770,617
Net current assets/(liabilities)	761,467	(466,188)	(59,012)	53,124
Total assets less current liabilities	4,995,153	3,357,847	3,505,791	2,662,328

SUMMARY OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended 31 December			
	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	1,223,825	914,925	825,107	735,225
Cost of sales	(723,335)	(489,444)	(446,967)	(369,870)
Gross profit	500,490	425,481	378,140	365,355
Selling expenses	(13,875)	(10,605)	(9,456)	(8,230)
Administrative expenses	(124,490)	(97,604)	(69,857)	(48,993)
Research and development expenses	(7,282)	(7,398)	(26,144)	(3,918)
Other income	93,291	82,019	42,259	7,910
Other losses – net	(4,817)	(1,272)	(2,774)	(4,501)
Operating profit	443,317	390,621	312,168	307,623
Finance income	33,706	16,670	20,005	26,526
Finance costs	(104,754)	(80,299)	(64,064)	(55,299)
Finance costs – net	(71,048)	(63,629)	(44,059)	(28,773)
Share of results of associates	156	(121)	(367)	(955)
Profit before income tax	372,425	326,871	267,742	277,895
Income tax expense	(58,336)	(51,193)	(30,131)	(32,382)
Profit for the year	314,089	275,678	237,611	245,513
Other comprehensive income	(1,847)	–	–	–
Total comprehensive income for the year	312,242	275,678	237,611	245,513

SUMMARY OF CONSOLIDATED CASH FLOW STATEMENT

	For the year ended 31 December			
	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash generated from/(used in) operating activities	**104,651**	56,649	1,006,988	(61,092)
Net cash used in investing activities	**(307,700)**	(238,304)	(653,515)	(365,396)
Net cash generated from/(used in) financing activities	**1,078,366**	(459,048)	431,829	163,910
Net increase/(decrease) in cash and cash equivalents	**875,317**	(640,703)	785,302	(262,578)
Exchange losses	**(30,977)**	–	–	–
Cash and cash equivalents at beginning of the year	**446,830**	1,087,533	302,231	564,809
Cash and cash equivalents at end of the year	**1,291,170**	446,830	1,087,533	302,231

SUMMARY OF OPERATING RESULTS BY SEGMENT

	For the year ended 31 December			
	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wastewater treatment				
– Revenue	**1,037,163**	765,906	702,666	680,584
– Gross profit	**446,773**	386,938	343,366	360,274
– Gross profit margin	**43.1%**	50.5%	48.9%	52.9%
Other water-related services				
– Revenue	**68,520**	62,366	42,244	19,667
– Gross profit	**4,233**	3,292	4,679	4,583
– Gross profit margin	**6.2%**	5.3%	11.1%	23.3%
Others				
– Revenue	**118,142**	86,653	80,197	34,974
– Gross profit	**49,484**	35,251	30,095	498
– Gross profit margin	**41.9%**	40.7%	37.5%	1.4%

CHAPTER SIX MANAGEMENT DISCUSSION AND ANALYSIS

A. INDUSTRY OVERVIEW

The industry chain of China's municipal water industry primarily consists of three key components: production and supply of running water from qualified raw water sources, treatment of municipal wastewater collected through municipal pipelines and further treatment of wastewater for reuse. Our core business segments include municipal wastewater treatment, reclaimed water supply and running water supply.

1. Overview of Wastewater Treatment Industry

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水利用設施建設規劃》) which deemed wastewater treatment as an important part for the improvement of urban water ecology and environment and required that urban wastewater treatment facilities achieve full coverage by the end of 2020 with a possible capacity of 66.3 billion cubic metres, and wastewater treatment capacity expected to increase from 168.4 million m^3 per day to 218.0 million m^3 per day. In 2017, the Chinese government issued the Instructions for the Promotion of Public-Private Partnership ("**PPP**") in Water Pollution Prevention Field (《關於推進水污染防治領域政府和社會資本合作的實施意見》), requiring wastewater treatment projects in which the government participates to fully implement the PPP model. In 2017, the Communist Party of China (CPC) held the 19th National Congress of the Communist Party of China, the report of which 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", and for the first time included "Being beautiful" in the objectives to build a strong country. With the Chinese government's various investments and policies, the comprehensive wastewater treatment business will obtain continuous benefits, and will gradually shift its focus to comprehensive treatment of water environment and the improvement of usage rate of reclaimed water, drawing from the important favorable policy for the long-term growth of the environmental protection industry.

The prospect of the macro-economy in Yunnan Province poses potential threat to the demand for wastewater treatment because the overall economy in Yunnan Province directly impacts on the level of business activities and thus further impacts on the volume of wastewater discharge. Changes in government policies and their level of implementation are of equal importance to the prospects of the industry, as a supportive governmental policy is a key driver of the increase in wastewater treatment business in Yunnan Province.

2. Overview of Reclaimed Water Industry

Looking forward, the capacity of reclaimed water is expected to grow at a CAGR of 10.4% between 2015 and 2020. By 2020, the total production capacity of reclaimed water in China is estimated to reach 41.6 million m^3 per day. Due to strong supports from the government of Yunnan Province for the development of the reclaimed water industry, the total production capacity of reclaimed water in Yunnan Province, the PRC is expected to reach 272,000 m^3 per day in 2020, representing a substantial increase.

3. Overview of Municipal Water Supply Industry

Due to continuous urbanization and construction of water supply facilities in county-level regions, the national municipal running water supply capacity is expected to keep growing at a rate of 1.3% in the five coming years, reaching 368.0 million m^3 per day by 2020. In Yunnan Province, the PRC, the municipal running water supply capacity grows continuously. The relocation of manufacturing industry to China's western provinces and the accelerated urbanization in these regions are expected to boost the growth of urban population and Gross Domestic Product (GDP), which in turn will increase the demand for municipal running water supply. The government highly values the development of running water supply in western China.

Driven by the state policies, the water treatment services industry is expected to see huge market opportunities and potential in the future. Wastewater treatment, reclaimed water and water supply industry will benefit from the rapidly accelerating urbanization in China and the Chinese government's policy supporting the environmental protection industry. The Board expects that the level of development, scale and growth of such industries will be further promoted and investors in capital markets will also gradually pay more attention to the environmental protection industry.

4. Comprehensive Treatment of Water Environment Will Obtain Continuous Benefits

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水利用設施建設規劃》) which deemed wastewater treatment as an important part for the improvement of urban water ecology and environment and required that urban wastewater treatment facilities achieve full coverage by the end of 2020, with cities at prefecture-city level and above achieving comprehensive sewage collection and processing; county seats no less than 85% whereas those in the east aimed for 90%; and established towns achieving 70% whereas those in central and western regions of China aimed for 50%, the wastewater treatment capacity for urban areas shall increase to 268 million m^3 per day. During the 13th Five-year Plan period, it is to further coordinate the planning and reasonable layout, and to make greater contribution, for purposes of changing the mode of the construction of urban wastewater treatment facilities from “scaled growth” to “quality and efficiency enhancement” and from “water-primary and sludge-secondary” to “focusing on both sludge and water treatment”, and from “water treatment” to “water reclaiming and recycling”. As a result thereof, the safeguarding capability and service level of the PRC urban wastewater treatment facilities will be enhanced and upgraded completely. Further, with the issuance of a series of plans during the “13th Five Year” period relating to water treatment, the wastewater treatment industry, processing-only, is gradually shifting towards comprehensive treatment of water environment and enhancement of usage rate of reclaimed water.

B. DEVELOPMENT STRATEGY AND PROSPECTS

As indicated by the Chinese government’s identification of the pollution prevention and treatment as one of the three critical battles for China, the Chinese economy shifted to a stage of quality-oriented development from a stage of rapid growth, which presents great opportunities for the environmental protection industry. Supported by such favorable policies, the environmental protection industry is expected to become increasingly important to China’s economic development under the “New Normal”.

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

During the Reporting Period, we expanded into the upstream and downstream sectors of the water treatment industry, seized industrial opportunities and endeavoured to expand market to acquire equities in multiple urban wastewater treatment plants and industrial wastewater treatment plants in Sichuan Province, Hunan Province and other places. In the wake of these acquisitions, our business activities spanned Yunnan, Guizhou, Sichuan, Jiangsu, Zhejiang, Anhui and Hunan. We proactively entered into cooperation framework agreements or other agreements with the Tourist Resort (度假區), Xishan District (西山區), Yiliang County (宜良縣), Shilin County (石林縣) and Xundian County (尋甸縣) of Kunming, to vigorously promote the comprehensive treatment of water environment, ecological environmental construction and development of environmental protection industry, and expand our share in the environmental protection market. On the back of the cumulative advantages of Yunnan and Hong Kong's resources relating to the "One Belt One Road" scheme, we actively explored cooperation with state and local governments in South Asia and Southeast Asia, and continuously sought new profit growth opportunities.

In addition, we proactively engaged in waste treatment, sludge recycling and other solid waste treatment businesses. We also expanded into clean energy business and cooperated with other parties in scientific researches and project incubation. These moves are aimed to enhance the Group's abilities to make profits sustainably.

We adhered to the strategy of "Focusing on one business and diversifying into other businesses". On the one hand, we consistently improved the Group's operation, technologies and project management capabilities, so as to further improve operational efficiency and realize sustainable development. On the other hand, we actively explored global markets to become a knowledge-intensive and technology-intensive high-tech environmental protection company.

The Group aims to become a leading integrated water and environmental protection services provider in the PRC. Thus, we intend to seize the development opportunities that will arise from the "One Belt One Road" scheme to build a more ecological Yunnan and China, strengthen our core business of wastewater treatment and running water and reclaimed water supply, expand our geographic coverage and extend our services.

2017 was the first year when the H Shares were listed on the Stock Exchange. The successful listing of H Shares not only strengthened the shareholder base of the Group, but also further enhanced the Group's financing capability and increased its brand awareness and reputation. During the Reporting Period, the Group continued to steadily develop its various business segments. With the support of relevant favorable environmental policies and growing market demands in the PRC and Southeast Asia, the Group continued to expand its geographical coverage of services, in addition to consolidating and expanding the achievements gained in its existing water business.

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 2017, our TOO projects contributed 61.1% of our total revenue. Our TOT projects contributed 3.8% of our total revenue and our BOT projects contributed 10.2% of our total revenue. We also adopt the BT project model 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 2017, we had a total of 42 plants (35 wastewater treatment plants, 6 running water plants and 1 industrial water supply plant) under concession agreements, of which 37 plants were in operation and 5 plants were under construction. Among the 37 plants in operation, 14 were TOO projects, 19 were TOT projects, 2 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 2017, the total volume of wastewater treated was 550.9 million m^3 with an average facility utilization rate of 93.9%, representing a growth of approximately 1.2% from 92.8% for the year ended 31 December 2016.

Wastewater Treatment Projects

As of 31 December 2017, we had a total of 32 wastewater treatment plants in operation (including 14 in Kunming and 18 in other areas of China), with a total wastewater treatment capacity of 1.8 million m^3 per day. We also had 3 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 2017, 92.54% of our designed wastewater treatment capacity reached the National Class I Category A discharge standard.

Reclaimed Water Business

For our reclaimed water business, as of 31 December 2017, we had 7 of our wastewater treatment plants producing reclaimed water, with a total designed daily production capacity of 52,000 m^3, representing a growth of approximately 18.2% compared with that as of 31 December 2016. Customers of our reclaimed water include commercial and industrial establishments, enterprises and public institutions in Kunming. The production of our reclaimed water supply business has increased year by year from 2015 to 2017. During the Reporting Period, our reclaimed water supply increased 17.7% year on year to 6,882,777 m^3. We expect this growth momentum to continue as we expand our reclaimed water business.

Running Water Business

For our running water business, as of 31 December 2017, we had 4 running water plants in operation in Yunnan Province, the PRC, and 2 running water plants under construction, with 1 in Yunnan Province, the PRC and 1 in Laos.

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

D. FINANCIAL REVIEW

1. Consolidated Results of Operations

Our revenue increased by RMB308.9 million, or 33.8%, to RMB1,223.8 million for the year ended 31 December 2017, from RMB914.9 million for the year ended 31 December 2016. Our gross profits were RMB425.5 million and RMB500.5 million for 2016 and 2017, respectively. For 2016 and 2017, the revenue from the service of wastewater treatment respectively accounted for 83.7% and 84.7% of the total revenue; the revenue from reclaimed water, running water supply and management services accounted for most of other revenue for the same period.

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	
	2017	2016
	RMB'000	*RMB'000*
Revenue	**1,223,825**	914,925
Cost of sales	**(723,335)**	(489,444)
Gross profit	**500,490**	425,481
Selling expenses	**(13,875)**	(10,605)
Administrative expenses	**(124,490)**	(97,604)
Research and development expenses	**(7,282)**	(7,398)
Other income	**93,291**	82,019
Other losses – net	**(4,817)**	(1,272)
Operating profit	**443,317**	390,621
Finance income	**33,706**	16,670
Finance costs	**(104,754)**	(80,299)
Finance costs – net	**(71,048)**	(63,629)
Share of results of associates	**156**	(121)
Profit before income tax	**372,425**	326,871
Income tax expense	**(58,336)**	(51,193)
Net profit	**314,089**	275,678
Other comprehensive income	**(1,847)**	–
Total comprehensive income	**312,242**	275,678

a. *Revenue*

Our revenue increased by RMB308.9 million, or 33.8%, to RMB1,223.8 million for the year ended 31 December 2017 from RMB914.9 million for the year ended 31 December 2016, primarily due to:

- revenue from our wastewater treatment segment increased by RMB271.3 million, or 35.4%, to RMB1,037.2 million for the year ended 31 December 2017 from RMB765.9 million for the year ended 31 December 2016, primarily due to BT construction revenue of RMB158.8 million recognized for the period based on percentage-of-completion of the newly signed BT project in Haitou Village, Qingshuihai, Xundian County (尋甸縣清水海海頭村), BOT construction revenue of RMB30.1 million recognized for the period based on percentage-of-completion of the newly signed BOT project of wastewater treatment plant and auxiliary projects in Yiliang Industrial Park (宜良工業園區), an increase of RMB16.2 million in BOT construction revenue attributable to the consolidation of Shuangjiang Dianchi Water Treatment Co., Ltd. into the Group from October 2016, an increase of RMB25.8 million in BOT construction revenue during the year attributable to the consolidation of Dian Chi Water Treatment (LAOS) Sole Co., Ltd into the Group from August 2016, as well as an increase of approximately RMB20.0 million in our water plant factory revenue attributable to growth in water treatment volume.

- The revenue from our other water-related services segment increased by RMB6.1 million, or 9.9%, to RMB68.5 million for the year ended 31 December 2017, from RMB62.4 million for the year ended 31 December 2016, primarily due to the higher water supply volume in running water plants.

- The revenue from our other segments increased by RMB31.4 million, or 36.3%, to RMB118.1 million for the year ended 31 December 2017, from RMB86.7 million for the year ended 31 December 2016, primarily due to an increase of RMB7.6 million in entrusted management services fees attributable to the management of Haikou Water Purification Plant, Baiyukou Water Purification Plant, Baiyuhe Water Purification Plant and Luolonghe Water Purification Plant on behalf of our Controlling Shareholder since 1 August 2016, revenue contribution of RMB13.0 million from entrusted management services fees for management of wastewater treatment facilities in the towns and villages in Dianchi Watershed and Niulanjiang Water Replenishment District (Kunming Section) on behalf of Kunming Municipal Dianchi Administration Bureau from 1 January 2017, and an increase of RMB3.5 million in revenue from providing pipeline construction service to Yunnan Reclaimed Water Engineering Co., Ltd in 2017.

b. *Cost of sales*

Our cost of sales increased by RMB233.9 million, or 47.8%, to RMB723.3 million for the year ended 31 December 2017, from RMB489.4 million for the year ended 31 December 2016, primarily due to higher construction costs in wastewater treatment segment during the year. Details are as follows:

- Our cost of sales for the wastewater treatment segment increased by RMB211.4 million, or 55.8%, to RMB590.4 million for the year ended 31 December 2017, from RMB379.0 million for the year ended 31 December 2016, primarily due to RMB158.8 million BT construction costs arising from the newly signed project in Haitou Village, Qingshuihai, Xundian County based on construction progress, and RMB30.1 million BOT construction costs arising from the newly signed BOT project of wastewater treatment plant and auxiliary projects in Yiliang Industrial Park based on construction progress.

- Our cost of sales for other water-related services segment increased by RMB5.2 million, or 8.8%, to RMB64.3 million for the year ended 31 December 2017, from RMB59.0 million for the year ended 31 December 2016, primarily due to increase in materials, labor and other costs relating to our running water supply business.

- Our cost of sales for other segments increased by RMB17.3 million, or 33.6%, to RMB68.7 million for the year ended 31 December 2017, from RMB51.4 million for the year ended 31 December 2016, primarily due to more entrusted management services and expanding scope of services provided by us, with relevant materials and labor costs increasing by around RMB6.6 million, and an increase of RMB4.7 million in consolidated costs for 2017 attributable to consolidation of Kunming He'ertai Environmental Industry and Trade Co., Ltd. into the Group from May 2016.

c. *Gross margin*

Our gross profit increased by RMB75.0 million, or 17.6%, to RMB500.5 million for the year ended 31 December 2017, from RMB425.5 million for the year ended 31 December 2016, primarily due to an increase of RMB59.8 million in profit from our wastewater treatment segment, an increase of RMB1.0 million in profit from our other water-related service segment, and an increase of RMB14.2 million in profit from our other segments.

- Our gross profit margin decreased by 5.6% to 40.9% for the year ended 31 December 2017 from 46.5% for the year ended 31 December 2016, primarily due to the decrease in gross profit margin of wastewater treatment affected by the gross profit margin of construction, partially offset by an increase in gross profit margin of other water-related service segment and other segments.

- Our gross profit for the wastewater treatment segment increased by RMB59.9 million, or 15.5%, to RMB446.8 million for the year ended 31 December 2017, from RMB386.9 million for the year ended 31 December 2016. Our segment gross margin decreased by 7.4% to 43.1% for the year ended 31 December 2017 from 50.5% for the year ended 31 December 2016, primarily due to impacts from the newly-signed domestic wastewater treatment project in Qingshuihai Water Conservation District in Xundian County and project of wastewater treatment plant and auxiliary projects in Yiliang Industrial Park, which are still under construction and have incurred relatively high costs and generated low gross profit amid the construction process.

- Our gross profit for other water-related services segment increased by RMB1.0 million, or 28.6%, to RMB4.3 million for the year ended 31 December 2017, from RMB3.3 million for the year ended 31 December 2016. Our segment gross margin increased by 0.9% to 6.2% for the year ended 31 December 2017 from 5.3% for the year ended 31 December 2016, primarily due to higher revenue from the running water supply and lower proportion of the construction revenue that yielded relatively low gross profit.

- Our gross profit for other segments increased by RMB14.2 million, or 40.4%, to RMB49.5 million for the year ended 31 December 2017, from RMB35.3 million for the year ended 31 December 2016. Our segment gross margin increased by 1.2% to 41.9% for the year ended 31 December 2017 from 40.7% for the year ended 31 December 2016. The gross profit margin remained substantially the same.

d. Selling expenses

Our selling expenses increased by RMB3.3 million, or 30.8%, to RMB13.9 million for the year ended 31 December 2017, from RMB10.6 million for the year ended 31 December 2016, primarily as a result of an increase of RMB0.5 million in wages of sales staff due to the increase in employees' average wages and bonuses for 2017, and RMB1.2 million of one-off payment made to running water suppliers (collecting wastewater treatment tariffs from end users for us) for system upgrading (for upgrading suppliers' tariff collection system and supporting its tariff collection services).

e. *Administrative expenses*

Our administrative expenses increased by RMB26.9 million, or 27.5%, to RMB124.5 million for the year ended 31 December 2017, from RMB97.6 million for the year ended 31 December 2016, primarily due to an increase of RMB10.8 million in listing expense, an increase of RMB12.2 million in land use tax, property tax and other taxes attributable to the consolidation of Qutang Water, Libao Water, Hongze Water and Hongyu Water and other companies into the Group, an increase of RMB3.2 million in audit fee and increases in professional service expenses, employee benefit expenses and office expenditures associated with our acquisition activities.

f. *Research and development expenses*

Our research and development expenses decreased by RMB0.1 million, or 1.6%, to RMB7.3 million for the year ended 31 December 2017, from RMB7.4 million for the year ended 31 December 2016. The research and development expenses remained substantially the same for both years.

g. *Other income*

Our other income increased by RMB11.3 million, or 13.7%, to RMB93.3 million for the year ended 31 December 2017, from RMB82.0 million for the year ended 31 December 2016, primarily due to an investment income of RMB7.6 million from the structured deposits acquired this year and an increase of RMB5.5 million in government grants we received relating to our R&D activities.

h. *Other losses*

Our other losses increased by RMB3.5 million, or 279.0%, to RMB4.8 million for the year ended 31 December 2017, from RMB1.3 million for the year ended 31 December 2016, primarily due to a donation of RMB3.8 million made this year.

i. *Operating profit*

As a result of the foregoing factors, our operating profit increased by RMB52.7 million, or 13.5%, to RMB443.3 million for the year ended 31 December 2017, from RMB390.6 million for the year ended 31 December 2016. Our operating margins for the year ended 31 December 2017 and 2016 were 36.2% and 42.7%, respectively.

j. *Finance income*

Our finance income increased by RMB17.0 million, or 102.2%, to RMB33.7 million for the year ended 31 December 2017, from RMB16.7 million for the year ended 31 December 2016, primarily due to an increase of RMB14.0 million in occupation fee for provision funds.

k. *Finance costs*

Our finance costs increased by RMB24.5 million, or 30.5%, to RMB104.8 million for the year ended 31 December 2017, from RMB80.3 million for the year ended 31 December 2016, primarily due to a foreign exchange loss of RMB29.1 million on HKD bank deposits of the proceeds from the listing of our shares.

l. *Profit before income tax*

As a result of the foregoing factors, our profit before income tax increased by RMB45.5 million, or 13.9%, to RMB372.4 million for the year ended 31 December 2017 from RMB326.9 million for the year ended 31 December 2016.

m. *Income tax*

We incurred income tax expenses of RMB58.3 million for the year ended 31 December 2017 and RMB51.2 million for the year ended 31 December 2016 respectively at effective tax rates of 15.7% and 15.7%, respectively. Our effective tax rates remained substantially the same as last year. Our effective tax rates were slightly higher than 15% due to the expiration of preferential tax treatments of some of our wastewater treatment facilities and our acquisition of subsidiaries which did not qualify for the 15%-preferential enterprise income tax rate of the “Developing Western China Policy” and were subject to the full enterprise income tax rate of 25%.

n. *Total comprehensive income*

As a result of the foregoing factors, our total comprehensive income increased by RMB36.5 million, or 13.3%, to RMB312.2 million for the year ended 31 December 2017 from RMB275.7 million for the year ended 31 December 2016.

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	
	2017	2016
	RMB'000	*RMB'000*
Net cash generated from operating activities	**104,651**	56,649
Net cash used in investing activities	**(307,700)**	(238,304)
Net cash generate form/(used in) financing activities	**1,078,366**	(459,048)
Net increase/(decrease) in cash and cash equivalents	**875,317**	(640,703)
Effect of foreign exchange rates	**(30,977)**	–
Cash and cash equivalents at beginning of the year	**446,830**	1,087,533
Cash and cash equivalents at end of the year	**1,291,170**	446,830

a. *Net cash generated from operating activities*

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

For the year ended 31 December 2017, our net cash generated from operating activities was RMB104.7 million and was more than our net cash generated from operating activities for the year ended 31 December 2016 of RMB56.6 million, primarily comprising cash generated from operations amounting to RMB220.7 million, partially offset by the income tax paid amounting to RMB48.8 million and interest paid amounting to RMB67.2 million. The increase is primarily attributable to the increase of RMB38.4 million in net profit.

b. *Net cash used in investing activities*

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

Our net cash used in investing activities increased to RMB307.7 million for the year ended 31 December 2017 from RMB238.3 million for the year ended 31 December 2016, primarily comprising the purchase of property, plant and equipment amounting to RMB134.4 million and the acquisition of subsidiaries amounting to RMB168.9 million. The net cash used in investing activities during the year increased by RMB69.4 million compared with the previous year, primarily due to an increase of RMB69.3 million in net cash paid for acquisition of subsidiaries compared with the previous year. The cash paid for acquisition of subsidiaries during the year included RMB114.2 million paid for acquiring Hongyu Water, RMB32.0 million prepayment made for acquiring Debei'ao Water, and RMB11.3 million repayment made for acquiring Zhuji Dongdaciwu Wastewater Treatment Co. Ltd. (諸暨市東大次塢污水處理有限公司).

c. *Net cash generated from/used in financing activities*

Our net cash generated from financing activities primarily represents proceeds raised through listing and borrowings.

For the year ended 31 December 2016, our net cash generated from financing activities was RMB459.0 million (net outflow) and was changed to RMB1,078.4 million (net inflow) for the year ended 31 December 2017, primarily comprising the cash proceeds from the listing of RMB1,072.3 million and the proceeds from borrowings of RMB1,050 million, partially offset by repayments of borrowings amounting to RMB887.7 million. The difference between net cash generated from financing activities for this year and previous year was primarily attributable to the increase of RMB670.0 million in borrowings and cash inflow of RMB1,072.3 million from the listing of shares this year.

3. Working Capital

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current assets		
Receivables under service concession arrangements	**13,747**	9,679
Inventories	**7,515**	10,336
Amounts due from customers for construction contracts	**12,296**	5,716
Available-for-sale financial assets	**80,000**	–
Trade and other receivables	**386,397**	306,895
Cash and cash equivalents	**1,291,170**	446,830
Total current assets	**1,791,125**	779,456
Current liabilities		
Trade and other payables	**369,850**	422,339
Current income tax liabilities	**60,238**	44,568
Borrowings	**599,570**	778,737
Total current liabilities	**1,029,658**	1,245,644
Net current assets/(liabilities)	**761,467**	(466,188)

We recorded net current assets of RMB761.5 million as of 31 December 2017 and net current liabilities of RMB466.2 million as of 31 December 2016, respectively. The increase in our net current assets was mainly attributable to the proceeds from the listing of shares in 2017.

a. *Receivables under service concession arrangements*

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

Our receivables under service concession arrangements that were classified as current assets amounted to RMB13.7 million as of 31 December 2017. This represented a year-on-year increase of 42.0% between 2016 and 2017, primarily due to an increase in the number of service concession projects we undertook.

Our receivables under service concession arrangements that were classified as non-current assets amounted to RMB530.0 million as of 31 December 2017. This represented a year-on-year increase of 55.0% from 2016 to 2017, primarily due to receivables of RMB79.5 million recognized under concession agreement acquired from the consolidation of Hongze Water into our financial results on 1 January 2017, as well as receivables of RMB30.1 million recognized based on percentage-of-completion of the newly-signed BOT project of wastewater treatment plant and auxiliary projects in Yiliang Industrial Park. Trade receivables of RMB14.0 million were recognized based on percentage-of-completion of the newly-signed domestic wastewater treatment project in Qingshuihai Water Conservation District. Receivables of RMB16.2 million were recognized based on percentage-of-completion due to the consolidation of Shuangjiang Dianchi Water Treatment Co., Ltd. into our financial results from October 2016. Receivables of RMB25.8 million for BOT construction revenue were recognized based on percentage-of-completion due to the consolidation of Dian Chi Water Treatment (LAOS) Sole Co., Ltd. into our financial results from August 2016.

b. *Inventories*

Our total inventory balance decreased by RMB2.8 million, or 27.3%, to RMB7.5 million as of 31 December 2017 from RMB10.3 million as of 31 December 2016. Such a decrease reflected a decrease in materials for wastewater treatment and water supply services by RMB1.9 million, or 44.5%, to RMB2.4 million as of 31 December 2017 from RMB4.2 million as of 31 December 2016 and a decrease in spare parts by RMB0.9 million, or 15.3%, to RMB5.2 million as of 31 December 2017 from RMB6.1 million as of 31 December 2016.

For the years ended 31 December 2016 and 2017, our inventory turnover days were 6.3 days and 4.5 days respectively (calculated as the average inventories for the relevant period divided by the cost of sales recognized as cost of sales for the relevant period, multiplied by 365 days. The arithmetic mean of the opening and closing balances of inventories is used for the years ended 31 December 2016 and 2017). The inventory turnover days for 2017 remained stable.

c. *Amounts due from customers for construction contracts*

The portion of amounts due from customers for construction contracts due within twelve months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder is classified as non-current assets. Our total amounts due from customers for construction contracts increased by RMB209.4 million, or 507.1%, to RMB250.7 million as of 31 December 2017 from RMB41.3 million as of 31 December 2016, primarily due to the amount due from customers of RMB160.0 million recognized based on percentage-of-completion of the newly signed project in Haitou Estate, Qingshuihai, Xundian County, and the amount due from customers for construction contracts of RMB53.4 million acquired from the consolidation of Hongze Water into our financial results on 1 January 2017.

d. *Trade and other receivables*

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

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables		
– Third parties	**4,852**	941
– Related parties	**95,467**	39,678
– Local government	**146,232**	85,381
Trade receivables – net	**246,551**	126,000
Other receivables:		
– Third parties	**5,176**	6,539
– Related parties	**68,857**	39,472
– Hongze Water	**–**	41,725
– Qutang Water	**–**	3,744
– Libao Water	**–**	2,279
– Local government	**55,665**	51,590
Other receivables – net	**129,698**	145,349
Prepayments:		
– Listing expenses	**–**	28,946
– Others	**10,148**	6,600
Prepayments – net	**10,148**	35,546
Trade and other receivables – net	**386,397**	306,895

Our net trade and other receivables increased by RMB79.5 million, or 25.9%, to RMB386.4 million as of 31 December 2017 from RMB306.9 million as of 31 December 2016. The increase reflected (i) an increase in trade receivables due from local government by RMB60.8 million, or 71.3%, to RMB146.2 million as of 31 December 2017 from RMB85.4 million as of 31 December 2016, primarily due to wastewater treatment fees charged for the forth quarter of 2017, which had been recognized but not yet paid by the relevant government authorities; (ii) an increase in amounts due from related parties by RMB55.8 million, or 140.6%, to RMB95.5 million as of 31 December 2017 from RMB39.7 million as of 31 December 2016, primarily due to service fees for entrusted operation which had been recognized but not yet paid; and (iii) a decrease in the prepayment of listing expenses, to Nil from RMB28.9 million as of 31 December 2016.

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Within one year	**243,528**	125,542
– Over one year and within two years	**3,023**	458
	246,551	126,000

Based on the past experience, the Directors believe that no impairment allowance of trade receivables is necessary because the customers are mainly local government authorities and there has not been a significant change in their credit quality. Accordingly, these balances are considered fully recoverable.

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

	As at 31 December	
	2017	2016
	Days	*Days*
Trade receivable turnover days (1)	**55.6**	44.6
Trade and other receivable turnover days (2)	**103.4**	99.1

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 2016 and 2017.

(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 2016 and 2017.

e. *Trade and other payables*

Our trade and other payables primarily consists 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	
	2017	2016
	RMB'000	*RMB'000*
Trade payables	**3,802**	2,093
Other payables	**71,899**	53,176
Consideration payable for acquisition of subsidiaries	**12,690**	18,447
Staff salaries and welfare payables	**28,667**	28,661
Advance from customers	**6,124**	12,177
Payables on acquisition of property, plant and equipment	**84,297**	151,957
Payables on acquisition of land use rights from related parties	**58,194**	58,194
Interest payables	**2,021**	1,310
Accrued taxes other than income tax	**102,156**	96,324
	369,850	422,339

Our trade and other payables decreased by RMB52.5 million, or 12.4%, to RMB369.9 million as of 31 December 2017 from RMB422.3 million as of 31 December 2016. The decrease was mainly because the amount payable for the purchase of property, plant and equipment decreased by RMB67.7 million, or 44.4%, to RMB84.3 million as of 31 December 2017 from RMB152.0 million as of 31 December 2016. The above decrease was partially offset by the increase in other payables by RMB18.7 million, or 35.2%, to RMB71.9 million as of 31 December 2017 from RMB53.2 million as of 31 December 2016, primarily due to the increase in project service fees payable.

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Within one year	**3,471**	2,093
– Over one year and within two years	**331**	–
	3,802	2,093

As at 31 December 2016 and 2017, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers which are not financial liabilities, 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	
	2017	2016
	Days	*Days*
Trade and other payables turnover days (1)	**199.9**	362.6
Trade payables turnover days (2)	**37.4**	19.4

Notes:

(1) Calculated as the average trade and other payables for the relevant period divided by cost of sales for the relevant period, and multiplied by 365 days. The arithmetic mean of the opening and closing balances of trade and other payables is used for the years ended 31 December 2016 and 2017.

(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 2016 and 2017.

Our trade payables turnover days increased by 18 days in 2017 as compared with 2016, mainly due to the increase of RMB1.7 million in the balance of trade payables at the end of the Reporting Period.

Directors confirm that up to 31 December 2017, there was no material default in payment of trade payables.

4. Indebtedness

a. *Borrowings*

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current:		
Unsecured long-term borrowings	**397,000**	–
Secured long-term borrowings	**–**	48,356
Corporate bonds	**694,625**	693,639
Total non-current borrowings	**1,091,625**	741,995
Current:		
Unsecured short-term borrowings	**552,000**	660,000
Secured short-term borrowings	**47,570**	118,737
Total current borrowings	**599,570**	778,737
Total borrowings	**1,691,195**	1,520,732

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Average effective interest rates	**4.58%**	4.78%

Our total borrowings amounted to RMB1,520.7 million and RMB1,691.2 million as of 31 December 2016 and 2017, respectively. This represented an year-on-year increase of 11.2% between 2016 and 2017. Among our indebtedness, borrowings amounting to RMB167.1 million and RMB47.6 million as of 31 December 2016 and 2017 were secured by our property, plant and equipment. As at 31 December 2017, we have obtained a total of RMB2,250 million of bank credit facilities from multiple banks and financial leasing institutions in the PRC, of which line of credit used amounted to RMB949 million. In addition to bank borrowings, our total borrowings also include corporate bonds of approximately RMB700.0 million we issued on 25 December 2015 in the PRC for a term of seven years with an annual interest rate at 4.35%. At the end of the fifth year, the Company may adjust the interest rates for the remaining two years. In the event that investors disagree with the adjustment made to the interest rates, they may choose to demand an early redemption of corporate bonds outstanding.

As of 31 December 2017, 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 2017, 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 2017, 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	
	2017	2016
	RMB'000	*RMB'000*
On demand or within 1 year	**599,570**	778,737
Between 1 and 2 years	**317,000**	48,356
Between 2 and 5 years	**80,000**	–
Later than 5 years	**694,625**	693,639
	1,691,195	1,520,732

As of 31 December 2016 and 2017, our net gearing ratios were 30.1% and 7.9%, respectively. Our net gearing ratios as at 31 December 2017 dropped as compared with 31 December 2016 primarily due to the capital raised by public offering of H Shares in April 2017 which substantially increased net assets.

Except as disclosed above, as of the 31 December 2017, 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

Our capital commitments contracted for at each balance sheet date, but not yet incurred are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Property, plant and equipment	**101,957**	458,123
Land use rights and intangible assets	**–**	16,978
Acquisition of interests in subsidiaries:	**122,200**	–
	224,157	475,101

c. Capital expenditure

Our capital expenditure mainly comprises purchases of land use rights, property, plant and equipment and intangible assets. Our capital expenses were RMB668.2 million and RMB229.8 million for the years ended 31 December 2016 and 2017, 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	
	2017	2016
	RMB'000	*RMB'000*
Wastewater treatment	**205,626**	651,031
Other water-related services	**23,691**	17,034
Others	**483**	86
	229,800	668,151

Based on our current business plan, we expect to incur capital expenditure amounting to RMB727.1 million for the year ending 31 December 2018. Our anticipated capital expenditure is subject to change from time to time based on the reassessment of our business plan, prevailing market conditions, regulatory environment and outlook of our future operational results.

5. Off-balance sheet arrangements

Other than as disclosed in this report and as of 31 December 2017, we did not have any outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts. In the course of our business operations, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposed.

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

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

As of 31 December 2017, approximately RMB306.8 million, accounting for 28.61% of RMB1,072.3 million of net cash proceeds from the Global Offering, has been used pursuant to Use of Proceeds as follows: RMB2.7 million was used for investments in BOT/BOO wastewater treatment and running water supply projects; a total of RMB96.5 million was used for payments for acquisition of TOT/TOO wastewater treatment and running water supply projects, including Hongyu Water and prepayments for subsequent acquisitions; and RMB207.6 million was used to repay existing bank borrowings.

7. Foreign exchange risk and management

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

8. Employees and remuneration policies

For details of employees and remuneration policies, please refer to "Report of the Board of Directors – A. Business Review – 7. Relationship with Employees".

9. Contingent liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

10. Material charges on assets

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

11. Major investment and acquisition

We entered into a framework agreement on 1 June 2016 to acquire 100% equity interests in three wastewater treatment companies in Jiangsu Province, namely Qutang Water, Libao Water and Hongze Water. The three companies had an aggregate designed wastewater treatment capacity of 50,000 m^3 per day. On 30 October 2016, we entered into three share transfer agreements thereby to acquire such three foregoing wastewater treatment companies for a total consideration of RMB79.95 million. These transactions were completed in January 2017 and such three companies have been consolidated into the Group thereafter. These acquisitions and development would not produce any significant financial impact on the Group individually or in an aggregate.

On 18 September 2017, the Company, Liuyang Hongyu Thermal Power Co., Ltd. (瀏陽市宏宇熱電有限公司), Hongyu Water, Zhuji Jujiyu Environmental Protection Equipment Co. Ltd. (諸暨巨集宇環保設備有限公司), and Huang Weifei entered into a share transfer agreement, pursuant to which the Company has conditionally agreed to acquire, and Hongyu Thermal Power has conditionally agreed to sell the 100% equity interest in Hongyu Water for the estimated consideration of RMB156.9 million. The acquisition was completed on 1 October 2017, and the amount of consideration actually paid by the Company was RMB126.9 million because Hongyu Water needed to undergo project technology renovation to meet the effluent standard, which required RMB30 million to be paid to the Company after the acquisition. Hongyu Water became a wholly-owned subsidiary of the Company and its financial results, assets and liabilities were incorporated into the Group. For details, please refer to the Company's announcement dated 18 September 2017 and further announcements dated 11 October 2017 and 17 October 2017.

On 20 September 2017, the Company, Zou Hanping (鄒漢平), Weilai Luzhou, Sichuan Debei'ao and Debei'ao Water entered into a share transfer agreement, pursuant to which the Company has conditionally agreed to acquire 100% equity interest in Debei'ao Water at a consideration of RMB80,230,000. The acquisition was completed in January 2018. After completion of the acquisition, the Company has provided Debei'ao Water with a shareholder loan of RMB56,545,300 to settle the relevant liabilities of Debei'ao Water. Debei'ao Water has become a wholly-owned subsidiary of the Company and its financial results, assets and liabilities have been consolidated into the Group.

Save the foregoing disclosures, the Company had no plans of major investments or capital and asset acquisition as of 31 December 2017.

A. EXECUTIVE DIRECTORS

Ms. Guo Yumei (郭玉梅), aged 50, joined our Group in July 1990. Ms. Guo was appointed as an executive Director and the general manager of our Company in January 2011 and as the chairperson of the Board on 23 June 2016. She has over 25 years of experience in the wastewater treatment industry, and is responsible for strategic decision making and management of our Company's operations. Ms. Guo is currently the chairperson of the strategy and investment decision committee, and a member of the remuneration and appraisal committee and the nomination committee of our Company.

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

Ms. Guo obtained a bachelor's degree in analytical chemistry from Yunnan University (雲南大學) in Yunnan Province, the PRC in July 1990. Ms. Guo has been recognized as a senior engineer in water supply and drainage since 2015. She was recognized as a "Young and Middle-aged Academic and Technology Leader of Kunming" (昆明市中青年學術和技術帶頭人) by the government of Kunming in 2012, and was recognized as an "Outstanding Woman Leader in Yunnan" (雲南省三八紅旗手) by Women's Union and Human Resources and Social Security Department of Yunnan Province in 2014. Ms. Guo was also named as a "2008-2012 Leader in Municipal Wastewater and Domestic Sewage Treatment Facilities Development in Yunnan Province" (雲南省2008年至2012年城鎮污水生活垃圾處理設施建設先進個人) by the Yunnan provincial government in 2013. She obtained the prize of "Leader in Energy Saving and Emission Reduction during the 11th Five-Year Plan in Yunnan Province" (雲南省<十一五>期間節能減排工作先進個人) in April 2011. "Kunming Urban Drainage Network Geographic Information System" program leaded by Ms. Guo received the "Third Prize of Yunnan Province Science and Technology Award" (雲南省科學技術科技進步三等獎) by the Yunnan provincial government in 2007. In January 2018, Ms. Guo was elected as a delegate to the 13th People's Congress ("**People's Congress**") of Yunnan Province.

Mr. Luo Yun (羅雲), aged 39, joined our Group in June 2013 and was appointed as an executive Director of our Company on 23 June 2016. Mr. Luo has been the deputy general manager of our Company since January 2015, responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction. He served as an assistant to the general manager from June 2013 to January 2015, responsible for assisting the general manager in the management of our Company's operation, development, investment programs and marketing strategies. Mr. Luo is currently a member of the strategy and investment decision committee of our Company.

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

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

B. NON-EXECUTIVE DIRECTORS

Mr. Zeng Feng (曾鋒), aged 53, joined our Group in January 2011 and was appointed as a non-executive Director of our Company in 19 January 2011. Mr. Zeng participates in the development of our business strategies and advising on audit and internal control matters. He has over 23 years of experience in management. Mr. Zeng is currently a member of the audit committee of our Company. Mr. Zeng serves concurrently as a supervisor of Kunming Urban Resources Development Co., Ltd. (昆明市城市資源開發股份有限公司), the chairman of the board of directors and the general manager of Kunming DIG, the chairman of the board of directors of Kunming Petrochina Kunlun CNG Co., Ltd. (昆明中石油昆侖車用天然氣有限公司), and an executive director and the general manager of Kunming Urban Development Co., Ltd. (昆明城市發展有限責任公司).

From September 1999 to January 2006, Mr. Zeng successively served as an assistant to the director general, the deputy director general of finance sub-bureau and the director of the accounting center of the Management Committee of Kunming High-tech Industrial Development Zone (昆明高新技術產業開發區管委會), responsible for finance and financial accounting. From October 2006 to April 2009, he worked at the Management Committee of Kunming Airport Economic Zone (昆明空港經濟區管委會) where he served as the director general of its finance sub-bureau. From April 2009 to November 2010, Mr. Zeng served as the deputy district head of Guandu District, Kunming (昆明官渡區).

Mr. Zeng graduated from Yunnan Finance and Trade College (currently known as Yunnan University of Finance and Economics (雲南財經大學)) in Yunnan Province, the PRC, majoring in accounting in June 1990, and graduated from Department of Finance and Economics, Graduate School of Chinese Academy of Social Science (中國社會科學院) in Beijing, the PRC, majoring in commercial economy in November 1998.

Ms. Song Hong (宋紅), aged 54, joined our Group in June 2016 and was appointed as a non-executive Director of our Company on 23 June 2016. Ms. Song participates in the development of our business strategies. She has over 33 years of experience in finance sector. Ms. Song joined Kunming Dianchi Investment in September 2008. She served as a director and the chief financial officer of Kunming Dianchi Investment since June 2012. Ms. Song serves concurrently as a director of Kunming Diantou Bishuiyuan Water Technology Co., Ltd (昆明滇投碧水源水務科技有限公司).

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

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

C. INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Man Chung Francis (黃文宗), aged 53, joined our Group in June 2016 and was appointed as an independent non-executive Director on 23 June 2016.

Mr. Wong participates in making significant decisions and providing advice on corporate governance, connected transactions and various matters of Directors and senior management. He is currently the chairman of the audit committee of the Company.

Mr. Wong is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom, the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales and The Society of Chinese Accountants and Auditors, and a Certified Tax Adviser of the Taxation Institute of Hong Kong. He is a Certified Public Accountant (Practicing) and has over 28 years of experience in auditing, taxation, corporate internal control and governance, acquisition and financial advisory, corporate restructuring and liquidation, family trust and wealth management.

Previously, Mr. Wong worked as an assistant manager at KPMG, an international accounting firm, from August 1985 to December 1991 and served as an assistant manager in the compliance department of the HKSCC from January 1992 to October 1993. Thereafter, Mr. Wong practiced as a certified public accountant under his own name and founded Francis Wong C.P.A. Co. Limited, a professional accounting firm. In March 2002, Mr. Wong's practice was merged with those of his existing partners and formed Union Alpha C.P.A. Limited, a professional accounting firm. Mr. Wong currently holds the position of managing director at Union Alpha C.P.A. Limited. Since August 2009, Mr. Wong has been an executive director at Union Alpha CAAP Certified Public Accountants Limited, a professional accounting firm. Since February 2008 and up to present, he has been the founding director and member of Francis M C Wong Charitable Foundation Limited, a charitable institution.

Mr. Wong serves as a director in the following companies:

Serving time	Company name	Position
August 2004 to present	China Oriental Group Company Limited (Stock code: 581), a company listed on the Hong Kong Stock Exchange(1)	Independent non-executive director
August 2004 to present	Wai Kee Holdings Limited (Stock code: 610), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
August 2006 to present	Digital China Holdings Limited (Stock code: 861), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
October 2013 to present	Integrated Waste Solutions Group Holdings Limited (Stock code: 923), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
July 2015 to present	Greenheart Group Limited (Stock code: 94), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
April 2016 to present	GCL-Poly Energy Holdings Limited (Stock code: 3800), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
March 2017 up to present	China New Higher Education Group Limited (中國新高教集團有限公司) (Stock code: 2001), a company listed on the Hong Kong Stock Exchange	Independent non-executive director
March 2017 up to present	Hilong Holding Limited (海隆控股有限公司) (Stock code:1623), a company listed on the Hong Kong Stock Exchange	Independent non-executive director

Mr. Wong obtained a master's degree in management from Jinan University (暨南大學) in Guangdong Province, the PRC, in June 2005.

Note:

(1) According to an announcement published by the Stock Exchange dated 27 July 2016, trading of the shares of China Oriental Group Company Limited ("**China Oriental**") was suspended from 29 April 2014 due to insufficient public float. The Stock Exchange had commenced the procedures to cancel China Oriental's listing on the ground that its public float remained insufficient during the prolonged period, unless China Oriental could make remedies to the public float issue by 27 January 2017. China Oriental subsequently restored its public float on 27 January 2017 and resumed trading on 1 February 2017.

Mr. Yin Xiaobing (尹曉冰), aged 44, joined our Group in June 2016 and was appointed as an independent non-executive Director on 23 June 2016. Mr. Yin participates in making significant decisions and advices on corporate governance, connected transactions, and various matters of Directors and senior management. He is currently the chairman of the nomination committee, and a member of the strategy and investment decision committee, the remuneration and appraisal committee and the audit committee of our Company.

Mr. Yin currently serves as an associate professor of School of Business Administration and Tourism Management at Yunnan University. He is the head of financial management department, and a postgraduate tutor for master students. Mr. Yin was a visiting scholar of the Sloan School of Management at the Massachusetts Institute of Technology. He is a non-practicing member of Chinese Institute of Certified Public Accountants.

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

Serving time	Company name	Position
April 2013 to December 2017	Yunnan Yuntou Ecology and Environment Technology Co., Ltd. (雲南雲投生態環境科技股份有限公司, formerly known as Yunnan Green Land Biotechnology Co., Ltd. 雲南綠大地生物科技股份有限公司)) (Stock code: 002200)	Independent non-executive director
May 2014 to present	Yunnan Aluminum Co., Ltd. (雲南鋁業股份有限公司) (Stock code: 000807)	Independent non-executive director
June 2016 to present	Yunnan Copper Industry Limited (雲南銅業股份有限公司) (Stock code: 000878)	Independent non-executive director

Mr. Yin currently also serves as the general manager at Yunnan Tianshu Yuheng Equity Investment Fund Management Co., Ltd. (雲南天樞玉衡股權投資基金管理有限公司), the chairman of the board of directors of Kunming Zhongbei Financing Guarantee Company (昆明中北融資擔保公司), and a director at Yunnan Shennong Agricultural Industry Group Co., Ltd. (雲南神農農業產業集團股份有限公司) and Kunming Land Development Investment Management Co., Ltd. (昆明市土地開發投資經營有限責任公司).

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

Mr. He Xifeng (何錫鋒), aged 55, joined our Group in June 2016 and was appointed as an independent non-executive Director on 23 June 2016.Mr. He participates in making significant decisions and advises on corporate governance, connected transactions, and various matters of Directors and senior management. Mr. He is currently the chairman of the remuneration and appraisal committee and a member of the nomination committee of our Company.

Mr. He currently serves as the chief partner and previously served as the legal representative and the head of Yunnan Weizhen Law Office (雲南唯真律師事務所). Mr. He serves as a legal counsel of several government agencies, public institutions and associations, including the Law Committee of the People's Congress in Yunnan Province (雲南省人民代表大會法制委員會), Yunnan Legal System Construction Network Center (雲南法制建設網絡中心) and Yunnan Police Officer School (雲南警官學校).

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

D. SUPERVISORS

Mr. Na Zhiqiang (那志強), aged 56, is the chairman of our Board of Supervisors and an employee representative Supervisor, responsible for leading the daily work of our Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Na joined our Group in February 1990. On 19 January 2011, he was appointed as the chairman of our Board of Supervisors and an employee representative Supervisor. Mr. Na has over 25 years' working experience in the wastewater treatment industry.

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

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

Mr. Yao Jianhua (姚建華), aged 59, joined our Group in November 1995 and has been an employee representative Supervisor of our Company since 19 January 2011 in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Yao has over 28 years' working experience in the wastewater treatment industry. Since June 2005, Mr. Yao has been the general manager of Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company. Mr. Yao has also been the legal representative, executive director and general manager at Kunming Dianchi Logistics Co. Ltd., a wholly-owned subsidiary of the Company, since June 2005.

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

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

Mr. Shao Wei (邵偉), aged 37, joined our Group on 7 May 2016 and is a Supervisor of our Company in charge of overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings. Mr. Shao works as the accounting manager of planning and financing department of Kunming DIG, responsible for corporate finance and accounting affairs. Mr. Shao has over 10 years' working experience in the corporate finance management.

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

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

E. SENIOR MANAGEMENT

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

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	50	Chairperson; Executive Director and General Manager (Chairperson of the Strategy and Investment Decision Committee)	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016	July 1990	None
Mr. Mei Yili	56	Deputy General Manager	Responsible for the management of our sludge resource utilization, solid waste disposal and production safety	29 January 2015	May 1997	None
Mr. Luo Yun	39	Executive Director and Deputy General Manager	Responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None
Mr. Yang Yang	45	Chief Financial Officer and Secretary of Board	Responsible for the management of our Company's finance, capital operation and securities affairs, as well as leading the work of our Company's financial planning department and securities affairs department	29 January 2015	January 2015	None

Ms. Guo Yumei (郭玉梅) is an executive Director, chairperson of the board, and general manager of our Company. Please see the section headed "Profiles of Directors, Supervisors and Senior Management – A. Executive Directors" in this report for details of her biography.

Mr. Mei Yili (梅益立), aged 56, joined our Group in May 1997 and has been the deputy general manager of our Company since 29 January 2015, responsible for the management of our Company's sludge resource utilization, solid waste disposal and production safety.

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

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

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

Mr. Yang Yang (楊陽), aged 45, joined our Group in January 2015 and has been the chief financial officer of our Company since 29 January 2015, responsible for the management of the Company's finance, capital operation and securities, as well as leading the work of the Company's financial planning department and securities department. Mr. Yang has also been appointed as one of our joint company secretaries and our board secretary in June 2016.

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

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

Except as disclosed above:

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

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

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

F. JOINT COMPANY SECRETARIES

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

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

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

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

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

CHAPTER EIGHT REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of the Group hereby submit their report together with the audited financial statements of the Group for the year ended 31 December 2017.

A. BUSINESS REVIEW

1. Operating Environment and Prospects

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. 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 the water resources around Yunnan Province and explore markets in other provinces to achieve cross-region operation.

In 2016, 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水利用設施建設規劃) which deemed wastewater treatment as an important part for the improvement of urban water ecology and environment and required that urban wastewater treatment facilities achieve full coverage by the end of 2020, with cities at prefecture-city level and above achieving substantially complete wastewater collection and treatment, county towns no less than 85% whereas those in the eastern regions of China aimed for 90%, and designated towns achieving 70% whereas those in central and western regions of China aimed for 50%; the wastewater treatment capacity for urban areas shall increase to 268 million cubic metres per day. Compared with eastern region in the PRC, central and western regions are less urbanized with underdeveloped infrastructure. Driven by rapid economic development and urbanization, the municipal wastewater treatment industry enjoys enormous development potential.

In 2017, the Communist Party of China ("**CPC**") held the 19th CPC National Congress, the report of which put forward that ecological civilization construction is the strategy that affects the sustainable development of the Chinese people for a millennium to come. We must uphold and practice the philosophy of "Lucid waters and lush mountains are invaluable assets". We must adhere to the basic state policy of protecting the environment and treat the environment as if it is our lives. We will adopt a holistic approach to conserving our mountains, rivers, forests, farmlands, lakes, and grasslands, implement the strictest possible systems for ecological environmental protection, striving to build China into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful. The report of the 19th CPC National Congress for the first time included "Being Beautiful" in the objective to build a strong country, becoming an important favorable policy for the long-term growth of the environmental protection industry.

In December of the same year, the CPC held the Central Economic Work Conference which required that focus for the coming three years must be put on ensuring success in the three critical battles against major risk, poverty, and pollution that are important for decisively bringing to completion the building of a moderately prosperous society in all respects. As such, pollution prevention became an important task for local governments for the next three years, which provides a strong support for the continuous prosperity of the environmental protection industry.

Led and driven by the state policies, it is expected that there will be significant market opportunities and development potential for the future of the industries of further environmental protection. Wastewater treatment, reclaimed water and water supply industries will benefit from the rapidly accelerating urbanization in China and the policy support of the Chinese government; solid waste disposal such as reuse and recycling of sludge, and comprehensive ecological and environmental treatment businesses will also gain strong driving force from the bid to become “Beautiful” as an objective to build a strong country. The Chinese economy has shifted from high-speed development to high-quality development, enabling the environmental protection industry to become an increasingly important industry for economic development under the New Normal condition of the PRC. The Board expects that the development, scale and growth of the industries will be further expanded and investors in the capital markets will also gradually focus more on the environmental protection industry.

2. Business

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

3. Key Financial Ratios

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

	As at or for the year ended 31 December	
	2017	2016
Gross profit margin(1)	**40.9%**	46.5%
Net profit margin(2)	**25.7%**	30.1%
Return on equity(3)	**8.5%**	11.0%
Return on total assets(4)	**5.2%**	6.0%
Current ratio(5)	**174.0%**	62.6%
Quick ratio(6)	**173.2%**	61.7%
Gearing ratio(7)	**7.9%**	30.1%

Notes:

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

Gross profit margin and net profit margin

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

Return on equity

Our return on equity decreased by 2.5% during the Reporting Period compared with that of 2016, primarily reflecting the increase in total equity resulted from fund raising.

Return on total assets

Our return on total assets decreased from 6.0% in 2016 to 5.2% in 2017, primarily due to the significant increase in total assets resulted from fund raising through listing.

Current ratio and quick ratio

Our current ratio and quick ratio increased from 62.6% and 61.7% as of 31 December 2016 to 174.0% and 173.2% as of 31 December 2017 respectively, primarily due to the significant increase in current assets resulted from fund raising through Listing.

Gearing ratio

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

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

4. Laws, Regulatory and Compliance Matters

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

As of 31 December 2017, there are no material pending or threatened litigation matters or other proceedings, and the Group is not involved in any litigation or other proceedings that would materially and adversely affect our business, financial condition or results of operations.

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

5. Major Risk Factors

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

Market Risk

Our activities expose us to a variety of financial market risks: credit risk, liquidity risk, interest rate risk and foreign exchange risk. Our overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. We currently do not use any derivative financial instruments to hedge against certain risk exposures.

Credit risk

The carrying amounts of cash and cash equivalents, term deposits with an initial term of over three months, trade and other receivables and receivables under service concession arrangements included in the financial information represent our maximum exposure to credit risk in relation to our financial assets. The objective of our measures to manage credit risk is to control our potential exposure to recoverability problem.

All of our cash and cash equivalents and term deposits with an initial term of over three months will be deposited in major financial institutions in the PRC, which our Directors believe are of high credit quality.

For trade and other receivables and receivables under service concession arrangements, our customers are primarily local governments and the PRC state-owned entities and our management believes that the credit risk is limited.

Liquidity risk

Our objective is to maintain sufficient cash and sources of funding through available banking facilities and maintain flexibility in funding by maintaining committed credit lines. We had net current assets of RMB761.5 million as of 31 December 2017. With respect to our future capital commitments and other financing requirements, we had unutilized banking facilities of RMB1,270 million as of 31 January 2018.

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

Interest rate risk

Interest rate risk is a risk at which the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Our exposure to the risk of changes in market interest rates is primarily related to our interest-bearing borrowings and financial lease payables.

Borrowings obtained at variable rates expose us to cash flow interest-rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We have not hedged against our cash flow or fair value interest rate risk.

Foreign exchange risk

Our activities do not expose us to significant foreign exchange risk because we principally operate in the PRC and RMB is the currency of the primary economic environment in which we operate our business. However, there will be foreign exchange risk involved in relation to the Global Offering as the Global Offering will be conducted in currencies other than RMB. There will also be foreign exchange risk involved in our anticipated businesses abroad.

6. Significant Subsequent Events

(a) Acquisition of subsidiaries

The quality testing and the handover by acceptance and inspection in relation to Kunming No. 10 Water Treatment Plant were completed in January 2018, and the final consideration for the acquisition was RMB572,323,000. All the relevant facilities were transferred to the Company in January 2018.

Pursuant to a resolution of the Board of Directors of the Company dated 20 September 2017, the Group intended to acquire the wastewater treatment business, including 100% equity interests in Debei'ao Water, which are directly or indirectly owned by Zou Hanping, Sichuan Debei'ao and Weilai Luzhou. The acquisition was completed in January 2018 with a consideration of RMB80,230,000.

Pursuant to a resolution of the Board of Directors of the Company dated 19 December 2017, the Group intended to acquire the wastewater treatment business, including 100% equity interests in Zhuji Dongdaciwu Wastewater Co. Ltd. (諸暨市東大次塢污水處理有限公司), which are directly owned by Zhejiang DD Water Industry Co., Ltd. (東大水業集團有限公司) and Zhuji Changyun Urban-Rural Bus Co. Ltd. (諸暨市長運城鄉公交有限公司). The acquisition was completed in January 2018 with a consideration of RMB85,326,000.

(b) Dividend

As approved by the Board of Directors on 26 March 2018, the Company proposed to declare a cash dividend of RMB0.1527 per share to all shareholders for the year, amounting to RMB157,145,249.7. The proposal will be submitted to the annual general meeting for approval.

(c) Entrusted loan provided to KIDC

The Company entered into an entrusted loan contract with Kunming Industrial Development and Construction Co., Ltd., (昆明產業開發投資有限責任公司) ("**KIDC**") and Yunnan Branch of Bank of Communications Co., Ltd. (the "**Bank of Communications**") on 16 March 2018, pursuant to which the Company entrusted the Bank of Communications to provide a 9-month loan of RMB300,000,000 to KIDC with an annual interest rate of 7%.

7. Relationship with Employees

As of 31 December 2017, we had 894 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 2017:

Function	Number
Management and Administration	107
Finance	18
R&D	40
Quality Monitoring	135
Marketing	15
Operations	553
Construction and Maintenance	26
Total	894

We recruit our employees on the open market. Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the years ended 31 December 2016 and 2017, our employee benefits and labor expenses amounted to approximately RMB112.2 million and RMB125.0 million, respectively.

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

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

8. Relationship with Customers

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

Our largest customer during the Reporting Period was the Kunming Finance Bureau. The revenue attributable to our largest customer was approximately RMB493.3 million, accounting for approximately 40.3% of the total revenue of the Group. During the Reporting Period, the revenue attributable to our top five largest customers was approximately RMB980.6 million, accounting for approximately 80.1% of the total revenue of the Group.

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

During the Reporting Period, we also provided management services to our Controlling Shareholder. Our other major customers included Xundian County Government and the Government of Golden Triangle Special Economic Zone in Laos. We provided wastewater treatment and construction services to Yiliang County and Golden Triangle Special Economic Zone in Laos under the relevant concession agreements.

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

9. Relationship with Suppliers

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

During the Reporting Period, our largest supplier was the Kunming Power Supply Bureau of Yunnan Power Grid Co. Our purchases from our largest supplier were RMB76.2 million, accounting for approximately 23.52% of our total purchases. Our purchases from our top five suppliers were RMB168.2 million, accounting for approximately 51.9% of our total purchases.

Kunming Power Supply Bureau of Yunnan Power Grid Co. is the electric utility company in Kunming providing power for our operations. During the Reporting Period, our other major suppliers include construction contractors such as Yunnan Gongtai Project Construction Co,. Ltd., Jiangxi Geo-Engineering (Group) Corporation, and Yunnan Wenbin Municipal Construction Co., Ltd. who undertake the construction portions of our projects, and raw materials providers such as Zunyi Huiheng Environmental Protection Technology Co., Ltd., Shenzhen Pufeisi Environmental Protection Technology Co., Ltd., Kunming Lude Chemicals Co., Ltd., and Kunming Nuoxiao Economic and Trade Co., Ltd. where such raw materials providers provides water treatment chemicals and others materials for the operation and maintenance of our facilities.

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

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

We have sourced our raw materials from a few local suppliers located near Kunming in order to benefit from the economies of scale and convenient transportation, which allowed for faster and cheaper delivery of raw materials. We generally pay our suppliers within 10 to 15 days after receiving the delivery of goods, subject to internal review and approval. For our major suppliers, we often settle accounts monthly, and as of 31 December 2017, we did not have any payments in arrears.

We may from time to time cooperate with any suppliers in the market who offer similar raw materials with terms comparable to our existing suppliers so as to replace the existing suppliers. To mitigate the risks associated with any reliance on our major suppliers, we periodically seek potential alternative suppliers and obtain quotations from such suppliers with the view to keeping in contact with potential suppliers. In addition, in order to secure reliable supply channels and ensure the quality of our supplies, in 2015, we acquired 51% interest in Kunming Heertai Environmental Industry & Trade Co. Ltd., a producer of wastewater treatment chemicals, from which we intend to procure a majority of our chemicals in the future. As of 31 December 2017, we had not experienced any material difficulty in obtaining any utility services, construction services, or supplies of raw materials or equipment for our business operations.

10. Environmental Policies and Performance

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

We have implemented the corresponding measures in the operation of our business to ensure the compliance with the applicable requirements under the PRC environmental protection laws and regulations. As of 31 December 2017, we had not received any claims issued for failing to comply with the relevant licensing and environmental requirements.

Our PRC legal counsel has advised that as of 31 December 2017, we obtained all the material environmental licenses and certificates for each of our facilities, and we had complied in all material respects with the relevant environmental laws and regulations.

Our environmental compliance expenses were RMB2.5 million and RMB2.5 million for the years ended 31 December 2016 and 2017, respectively. To the best of our Directors' knowledge, information and belief, we do not expect our costs of compliance with environmental laws and regulations to increase significantly in the near future.

B. BUSINESS PERFORMANCE

The audited results of the Company and its subsidiaries for the year ended 31 December 2017 are stated in the Consolidated Statement of Comprehensive Income on page 111. The financial positions of the Company and its subsidiaries for the year ended 31 December 2017 are stated in the Consolidated Balance Sheet on pages 109 to 110. The consolidated cash flows of the Company and its subsidiaries for the year ended 31 December 2017 are stated in the Consolidated Cash Flow Statement on page 113.

The discussion and analysis on the Group's business performance and financial position for the current year are stated under "Management Discussion and Analysis" on pages 17 to 42 hereof.

C. SHARE CAPITAL

As of 31 December 2017, the Company had issued 1,029,111,000 shares (comprising 689,088,000 Domestic Shares and 340,023,000 H Shares) with a nominal value of RMB1 each .

D. ISSUANCE OF CORPORATE BONDS

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

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

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities except for the initial public offering of the Company's H Shares (including over-allotment thereof) in 2017.

F. PRE-EMPTIVE RIGHT TO ACQUIRE

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

G. RESERVE AND DISTRIBUTABLE RESERVE

The details in relation to the changes in the reserve of the Company for the current year are stated in Note 19 to the Financial Statements. Pursuant to the Company Law of the PRC, undistributed profit could be distributed as dividend after allocation is made to the statutory surplus reserve. According to the requirements of the Articles of Association, when the Company is to distribute its profit after tax in the relevant accounting year, the profit after tax shall be deemed to be the lesser of the amounts stated in the financial statements prepared in accordance with the China Accounting Standards and the International Financial Reporting Standards. For the calculation in accordance with the International Financial Reporting Standards, as at the end of 2017, the undistributed profit of the Company amounted to RMB1,197.8 billion. For the calculation in accordance with the China Accounting Standards, as at the end of 2017, the undistributed profit of the Company amounted to RMB1,195.1 billion.

H. PROPERTY, PLANT AND EQUIPMENT

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

As of 31 December 2017, our property, plant and equipment amounted to RMB2,342.7 million, with a year-on-year decrease of 1.1%, mainly because we constructed or purchased items amounting to RMB66.8 million, and acquired wastewater treatment plants in Zhejiang, Hunan and other places amounting to RMB73.2 million, while retired, disposed and depreciated items amounting to RMB166.4 million.

I. PROFIT DISTRIBUTION

The Board recommends the distribution of a final dividend ("**2017 Final Dividend**") of RMB0.1527 per share (tax included) (2016: RMB0.1 per share (tax inclusive) (RMB157,145,249.70 in total (tax included)) (2016: RMB102,911,100 (tax inclusive)) for the year ended 31 December 2017 to all shareholders, details of which are set out in Note 32 to the Financial Statements. The dividend of domestic shareholders shall be declared and paid in RMB while the dividend of H Share shareholders shall be declared in RMB but paid in Hong Kong Dollars, with the exchange rate being subject to the average exchange rate published by the People's Bank of China within one week prior to the annual general meeting intended to be held by the Company on Friday, 22 June 2018. The expected dividend distribution date is Wednesday, 8 August 2018.

The proposal regarding the distribution of 2017 Final Dividend shall be confirmed subject to the approval by shareholders at the annual general meeting of the Company for 2017 (the "**2017 Annual General Meeting**") to be held on 22 June 2018.

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税有關問題的通知》) (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-share 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 non-resident 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 relevant laws or regulations 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 income 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 shall withhold and pay individual income tax on behalf of the relevant H shareholders at a tax rate of 10%. If 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 tax rate of 10%. If the relevant H shareholders wish to apply for a refund of the additional amount of tax withheld and paid, the Company can assist them 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 shall withhold and pay individual income tax on behalf of the relevant H shareholders at the actual tax rate specified under relevant tax treaties. In the case that the individual H shareholders 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 tax rate of 20%.

To determine the list of shareholders that are entitled to attend the 2017 Annual General Meeting and vote at the Meeting:

Deadline for submitting the share transfer documents:	4:30 pm on 21 May 2018 (Monday)
Date of closure of register of members:	From 22 May 2018 (Tuesday) to and until 22 June 2018 (Friday) (both days inclusive)
Date of Record:	22 June 2018 (Friday)
Date for convening 2017 Annual General Meeting:	22 June 2018 (Friday)

To determine the list of shareholders that are entitled to the proposed 2017 Final Dividend:

Deadline for submitting the share transfer documents:	4:30 pm on 27 June 2018 (Wednesday)
Date of closure of register of members:	From 28 June 2018 (Thursday) to and until 3 July 2018 (Tuesday) (both days inclusive)
Record date of dividend:	3 July 2018 (Tuesday)
Expected date of dividend distribution:	8 August 2018 (Wednesday)

J. BANK BORROWINGS AND OTHER BORROWINGS

The details in relation to the bank borrowings and other borrowings of the Company and its subsidiaries as of 31 December 2017 are stated in Note 21 to the Financial Statements.

K. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board of Directors currently consists of seven Directors, among whom, two are executive Directors and two are non-executive Directors and three are independent non-executive Directors. The Directors have been appointed by the shareholders of the Company with a term of three years, after which they may be re-elected.

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

The information regarding the Company's Directors and Supervisors are set out as follows:

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	50	Chairperson; Executive Director and General Manager, Chairperson of the Strategy and Investment Decision Committee, member of the Remuneration and Appraisal Committee, and member of the Nomination Committee	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016	July 1990[(1)]	None
Mr. Luo Yun	39	Executive Director and Deputy General Manager, member of the Strategy and Investment Decision Committee	Responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None
Mr. Zeng Feng	53	Non-Executive Director, member of the Audit Committee	Participates in the development of business strategies of the Company and advise on audit and internal control matters	19 January 2011	January 2011	None
Ms. Song Hong	54	Non-Executive Director	Participates in the development of the business strategies of the Company	23 June 2016	June 2016	None
Mr. Wong Man Chung Francis	53	Independent Non-executive Director, Chairperson of the Audit Committee	Participates in making significant decisions and advises on corporate governance, connected transactions, and various matters of Directors and senior management	23 June 2016	June 2016	None
Mr. Yin Xiaobing	44	Independent Non-executive Director, Chairperson of the Nomination Committee, member of the Audit Committee, member of the Remuneration and Appraisal Committee, and member of the Strategy and Investment Decision Committee	Participates in making significant decisions and advises on corporate governance, connected transactions, and various matters of Directors and senior management	23 June 2016	June 2016	None

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Mr. He Xifeng	55	Independent Non-executive Director, Chairperson of the Remuneration and Appraisal Committee and member of the Nomination Committee	Participates in making significant decisions and advises on corporate governance, connected transactions, and various matters of Directors and senior management	23 June 2016	June 2016	None
Mr. Na Zhiqiang	56	Chairperson of the Board of Supervisors; Employee Representative Supervisor	Responsible for leading the daily work of the Board of Supervisors, overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	19 January 2011	February 1990[2]	None
Mr. Yao Jianhua	59	Employee Representative Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	19 January 2011	November 1995[3]	None
Mr. Shao Wei	37	Supervisor	Responsible for overseeing the Directors, managers and other management personnel to ensure the compliance with laws and regulations, the Articles of Association and the resolutions of shareholders' general meetings	7 May 2016	May 2016	None

Notes:

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

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

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

The information regarding the Company's senior management are set out as follows:

Name	Age	Position	Roles and responsibilities	Appointment date	Date of joining our Group	Relationship with other Directors, Supervisors and senior management
Ms. Guo Yumei	50	Chairperson; Executive Director and General Manager, Chairperson of the Strategy and Investment Decision Committee, member of the Remuneration and Appraisal Committee, and member of the Nomination Committee	Responsible for strategic decision making and management of our operations	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016	July 1990	None
Mr. Mei Yili	56	Deputy General Manager	Responsible for the management of our sludge resource utilization, solid waste disposal and production safety	29 January 2015	May 1997	None
Mr. Luo Yun	39	Executive Director and Deputy General Manager	Responsible for supervising our Company's investment strategies, market expansion and project management and engineering project construction	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	June 2013	None
Mr. Yang Yang	45	Chief Financial Officer and Secretary of Board	Responsible for the management of our Company's finance, capital operation and securities affairs, as well as leading the work of our Company's financial planning department and securities affairs department	29 January 2015	January 2015	None

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

Changes to the information of Directors

During the Reporting Period, the Company's Directors, Supervisors and senior management did not change.

According to Rule 13.51B of the Listing Rules, changes to the information of Directors during the period from 18 August 2017 (date of the Company's 2017 Interim Report) to 26 March 2018 (date of the Company's 2017 Annual Report) are as follows:

– In January 2018, Ms. Guo Yumei was elected as a delegate to the 13th People's Congress of Yunnan Province.

– Since December 2017, Mr. Yin Xiaobing no longer served as an independent non-executive director of Yunnan Yuntou Ecology and Environment Technology Co., Ltd. (雲南雲投生態環境科技股份有限公司, formerly known as Yunnan Green Land Biotechnology Co., Ltd. (雲南綠大地生物科技股份有限公司)) (Stock code: 002200). Meanwhile, since December 2017, Mr. Yin Xiaobing no longer served as a director of Kunming Jiahu Real Estate Co., Ltd. (昆明佳湖房地產有限公司) and Yunnan Radio and Television Networks Group Co., Ltd. (雲南廣電網絡集團有限公司). In addition, Mr. Yin Xiaobin has been serving as a director of Kunming Land Development Investment Management Co., Ltd. (昆明市土地開發投資經營有限責任公司) since December 2017.

L. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

M. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The details of the remuneration of the Company's Directors, Supervisors and senior management are stated in Note 28 to the Financial Statements. The scope of the remuneration of the senior management officers is as follows:

Range of Remuneration *(RMB'000)*	**Number of Senior Management**
0 -500	0
500 -1,000	4

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

At the end of 2017 or at any time during 2017, all of the Company's Directors, Supervisors (and such entities connected therewith) have no individual interests, directly or indirectly, in the major transactions, arrangements or contracts as established by the Company or any of its subsidiaries.

O. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETITIVE BUSINESS

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

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

As of 31 December 2017, none of the Directors, Supervisors and senior management had any interest or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As of the 31 December 2017, none of the Directors nor Supervisors or their respective spouses or children below 18 have been granted any right to subscribe the shares of the Company or any of its associated corporations or to have exercised any such rights.

Q. INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

As at 31 December 2017 and to the best knowledge of the Company's Directors, the following persons (except for the Company's Directors, the chief executives or Supervisors) had some interest or short positions in the shares or underlying shares of the Company which will have to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Identity/Nature of interest	Class of shares	Number of shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of shares of the Company (%)
Kunming Dianchi Investment Co., Ltd.	Beneficial Owner	Domestic Shares	660,266,893 (long position)	64.16%	95.82%
Kunming Industrial Development & Investment Co., Ltd. (昆明產業開發投資有限責任公司)	Interest of Controlled Corporation	H Shares	59,000,000 (long position)	5.73%	17.35%
Kunming State-owned Assets Management and Operations Co. Ltd. (昆明市國有資產管理營運有限責任公司)	Beneficial Owner	H Shares	39,790,000 (long position)	3.87%	11.70%

Name of shareholder	Identity/Nature of interest	Class of shares	Number of shares (share)	Approximate percentage of the total issued share capital of the Company (%)	Approximate percentage of the relevant class of shares of the Company (%)
Yunnan Provincial Investment Holdings Group Co., Ltd. (雲南省投資控股集團有限公司)	Beneficial Owner	H Shares	64,770,000 (long position)	6.29%	19.05%
Modern Orient Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.44%
Beijing Enterprises Water Group Limited	Beneficial Owner	H Shares	45,705,000 (long position)	4.44%	13.44%
Beijing Enterprises Investments Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.44%
Beijing Enterprises Holdings Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.44%
Beijing Enterprises Group Company Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.44%
Beijing Enterprises Group (BVI) Company Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.44%
Beijing Enterprises Environmental Construction Limited	Interest of Controlled Corporation	H Shares	45,705,000 (long position)	4.44%	13.44%

Notes:

(1) The above information disclosed is primarily based on the information provided by the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk).

(2) Pursuant to Section 336 of the SFO, if certain conditions are fulfilled, the shareholders of the Company are required to submit a form for disclosure of interests. In the event of changes in the shareholding of the shareholders of the Company, the shareholders will not be required to notify the Company and the Hong Kong Stock Exchange unless certain conditions have been fulfilled, so that the latest shareholding of the shareholders of the Company may be different from the shareholding submitted to the Hong Kong Stock Exchange.

(3) Save as disclosed above, as at the 31 December 2017, the Company is not aware of any other persons (other than the Directors, Supervisors and chief executives of the Company) who have interest or short position in the shares or underlying shares of the Company that are required to be recorded in the register under the provisions of Section 336 of the SFO.

R. MANAGEMENT CONTRACTS

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

S. CONNECTED TRANSACTIONS

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

1. Connected Transaction – Asset Transfer Agreement

As disclosed by the Company in the Prospectus, on 13 April 2015, we entered into an asset transfer agreement (the "**Asset Transfer Agreement**") (as supplemented and amended by the First Supplementary Agreement executed on 30 December 2015, the Second Supplementary Agreement executed on 27 July 2016, and the Third Supplementary Agreement executed on 28 December 2017) with the Controlling Shareholder, whereby the Controlling Shareholder agreed to transfer such interests it held in Kunming No. 10 Water Purification Plant (the "**Target Assets**") to the Company.

Consideration: The consideration for the transfer of the Target Assets is initially estimated to be RMB750.17 million, subject to a final determination on the basis of the appraised value of the Target Assets as at the last day of the month when the Target Assets receive confirmation of construction completion, pass inspection and receive acceptance from the relevant authorities, as assessed by a qualified valuer and to be filed with Kunming SASAC. As evaluated by a qualified valuer (with 30 June 2017 as the benchmark date) and after filing with Kunming SASAC on 27 December 2017, the consideration for the acquisition was determined to be approximately RMB572,323,000.

Payment and Closing: The consideration will be paid by the Company to the Controlling Shareholder in two instalments:

The first instalment of RMB450 million was paid by the Company to the Controlling Shareholder in December 2015; and

The second instalment, being the remainder of the consideration, must be paid by the Company within 15 working days after the Third Supplementary Agreement comes into effect. The second instalment has deducted the Company's cost of capital of RMB44,198,300 for the first instalment of RMB450 million chargeable at a rate of 6.53% per annum and accruing from 1 July 2016 to the date of transfer of the Target Assets. The Company shall reimburse the Controlling Shareholder for its cost of capital at a rate of 6.53% per annum should it be late with the payment of the second instalment of the consideration.

Our discretionary termination option: The Company may terminate the acquisition of the Target Assets at any time, and the Controlling Shareholder must refund the first instalment to the Company within one month of the Company's termination notice.

Reasons for and benefits of the asset transfer transaction: We are acquiring the Kunming No. 10 Water Purification Plant, because the inlet and outlet water quality monitor system of the Kunming No. 10 Water Purification Plant has obtained the acceptance from the Kunming Environmental Protection Bureau and the plant is close to commencement of commercial operation, and the construction is substantially completed.

The Controlling Shareholder has fulfilled all conditions as of 31 December 2017, and the Company paid the remaining consideration for Kunming No. 10 Water Purification Plant on 31 January 2018. The final consideration for the acquisition was approximately RMB572,323,000.

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

Entrusted Operation and Management Framework Agreement

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

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

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

The Controlling Shareholder and the Company may enter into separate individual service agreement(s) and set out specific terms for each transaction to regulate the transactions contemplated under the Entrusted Operation and Management Framework Agreement. Such individual service agreements shall be in accordance with the terms under the Entrusted Operation and Management Framework Agreement, which shall set out the specific terms for each transaction, including the relevant facility, the services to be provided and the service fees pending to be paid. The service fee to be paid under each individual service agreement will be determined on a case-by-case basis pursuant to the following pricing policy:

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

(2) where there are no such prescribed fees, such price as may be more favorable to the Company than the then prevailing market price; and

(3) where it is not practical to refer to the market price, the price shall be based on arm's length negotiations on a cost plus basis, allowing for reasonable profits on the costs incurred, including electricity cost, chemicals cost, sludge transportation and processing cost, overhead expense, and equipment maintenance expense. We will charge a service fee that represents a 10% margin over the costs that will be incurred in providing the operation and management services. The 10% margin over such costs was arrived at after reflecting similar transaction between other listed PRC companies and their parent companies in the utility and power industry.

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

Individual Service Agreements

The Company disclosed in the Prospectus that the Company and the Controlling Shareholder have entered into the following individual service agreements (collectively, the "**Individual Service Agreements**", and each an "**Individual Service Agreement**") in relation to each of the treatment plants conducting the excluded business, which are governed by the terms of the Entrusted Operation and Management Framework Agreement. The management fees under each Individual Service Agreement are calculated based on the actual wastewater treatment volume multiplied by the price per cubic meter, which are determined, pursuant to the Entrusted Operation and Management Framework Agreement, at rates which are equal to or greater than costs plus 10% margins, depending on the historical performance of the relevant plant(s), geographical location of, and the human and technical resources allocated to such plant(s).These Individual Service Agreements are listed as below:

(1) Kunming No. 9 Water Purification Plant Entrusted Operation Management Agreement

(2) Kunming No. 10 Water Purification Plant Entrusted Operation Management Agreement

(3) Kunming No. 11 Water Purification Plant Entrusted Operation Management Agreement

(4) The Baiyuhe Water Purification Plant Entrusted Operation Management Agreement

(5) The Baiyukou Water Purification Plant Entrusted Operation Management Agreement

(6) Haikou Water Purification Plant Entrusted Operation Management Agreement

(7) Luolonghe Rain Water Station Entrusted Operation Management Agreement

(8) The Aziying Water Purification Plant Entrusted Operation Management Agreement

(9) Dianyuanzhen Water Purification Plant Entrusted Operation Management Agreement

(10) Sayingpan Water Purification Plant Entrusted Operation Management Agreement

(11) Yunlong Water Purification Plant Entrusted Operation Management Agreement

Annual Caps

During the Reporting Period, the annual cap for the transactions under the Entrusted Operation and Management Framework Agreement for 2017 was RMB115,800,000, with the actual transaction value being RMB82,373,000.

Our Directors have estimated that the annual caps for the transactions under the Entrusted Operation and Management Framework Agreement, which include all costs and expenses payable by us in relation to the operation and management of the various wastewater treatment plants, and the service fees we may charge pursuant to the Entrusted Operation and Management Framework Agreement, for each of the years ending 31 December 2018 and 2019 would be as follows:

	For the year ended 31 December	
	2018	2019
	RMB'000	*RMB'000*
Service fees and reimbursable costs (after tax) to be paid by the Controlling Shareholder to the Company	**130,000**	140,000

For the purposes of determining the proposed annual caps for the transactions under the Entrusted Operation and Management Framework Agreement for each of the years ending 31 December 2018 and 2019, the Directors have considered (i) the historical transaction amounts incurred as set out above, (ii) the costs borne by the Controlling Shareholder during the Reporting Period, (iii) the projected development progress (i.e. at the pre-trial operation stage or after pre-trial operation stage) of each of the wastewater treatment plants conducting the excluded business, as the management fees to be paid to our Group for the pre-trial operation are expected to be determined on a cost basis, and after the pre-trial operation stage the management fees are expected to be calculated, pursuant to the Entrusted Operation and Management Framework Agreement, at rates which are equal to or greater than costs plus 10% margins, higher than the management fees for the pre-trial stage, (iv) the number of Individual Service Agreements, (v) the estimated demand for operation and management services, and (vi) the historical market conditions and the recent economic outlook of the PRC for the three years ended 31 December 2017.

3. Confirmation by the independent non-executive Directors

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

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

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

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

4. Confirmation of Auditor

The Board has received a confirmation letter in relation to above continuing connected transactions from PricewaterhouseCoopers, confirming with respect to the above continuing connected transactions as at 31 December 2017 that:

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

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

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

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

Please refer to Note 36 to the Consolidated Financial Statements prepared under the IAS for details of the significant related party transactions. The information on connected transactions and continuing connected transactions required by the Listing Rules is set out in this chapter. Directors confirm that the Company has complied with the disclosure rules under Chapter 14A of the Listing Rules in relation to the above connected transactions and the related party transactions set out in Note 36 to the Consolidated Financial Statements.

T. COMPLIANCE WITH NON-COMPETITION AGREEMENT

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

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

Kunming Dianchi Investment has committed that for the year 2017, it has complied with the Non-competition Agreement. The independent non-executive Directors have examined and reviewed the implementation of the Non-competition Agreement during the year of 2017 and have confirmed that Kunming Dianchi Investment was fully complied with the agreement and there were no violations of agreement.

U. RETIREMENT AND EMPLOYEE BENEFIT PLANS

Details of the retirement and employee benefits plans of the Group are set out in Note 27 to the Financial Statements.

V. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

W. PUBLIC FLOAT

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

X. DONATIONS

During the Reporting Period, the Company had made donations for charity of RMB3,763,000 in an aggregate.

Y. PERMITTED INDEMNITY PROVISIONS

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

Z. AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Financial Statements of the Group for the year ended 31 December 2017 prepared in accordance with the International Financial Reporting Standards.

AA. AUDITOR

PricewaterhouseCoopers is appointed as the auditor for the Financial Statements for the year ended 31 December 2017 prepared in accordance with the International Financial Reporting Standards. Such Financial Statements prepared in accordance with the International Financial Reporting Standards as stated herein have been audited by PricewaterhouseCoopers and a standard unqualified audit report has been issued.

By Order of the Board
Guo Yumei
Chairperson

Kunming, the PRC, 26 March 2018

CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company has hereby submitted its Corporate Governance Report for 2017 to the shareholders.

A. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company focuses on maintaining a high standard of corporate governance for the 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 Listing Rules as its own corporate governance code. The Company has established and improved 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 believe that during the Reporting Period, the Company had complied with all applicable code provisions as stipulated in the CG Code except for code provision A.2.1 (as explained below in detail).

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

B. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for the securities transactions of the Company by all Directors, Supervisors and relevant employees (which terms have the same meaning ascribed to them under the CG Code). Based on the specific enquiries to all of the Directors and Supervisors of the Company, the Directors and Supervisors had strictly complied with the standards as set out in the Model Code during the Reporting Period.

C. BOARD OF DIRECTORS

1. Board of Directors

a. Composition of the Board of Directors

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

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

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

The composition of the Board is as follows:

Name	Age	Sex	Position	Appointment date	Term
Ms. Guo Yumei	50	F	Chairperson; Executive Director and General Manager	Appointed as Executive Director and General Manager in January 2011, and as Chairperson on 23 June 2016	3 years
Mr. Luo Yun	39	M	Executive Director and Deputy General Manager	Appointed as Deputy General Manager in January 2015 and as Executive Director on 23 June 2016	3 years
Mr. Zeng Feng	53	M	Non-executive Director	19 January 2011	3 years

Name	Age	Sex	Position	Appointment date	Term
Ms. Song Hong	54	F	Non-executive Director	23 June 2016	3 years
Mr. Wong Man Chung Francis	53	M	Independent Non-executive Director	23 June 2016	3 years
Mr. Yin Xiaobing	44	M	Independent Non-executive Director	23 June 2016	3 years
Mr. He Xifeng	55	M	Independent Non-executive Director	23 June 2016	3 years

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

b. *Job Duties and Authority of the Board of Directors*

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

c. *Job Duties and Authority of the Management*

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

2. Meetings of Board of Directors and General Meeting

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

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

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

The Directors confirm that during the Reporting Period, the Company has strictly complied with the provisions in relation to the meetings of the Board of Directors.

For the year of 2017, the Board of Directors convened a total of 9 meetings. The attendance of the meetings by the Directors was as follows:

Name	**Position**	**Number of meetings attended/ should attend**	**Attendance Rate *(Attendance rate of Directors appointed midway in the financial year shall be calculated based on the number of meetings held during such Directors' terms.)***
Ms. Guo Yumei	Chairperson; Executive Director and General Manager	9/9	100%
Mr. Luo Yun	Executive Director and Deputy General Manager	9/9	100%
Mr. Zeng Feng	Non-executive Director	9/9	100%
Ms. Song Hong	Non-executive Director	9/9	100%
Mr. Wong Man Chung Francis	Independent Non-executive Director	9/9	100%
Mr. Yin Xiaobing	Independent Non-executive Director	9/9	100%
Mr. He Xifeng	Independent Non-executive Director	9/9	100%

For the year 2017, an annual general meeting of the Company was held. The attendance of the Directors was as follows:

Name	Position	Number of meetings attended/ should attend	Attendance rate
Ms. Guo Yumei	Chairperson; Executive Director and General Manager	1/1	100%
Mr. Luo Yun	Executive Director and Deputy General Manager	1/1	100%
Mr. Zeng Feng	Non-executive Director	1/1	100%
Ms. Song Hong	Non-executive Director	1/1	100%
Mr. Wong Man Chung Francis	Independent non-executive Director	1/1	100%
Mr. Yin Xiaobing	Independent non-executive Director	1/1	100%
Mr. He Xifeng	Independent non-executive Director	1/1	100%

3. Chairperson and President

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

4. Appointment of Directors

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

5. Remuneration of Directors

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

The independent non-executive Directors of the Company receive their remuneration from the Company, whereby the Company shall pay Mr. Wong Man Chung Francis, Mr. Yin Xiaobing and Mr. He Xifeng an amount of RMB220,000, RMB150,000 and RMB150,000, respectively on a yearly basis. Such travel and accommodation expenses incurred for the Company's board meetings, general meetings and the relevant activities organized by the Board of Directors attended by the independent non-executive Directors shall be borne by the Company. As for those non- executive Directors who do not take any management job duties in the Company, they do not receive their remuneration from the Company. The executive Directors who undertake management job duties in the Company shall receive their remuneration from the Company. The remuneration of all executive Directors shall be determined pursuant to the standard as provided in the "Measures Regarding Remuneration Management" of the Company, and in particular, such remuneration shall include the basic salary, performance bonus and other benefits. The basic salary is determined based on the position held by an executive Director in the Company and the performance bonus is determined subject to the Company's operating results. Other benefits shall include the statutory pension, medical and housing provident funds. Details in relation to the remuneration of Directors are provided in Note 28 to the Financial Statements.

6. Training of Directors

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

For the year ended 31 December 2017, the Directors have participated in the following training:

Director	Type of training
Ms. Guo Yumei *(Chairperson)*	A, B
Mr. Luo Yun	A, B
Mr. Zeng Feng	A, B
Ms. Song Hong	A, B
Mr. Wong Man Chung Francis	A, B
Mr. Yin Xiaobing	A, B
Mr. He Xifeng	A, B

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

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

7. Joint Company Secretaries and their training

Mr. Yang Yang (楊陽) and Mr. Chiu Ming King (趙明璟) act as the Joint Company Secretaries and are responsible for facilitating the procedures of the Board of Directors and facilitating the communication between the Directors and between the Directors and shareholders and the management level. Mr. Chiu Ming King has his main contact with the Company as Mr. Yang Yang and Mr. Yang Yang shall report significant events to the Chairperson. The profiles of the Joint Company Secretaries are stated in the section headed "Profiles of Directors, Supervisors and Senior Management" in this Report. During the Reporting Period, the Joint Company Secretaries received professional training for more than 15 hours to update their technique and knowledge.

D. COMMITTEES UNDER THE BOARD OF DIRECTORS

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

1. Audit Committee

During the Reporting Period, the Audit Committee consists of three members, namely Mr. Wong Man Chung Francis (黃文宗), Mr. Zeng Feng (曾鋒) and Mr. Yin Xiaobing (尹曉冰). All members of the Audit Committee are independent non-executive Directors. Mr. Wong Man Chung Francis (黃文宗) is the chairman of the Audit Committee.

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

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

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

On 24 April 2017, the Company convened a meeting of the Audit Committee to consider and approve the Proposal on Discussions of the Annual Report of the Company for the Year Ended 31 December 2016 and Relevant Matters, the Proposal on the Submission of the Financial Statements of the Company for the Year Ended 31 December 2016 Agreed by Auditors to the Board, the Proposal on the Distribution of 2016 Final Dividends by the Company, the Proposal on the Company's Compliance with Corporate Governance Code, the 2017 Internal Audit Plan of the Company, and the Consideration of the Draft of Corporate Governance Report to be Contained in 2016 Annual Report, the Proposal on Recommending the Board to Publish the Draft of the Annual Report on the Hong Kong Stock Exchange Website and the Company's Website, and the Proposal on Considering and Recommending the Board to Reappoint 2017 Auditor and Authorizing the Board to Determine its Remuneration.

On 19 June 2017, the Company convened a meeting of the Audit Committee to discuss matters related to the review of the interim results of the Company for 2017, and training provided by PricewaterhouseCoopers to the Company's financial and audit departments.

On 18 August 2017, the Company convened a meeting of the Audit Committee to consider and pass the Confirmation and Approval of the Minutes of the Company's Last Meeting of the Audit Committee, the Proposal on the Review and Discussion of the Company's Interim Results as of 30 June 2017 and Related Matters, the Proposal on the Review and Submission to the Board of the Draft of the Company's Unaudited Consolidated Financial Statements as of 30 June 2017, the Proposal on the Announcement of the Interim Results for the Six Months Ended 30 June 2017, the Proposal on the Announcement of 2017 Interim Report, and the Proposal on the Review of the Group's Financial Control, Risk Management and Internal Control Systems, and Related Recommendations to the Board.

On 18 December 2017, the Company convened a meeting of the Audit Committee to learn about implementation of the 2017 internal audit work and arrangements for 2018 internal audit work, and the training provided by external auditors to our legal and audit departments.

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

Name	**Number of meetings attended/ should attend**	**Attendance Rate** ***(Attendance rate of Directors appointed midway in the financial year shall be calculated based on the number of meetings held during such Directors' terms.)***
Mr. Wong Man Chung Francis *(Chairman)*	4/4	100%
Mr. Zeng Feng	2/4	50%
Mr. Yin Xiaobing	4/4	100%

2. Remuneration and Appraisal Committee

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

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

During the Reporting Period, the Remuneration and Appraisal Committee did not convene any meeting, but all members of the committee maintained close contact and sound communication. On 26 March 2018, the committee held a meeting to discuss and evaluate Directors' performances and appraisal results.

3. Nomination Committee

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

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

During the Reporting Period, the Nomination Committee did not convene any meeting, but all members of the committee maintained close contact and sound communication. On 26 March 2018, the committee held a meeting to discuss nomination of non-executive Directors, the independence of independent non-executive Directors, review the structure, size and composition (including the skills, knowledge and experience) of the Board and review implementation of the Company's diversity policy.

4. Strategy and Investment Decision Committee

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

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

During the Reporting Period, the Strategy and Investment Decision Committee did not convene any meeting, but all members of the committee maintained close contact and sound communication.

E. DIVERSITY POLICY OF MEMBERS OF THE BOARD OF DIRECTORS

For purposes of reaching a sustainable balanced development, the Company has regarded the increasing diversity of the members of the Board of Directors as the key element that supports the Company to achieve its strategic objective and to maintain the sustainable development. When the Company is establishing the composition of the members of the Board of Directors, it will take into consideration from different aspects and achieve the diversity of the member of the Board of Directors. Such aspects shall include but is not limited to sex, age, cultural and educational background, races, professional experience, technique, knowledge and term of service. All the appointment for the members of the Board of Directors are made on the principle of recruiting meritocratic professional. Meanwhile, the candidates are selected based on objective conditions, fully taking into consideration the benefits brought by the diversity of members of the Board of Directors.

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

The Nomination Committee shall select new Directors pursuant to the requirements of the Diversity Policy of Members of the Board of Directors, with a view to achieving the objective of diversifying the members of the Board of Directors.

F. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

Our Board of Directors and the senior management are accountable for the overall responsibility in respect of monitoring the implementation of internal control and risk management procedures and other measures in the Group. The Company's risk management and internal control systems aim at managing but not eliminating the risk for not being able to achieving the business objective. Moreover, only reasonable but not absolute guarantee is made for misrepresentation or loss that are not significant. The Board of Directors will conduct an examination on the Company's risk management and internal control systems once a year. The Board of Directors states that it has reviewed and examined the Company's risk management and internal control systems as of 31 December 2017. The Board of Directors confirms that it has examined the effectiveness of the Company's risk management and internal control systems. The Board believes that the Company's risk management and internal control systems are effective and sufficient. The Company's risk management and internal control systems can effectively guide against such risks existing in the operation.

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

G. THE DIRECTORS' LIABILITY TO THE FINANCIAL STATEMENTS

The Company has not encountered with any significant and uncertain events and circumstances that might produce significant doubts on the Company's capability of its continuous operation of business. The Board of Directors has confirmed to undertake the liabilities for the preparation of the Group's financial statements as of 31 December 2017.

H. REMUNERATION OF AUDITOR

Auditors engaged by the Company shall be nominated by the Board and approved by the general meeting of shareholders. Their remuneration is determined by the Board as authorized by the general meeting of shareholders. To ensure better alignment between the Company's audit works in the PRC and overseas, the Company re-appointed PricewaterhouseCoopers as its international auditor and engaged PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) to handle its PRC domestic audit work in 2017. During the year, the Group paid RMB3.30 million to auditors for their audit service for the Group, and paid RMB0.20 million for their non-audit service in relation to a discloseable transaction of the Company.

I. SHAREHOLDERS' RIGHTS

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

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

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

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

3. Shareholders are entitled to the inquiry right

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

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

J. COMMUNICATIONS WITH SHAREHOLDERS

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

K. INVESTORS RELATION

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

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

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

L. ARTICLES OF ASSOCIATION

The Articles of Association as amended by the Company in accordance with the requirements of the Listing Rules have come into effect since the Listing Date. The Articles of Association have been published at the website of the Stock Exchange and the website of the Company. Save as disclosed above, no other amendments have been made to the Company's Articles of Association during the Reporting Period.

M. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Company has complied with the provisions of "Comply or Explain" (「不遵守就解釋」) stated in the Environmental, Social and Governance ("ESG") Reporting Guide. The Company will separately issue the Environmental, Social and Governance Report.

REPORT OF THE BOARD OF SUPERVISORS

I. COMPOSITION OF THE BOARD OF SUPERVISORS

As of 31 December 2017, the Board of Supervisors of the Company consists of three Supervisors, of whom two are employee representative Supervisors. The remaining Supervisor has been appointed by our shareholders and the current employee representative Supervisors have been appointed by the representatives of our labor union. The Supervisors are appointed for a term of three years after which they may be re-elected.

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

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

II MEETING OF THE BOARD OF SUPERVISORS

In 2017, the Board of Supervisors of the Company convened 10 meetings of the Board of Supervisors in total. All Supervisors were present. The details are as follows:

On 2 March 2017, the Company convened a meeting of the Board Of Supervisors to consider and approve the Proposal on Transforming the Water Quality Testing Center into Kunming Dianchi Water Environment Monitoring Co., Ltd., the Proposal on Establishing Kunming Dianchi Water Jizhen Wastewater Treatment Co., Ltd., the Proposal on Matters Related to Independent Directors' Treatment Standards, the Proposal on Retirement of Some Fixed Assets in Kunming No. 2 Water Purification Plant, the Proposal on Dismantling the Garage of Kunming No. 1 Water Purification Plant and Sludge Transportation Garage of Kunming No. 7 Water Purification Plant, the Proposal on Using the RMB250 million Credit Line of Ping An Bank, the Proposal on Using the RMB180 million Credit Line of Bank of Communications, the Proposal on Increasing the Fees of Overseas Attorneys of the Issuer and Relevant Legal Service Fees and the Proposal on Requesting the Convening of Shareholders' Extraordinary General Meeting.

On 25 April 2017, the Company convened a meeting of the Board of Supervisors to consider and approve the Proposal on Strengthening the Party's Control over State-owned Enterprises, the Proposal on Establishing Disease and Accidental Injuries Protection Plans for Employees, the Proposal on Introducing the BIOCOS Nitrogen-Reduction Process and Technologies into Kunming No. 3 Water Purification Plant (Old Factory District), the Proposal on the Cooperation Project in Relation to the equity interest of Leshan Debei'ao Water Limited, the Proposal on Investment in Wastewater Pipeline Improvement Projects in Sayingpan and Yunlongxiang Town in Yunlong Reservoir Water Conservation District and Wastewater Treatment Projects in Key Rural Areas in BOT Model, the Proposal on Investing in Wastewater Treatment Plant and Auxiliary Pipeline Project in North Ancient City District, Yiliang, the Proposal on Distributing Subsidiaries' Net Profit for 2016, the Proposal on the Financial Final Accounts of the Company for 2016, the Proposal on the Financial Budget of the Company for 2017, the Proposal on Supplementing the Extension of Audit Period and Relevant Audit Fees for the Issuance and Listing of H Shares of the Company, the Proposal on General Mandate to Issue Shares, the Proposal on Distributing the 2016 Final Dividend of the Company, the Proposal on the Company's Risk Management and Internal Control Systems, the Proposal on the Company's Annual Report for the Year Ended 31 December 2016 and Related Matters, the Proposal on Reviewing and Signing the Management Representation (Explanatory Letter) for the Financial Statements for the Year Ended 31 December 2016, the Proposal on Independent Audit Report and Audited Consolidated Financial Statements as of 31 December 2016, the Proposal on Nominating and Authorizing Two Executive Directors to Sign the Statements of Financial Position, the Proposal on Submitting the Plan of Re-appointing 2017 Auditors and Authorizing the Board to Determine their Remunerations to the Annual General Meeting, the Proposal on Determining the Date, Time and Location of the 2016 Annual General Meeting, and the Proposal on Retiring Fixed Assets of Kunming No.1 Water Purification Plant due to High Voltage Transformation.

On 9 May 2017, the Company convened a meeting of the Board of Supervisors to consider and approve the Proposal on Establishing a Hong Kong Company, and the Proposal on Initiating the Industrial Fund.

On 19 June 2017, the Company convened a meeting of the Board of Supervisors to consider and approve the Proposal on Initiating a Project Loan by Shuangjiang Dianchi Water Treatment Co., Ltd., the Proposal on Appointing PricewaterhouseCoopers Zhongtian CPAs (Special General Partnership) as the Company's Hong Kong Auditor for 2016, the Proposal on Using the RMB50 million Credit Line of China Everbright Bank, the Proposal on Using the RMB300 million Credit Line of CITIC Bank, the Proposal on Matters Related to Opening of Dividend Distribution Account, the Proposal on Increased Service Fees Arising from Extended Service Period of Intermediaries in Relation to the H Shares Issuance and Listing, and the Proposal on Investing in Domestic Wastewater Treatment Facilities Construction Project in Liushaoxiang Town, Qinghai Village and Xintian Village in Qingshuihai Reservoir Water Conservation District in BOT Model, and announced the Production and Operation and Financial Position from January to May 2017.

On 26 July 2017, the Company convened a meeting of the Board of Supervisors to consider and approve the Proposal on the Basic Annual Coefficients of Deputy Officers in Charge for 2016, and the Proposal on the Company's Environmental, Social and Governance Report.

On 18 August 2017, the Company convened a meeting of the Board of Supervisors to consider and approve the Proposal on Announcement of the Interim Results of Kunming Dianchi Water Treatment Co., Ltd. for the Six Months Ended 30 June 2017, the Proposal on Announcement of 2017 Interim Report of Kunming Dianchi Water Treatment Co., Ltd., the Proposal on the Acquisition of 100% Equity Interests in Hunan Liuyang Hongyu Water Treatment Co., Ltd., the Proposal on the Proposed Acquisition of 100% Equity Interests in Leshan Debei'ao Water Limited, the Proposal on Proposed Investment in Anning City as a Private Investor to Push Forward the Rural Environment Comprehensive Treatment Engineering Project, the Proposal on Audit Fees Payable to PricewaterhouseCoopers Zhongtian CPAs (Special General Partnership) for 2017, the Proposal on Optimizing and Adjusting the Company's Head Office Organizational Structure, the Proposal on Requesting the Consideration of Anning Project Company, and the Proposal on the Company's Transfer (with Consideration) of the Green Seedings on Construction Site at No.195 Road of the New and Old Factory Districts in No.3 Water Purification Plant.

On 25 September 2017, the Company convened a meeting of the Board of Supervisors to consider and pass the Proposal on Matters Related to Targeted Poverty Relief Project in Rende Street of Xundian County and Construction Funds Allocated to the Project.

On 27 October 2017, the Company convened a meeting of the Board of Supervisors to consider and pass the Proposal on Providing RMB100 million Loan to Bus Group.

On 10 November 2017, the Company convened a meeting of the Board of Supervisors to consider and approve the Proposal on Changing the Company's Business License Registration Type, the Proposal on Using the RMB300 million Credit Line of Industrial Bank, the Proposal on the Board's Authorization of the Office Meeting of the General Manager to Make Decisions on Preliminary Works Regarding Investment Projects within the Company's Scope of Principal Business, the Proposal on the Proposed Investment in the Project of Shuangjiang No.2 Running Water Plant and Auxiliary Pipelines, the Proposal on the Proposed Investment in the Project of Transforming and Expanding Xundian Wastewater Treatment Plant, the Proposal on the Proposed Investment in the Environmental Protection Project of Relocation and Resettlement in Haitou Village, Qingshuihai Water Conservation District, Xundian, Water Resources Protection Place in Kunming, the Proposal on the Proposed Investment in Construction Project of Town and Rural Wastewater Treatment and Auxiliary Facilities in Yiliang County, the Proposal on the Proposed Investment in Flood Recovery Facilities Construction Project in Tourist Resort, the Proposal on the Proposed Investment in the Project of Comprehensive Water Environment Improvement in Tourist Resort, and the Proposal on the Establishment of Xundian County Qingshuihai Project Company.

On 15 November 2017, the Company convened a meeting of Board of Supervisors to consider and approve the Proposal on the Proposed Investment in and Acquisition of 100% Equity Interests in Zhuji Dongdaciwu Wastewater Co. Ltd.

III. MAJOR WORK IN 2017

(1) Monitoring the operation of the Company

In 2017, the members of the Board of Supervisors of the Company reviewed the proposals submitted to the Board of Directors and the general meetings for consideration and examined the operating activities of the Company by attending all the Board meetings and general meetings of the Company. The Board of Supervisors believes that the operating activities of the Company are in compliance with the provisions of the relevant laws and regulations of the state and the Articles of Association, the decision-making procedures are legal, the operating results are significant, and the Company has not engaged in any operating activities that are in violation of laws and regulations or exceed the scope of business operation as prescribed in laws and regulations.

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

In 2017, the members of the Board of Supervisors of the Company monitored the Directors and senior management of the Company performing their duties by attending the Board meetings, reviewing various proposals of the Board and examining the daily operation and management of the Company. The Board of Supervisors believes that the Directors and senior management of the Company are in compliance with laws, carry out their duties responsibly, and perform their work in a practicable, diligent and due manner. The decision-making procedures are scientific and legal. None of the Directors or senior management has been found to act illegally or in violation of laws and regulations or to the detriment of the rights and interests of the Company and shareholders when performing their duties.

(3) Monitoring the financial position of the Company

In 2017, the Board of Supervisors carefully reviewed the relevant financial information and audit reports of the Company. The Board of Supervisors believes that the preparation of the Financial Statements of the Company is in compliance with the Financial Reporting Standards. The report has followed the principle of consistency and has reflected the financial position and operating results of the Company in an accurate, complete, true and fair manner.

(4) Monitoring the connected transactions of the Company

In 2017, the Board of Supervisors reviewed the information regarding the connected transactions between the Company and the Controlling Shareholder. The Board of Supervisors believes that such connected transactions are conducted on normal commercial terms. As such transactions were fair, equitable and reasonable, there existed no damages to the interests of the Company and other shareholders.

(5) Internal control

In 2017, the Company established a rather complete internal control system, which was in compliance with the requirements of the relevant laws and regulations of the state and meeting the actual needs of production, operation and management of the Company. Such system could be effectively implemented. The establishment of the internal control system has produced effect on better risk prevention and control on various sectors of production, operation and management of the Company. During the Reporting Period, the supervisory activities of the Board of Supervisors did not reveal any risk existing in the Company and there was no objection to the supervision matters during the Reporting Period.

IV. 2018 ANNUAL WORK PLAN

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

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

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

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

In 2018, the Board of Supervisors will seriously abide by the provisions of laws, regulations and the Articles of Association and perform their duties and obligations, and effectively safeguard the interests of the Company and the shareholders, so as to ensure that the Company can be operated in a standardized and healthy manner.

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Kunming Dianchi Water Treatment Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 109 to 208, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

The key audit matter identified in our audit is recoverability of trade receivables and receivables under service concession arrangements which is summarised as follows:

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables and receivables under service concession arrangements	
Refer to Note 9 "Receivables under service concession arrangements", Note 16 "Trade and other receivables" and Note 4 "Critical accounting estimates and judgements" to the consolidated financial statements. As at 31 December 2017, the carrying amounts of trade receivables and receivables under service concession arrangements were RMB247 million and RMB544 million respectively, of which trade receivables of RMB146 million and all the receivables under service concession arrangements totalling of RMB690 million were due from local government authorities. Management assess the recoverability of trade receivables and receivables under service concession arrangements based on the aging portfolio, customers' liquidity, past collection history and subsequent settlement. Management concluded that there was no impairment in respect of trade receivables and receivables under service concession arrangements as at 31 December 2017. We focused on this area because of the significant management judgements involved in determining the recoverability of trade receivables and receivables under service concession arrangements and the significance of these balances.	We evaluated and tested management's controls over the assessment of the recoverability of trade receivables and receivables under service concession arrangements. We reviewed all the relevant contracts for receivables under service concession arrangements to assess the concession rights an relevant amounts. We tested the accuracy of the ageing report for trade receivables. We confirmed significant trade receivable balances with customers on a sampling basis. We corroborated management's assessment of the collectability of individually significant balances against available evidences, including interviewing customers and examining the underlying supporting documents. We examined significant subsequent settlements for both trade receivables and receivables under service concession arrangements. We found that management's judgement in assessing the recoverability of trade receivables and receivables under service concession arrangements were supported by the evidences we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information as set out in the Group's 2017 annual report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2018

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	445,974	433,484
Long-term prepayments	7	450,000	450,000
Property, plant and equipment	8	2,342,663	2,369,089
Receivables under service concession arrangements	9	529,997	341,944
Amounts due from customers for construction contracts	14	238,383	35,573
Intangible assets	10	135,099	75,197
Investments in associates	11	15,257	15,101
Prepayments for acquisition of subsidiaries	36	43,356	79,950
Deferred income tax assets	12	32,957	23,697
		4,233,686	3,824,035
Current assets			
Receivables under service concession arrangements	9	13,747	9,679
Inventories	13	7,515	10,336
Amounts due from customers for construction contracts	14	12,296	5,716
Available-for-sale financial assets	15	80,000	–
Trade and other receivables	16	386,397	306,895
Cash and cash equivalents	17	1,291,170	446,830
		1,791,125	779,456
Total assets		6,024,811	4,603,491
EQUITY			
Capital and reserve attributable to equity holders of the Company			
Share capital	18	1,029,111	720,000
Other reserves	19	1,413,937	696,513
Retained earnings	20	1,257,039	1,077,795
		3,700,087	2,494,308
Non-controlling interests		6,114	5,102
Total equity		3,706,201	2,499,410

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred revenue	*22*	**157,479**	107,121
Borrowings	*21*	**1,091,625**	741,995
Deferred income tax liabilities	*12*	**39,848**	9,321
		1,288,952	858,437
Current liabilities			
Trade and other payables	*23*	**369,850**	422,339
Current income tax liabilities		**60,238**	44,568
Borrowings	*21*	**599,570**	778,737
		1,029,658	1,245,644
Total liabilities		**2,318,610**	2,104,081
Total equity and liabilities		**6,024,811**	4,603,491

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 109 to 208 were approved by the Board of directors on 26 March 2018 and were signed on its behalf.

Guo Yumei
Director

Luo Yun
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RMB'000	2016 RMB'000
		Year ended 31 December	
Revenue	5	1,223,825	914,925
Cost of sales	26	(723,335)	(489,444)
Gross profit		500,490	425,481
Selling expenses	26	(13,875)	(10,605)
Administrative expenses	26	(124,490)	(97,604)
Research and development expenses	26	(7,282)	(7,398)
Other income	24	93,291	82,019
Other losses – net	25	(4,817)	(1,272)
Operating profit		443,317	390,621
Finance income		33,706	16,670
Finance costs		(104,754)	(80,299)
Finance costs – net	29	(71,048)	(63,629)
Share of results of associates	11	156	(121)
Profit before income tax		372,425	326,871
Income tax expense	30	(58,336)	(51,193)
Profit for the year		314,089	275,678
Profit attributable to:			
– The equity holders of the Company		313,077	274,993
– Non-controlling interests		1,012	685
		314,089	275,678
Other comprehensive loss		(1,847)	–
Total comprehensive income for the year		312,242	275,678
Attributable to:			
– The equity holders of the Company		311,230	274,993
– Non-controlling interests		1,012	685
		312,242	275,678
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted earnings per share	31	0.33	0.38

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

		Capital and reserves attributable to the equity holders of the Company					
	Note	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016		720,000	669,061	830,254	2,219,315	–	2,219,315
Comprehensive income:							
Profit for the year		–	–	274,993	274,993	685	275,678
Transactions with owners:							
Non-controlling interests arising on business combination		–	–	–	–	4,417	4,417
Appropriations:							
Appropriation to statutory reserve	*19(a)*	–	27,452	(27,452)	–	–	–
As at 31 December 2016		720,000	696,513	1,077,795	2,494,308	5,102	2,499,410
As at 1 January 2017		720,000	696,513	1,077,795	2,494,308	5,102	2,499,410
Comprehensive income/(loss):							
Profit for the year		–	–	313,077	313,077	1,012	314,089
Currency translation differences		–	(1,847)	–	(1,847)	–	(1,847)
Transactions with owners:							
Proceeds from H shares issued		309,111	688,349	–	997,460	–	997,460
Dividends declared	32	–	–	(102,911)	(102,911)	–	(102,911)
Appropriations:							
Appropriation to statutory reserve	*19(a)*	–	30,922	(30,922)	–	–	–
As at 31 December 2017		1,029,111	1,413,937	1,257,039	3,700,087	6,114	3,706,201

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RMB'000	2016 RMB'000
		Year ended 31 December	
Cash flow from operating activities			
Cash generated from operations	*33(a)*	**220,655**	145,762
Interest paid		**(67,198)**	(62,719)
Income tax paid		**(48,806)**	(26,394)
Net cash generated from operating activities		**104,651**	56,649
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash acquired	*35*	**(168,932)**	(99,670)
Purchase of land use right		**–**	(40,790)
Purchase of property, plant and equipment		**(134,441)**	(99,810)
Purchase of intangible assets		**(2,974)**	(4,173)
Proceeds from disposal of property, plant and equipment	*33(b)*	**362**	165
Funds granted to related parties	*36(b)(iii)*	**(100,000)**	(68,662)
Funds repayments received from related parties	*36(b)(iv)*	**100,000**	67,902
Interest received		**8,367**	–
Proceeds from disposal of land use right	*33(c)*	**2,710**	6,834
Government grants received relating to purchase of property, plant and equipment		**67,208**	21,900
Government grants returned relating to purchase of property, plant and equipment	*22(a)*	**–**	(22,000)
Purchase of structured deposits		**(80,000)**	–
Net cash used in investing activities		**(307,700)**	(238,304)
Cash flows from financing activities			
Payments for listing expenses		**(53,358)**	(11,254)
Dividends declared and paid to the Company's shareholders	*32*	**(102,911)**	–
Proceeds from issue of H shares	*18(c)*	**1,072,291**	–
Net cash outflow arising from consideration paid to the controlling shareholder of the Company for acquisition of wastewater treatment business		**–**	(1,089)
Proceeds from borrowings		**1,050,000**	380,450
Repayments of borrowings		**(887,656)**	(827,155)
Net cash generated from/(used in) financing activities		**1,078,366**	(459,048)
Net increase/(decrease) in cash and cash equivalents		**875,317**	(640,703)
Effects of exchange rate changes on cash and cash equivalents		**(30,977)**	–
Cash and cash equivalents at beginning of the year		**446,830**	1,087,533
Cash and cash equivalents at end of the year		**1,291,170**	446,830

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

1 CORPORATE INFORMATION

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

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

The consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2018.

The financial position of the Group was particularly affected by the initial public offering on 6 April 2017 (Note 18) during the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Compliance with IFRS and HKCO

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

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the available-for-sale financial assets which were measured at fair value.

(c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of deferred tax assets for unrealised losses – Amendments to IAS 12, and

- Disclosure initiative – amendments to IAS 7.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 33(d).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

		Effective for annual periods beginning on or after
IFRS 9 Financial Instruments and associated amendments to various other standards	IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.	1 January 2018
IFRS 15 Revenue from contracts with customers and associated amendments to various other standards	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.	1 January 2018
IFRS 16 Leases	IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.	1 January 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time

The Group does not plan to early adopt any of these standards. For these new standards not yet effective, the Group had assessed the impact and does not expect any significant impact on the Group's operating results or financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations not under common control

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

Acquisition-related costs are expensed as incurred.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(a) Business combinations not under common control (Continued)

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(b) Business combination under common control

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 *Consolidation* *(Continued)*

(d) Disposal of subsidiaries

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

2.2.2 *Separate financial information*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the consolidated statement of comprehensive income where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of results of associates" in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as executive directors of the Company that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements is presented in Renminbi ("**RMB**"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and provision for impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Property, plant and equipment *(Continued)*

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

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses – net" in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Land use rights

All land in the PRC is state-owned or collectively-owned and no individual land ownership exists. The land use rights of certain land of the Group were contributed by Kunming Dianchi Investment Co., Ltd. (昆明滇池投資有限責任公司, "**KDI**"). The premium paid for such rights are treated as prepayments for operating lease and recorded as land use rights, which are stated at cost less accumulative amortisation and accumulated impairment losses, if any. Land use rights are amortised over the lease period of 48 to 50 years using straight-line method.

2.8 Intangible assets

(i) Operating concessions

As described in Note 2.9, the Group engages with government authorities in the development, financing, operation and maintenance of wastewater treatment services (concession services) over a specified period of time (concession services period). The Group has access to operate the wastewater treatment facilities to provide the concession services in accordance with the terms specified in the arrangement.

The Group recognises the related rights in the service concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) to charge users of the concession service and shall recognise a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Therefore intangible assets – concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 24.6 to 45.2 years.

(ii) Purchased computer software

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Service concession arrangements

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

(a) Consideration given by the Grantor

A financial asset (receivable under a service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantor for the construction and upgrade services rendered and/or the consideration paid and payable by the Group to the Grantor. The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group specified or determinable amounts or the shortfall, if any, between amounts received from the users of the public services and specified or determinable amounts. The financial asset (receivable under a service concession arrangement) is accounted for in accordance with the policy for loans and receivables set out in Note 2.11.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of public services, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the services. The intangible asset (operating concession) is accounted for in accordance with the policy set out in Note 2.8(i).

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration received or receivable from the Grantor.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Service concession arrangements *(Continued)*

(b) Construction and upgrade services

Revenue and costs relating to construction or upgrade services is accounted for in accordance with the policy set out in Note 2.26(c).

(c) Operating service

During the Operation Period of the service concession arrangements, receipts up to the level of the guarantee are treated as settlement of the financial asset. Additional amounts collected from users are recognised as revenue in accordance with the policy set out in Note 2.26(a). Costs for operating services are expensed in the period in which they are incurred.

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

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

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group has financial assets classified as “loans and receivables”.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group’s loans and receivables comprise “trade and other receivables”, “receivables under service concession arrangements” and “cash and cash equivalents”, in the consolidated balance sheet (Note 16, Note 9, and Note 17).

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category. The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.13 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial Reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Construction contracts

A construction contract is defined by IAS 11, "Construction contracts", as a contract specifically negotiated for the construction of an asset. The Group's construction contracts refer to Build-Transfer (the "**BT**") arrangements. Under the BT arrangements, the Group carried out construction work of the wastewater treatment and water supply facilities and returned the assets to the count parties of the BT arrangements after completion of the construction.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the "percentage-of-completion" method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the consolidated balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. Amount due from customers for construction contracts represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings. "Amount due to customers for construction contracts" represents a liability where the opposite is the case.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.17 Cash and cash equivalents

In the consolidated cash flows statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade and other payables

Trade payables are obligations to pay for goods, construction or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowings cost

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the areas where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if deferred income tax liabilities arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.23 Employee benefits

(a) Pension obligations

The full-time employees of the Group in the PRC are covered by various government-sponsored defined contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred and contributions paid to the defined-contribution pension plans for an employee are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the employee leaves the Group.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. All the employees are entitled to an additional pension aggregating to 8.33% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

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

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

(c) Bonus entitlements

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

2.25 Provision and contingent liabilities

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Group's financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Rendering of wastewater treatment and other services

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

(b) Water supply services

Revenue from water supply services is recognised when a Group entity has delivered water to the customer; the customer has accepted the water and collectability of the related receivables is reasonably assured.

(c) Revenue from construction contracts

Revenue from construction service is recognised on the percentage-of-completion method, as further explained in the accounting policy set out in Note 2.14.

(d) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

FOR THE YEAR ENDED 31 DECEMBER 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred revenue and are credited to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the related asset.

2.28 Research and development

Research expenditure is recognised as an expense as incurred.

When the future economic benefits become apparent as a project progresses into the development stage the costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company and the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group's activities do not expose it to significant foreign exchange risk because it principally operates in the PRC and RMB is the currency of the primary economic environment in which the Group operates.

(ii) Cash flow and fair value interest rate risk

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

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

The interest rates and terms of repayments of borrowings are disclosed in Note 21.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

As at 31 December 2017, if the interest rate on floating interest rate borrowings had been higher/lower by 0.5%, the Group's net profit for each year would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings. Details of changes are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net profit (decrease)/increase		
– Higher 0.5%	**(433)**	(685)
– Lower 0.5%	**433**	685

(b) Credit risk

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk (Continued)

For trade and other receivables and receivables under service concession arrangements, the customers are primarily local governments and PRC state-owned entities. As at 31 December 2017, the ageing analysis of trade receivables is set out in Note 16(a). Although the revenue is highly concentrated in the two single customers (Note 5(d)), in the opinion of the directors of the Company, the collectability of long-aged receivables were not considered as high risk because the receivables were due from a local government and there is no material change in credit risk from this local government. In addition, there was not any significant long-aged receivables as at 31 December 2017, the time value of the long-aged receivables is not significant. As such, no provision was made.

(c) Liquidity risk

The Group's objective is to maintain sufficient cash and sources of funding through committed credit facility and maintain flexibility in funding by maintaining committed credit lines. To manage the liquidity risk, management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn banking facilities) and cash and cash equivalents on the basis of expected cash flows. All the borrowings are in compliance with relevant covenant terms if any and the Group expected to fund the future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

FOR THE YEAR ENDED 31 DECEMBER 2017

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) *Liquidity risk* *(Continued)*

Please refer Note 21(h) for more analysis of liquidity risk and undrawn down bank borrowings facilities in a greater detail respectively.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017					
Borrowings	**650,263**	**358,682**	**873,233**	**–**	**1,882,178**
Financial liabilities included in trade and other payables	**230,882**	**–**	**–**	**–**	**230,882**
	881,145	**358,682**	**873,233**	**–**	**2,113,060**
As at 31 December 2016					
Borrowings	834,987	78,773	791,350	–	1,705,110
Financial liabilities included in trade and other payables	283,867	–	–	–	283,867
	1,118,854	78,773	791,350	–	1,988,977

The estimated amount of interest payments on borrowings are arrived based on the principal borrowing balance and prevailing interests rates at respective balance sheet dates up to the final maturity date of the borrowing agreements.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debts divided by total capital. Net debts are calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated financial statements plus net debts.

The net gearing ratio as at 31 December 2017 is as follow:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Total borrowings	**1,691,195**	1,520,732
Less: cash and cash equivalents	**(1,291,170)**	(446,830)
liquid investments	**(80,000)**	–
Net debt	**320,025**	1,073,902
Total equity	**3,706,201**	2,499,410
Total capital	**4,026,226**	3,573,312
Gearing ratio	**7.95%**	30.05%

The decrease in the gearing ratio during the year ended 31 December 2017 is resulted primarily from the increase in cash and cash equivalents, which were the result of the initial public offering on 6 April 2017.

FOR THE YEAR ENDED 31 DECEMBER 2017

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

(a) The Group adopts the amendment to IFRS 7 for financial instruments that are measured in the consolidated balance sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017:

	Level 1	**Level 2**	**Level**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale financial assets	80,000	–	–	80,000

The Group did not have any financial assets or liabilities that are subsequently measured at fair value during the year ended 31 December 2017.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(b) Fair value of financial assets and liabilities measured at amortised cost

The fair values of the following financial assets and liabilities approximate their carrying amounts:

- Trade and other receivables (except for prepayments);
- Receivables under service concession arrangements;
- Cash and cash equivalents;
- Term deposits with initial term of over three months;
- Trade and other payables (except for advance from customers, staff salaries and welfare payables and accrued taxes other than income tax); and
- Borrowings.

The fair value of non-current receivable under service concession arrangements, non-current amounts due from customers for construction contracts and non-current borrowings is estimated by discounting the future cash flows at the current market rate available to the Group and the Company for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Scope of applying IFRIC 12 for certain wastewater treatment facilities

In determining whether the wastewater treatment facilities fall into the scope of IFRIC 12 "service concession arrangements", the Group applied a lot of accounting judgements, including (i) whether the Grantor controls and can control any significant residual interest in the infrastructure asset; (ii) whether the Grantor is able to exercise control of the residual infrastructure through a call option to acquire the infrastructure asset at the end of the concession period; (iii) whether the Grantor is able to pledge the infrastructure during the whole concession period. For details of accounting policies for wastewater treatment facilities under different models, please refer to Note 2.6, 2.8 and 2.9.

(b) Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation charges in future periods.

(c) Impairment of trade and other receivables and receivables under service concession arrangements

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables and receivables under service concession arrangements. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact on both the carrying amount of the receivables and the impairment charge in the period in which such estimate has been changed.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Current and deferred income tax

The Group is subject to income taxes in different areas in the PRC. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(e) Percentage of completion of construction and service contracts

The Group recognises revenue for construction work and service contracts according to the percentage of completion of the individual contract of construction or service work. The Group's management estimates the percentage of completion of construction or service work based on the actual cost incurred over the total budgeted cost, where the corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimation of both contract revenue and contract costs in the budget prepared for each construction contract and service contract as the contract progresses.

(f) Service concession arrangements

If the Group is paid for the construction and upgrade services (under BOT arrangement) or the cash payments for the rights to charge public users (under TOT arrangement) partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration received or receivable from the Grantor. Significant judgement is exercised in determining the fair value of the financial receivable at initial recognition. Discount rates, estimates of future cash flows and other factors are used in the valuation process. Any change in the expected cash flows will result in change in the carrying value of the financial receivable.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) Service concession arrangements *(Continued)*

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of financial receivables on the consolidated balance sheet, (ii) interest income, which will be recognised as revenue in the consolidated statement of comprehensive income, and (iii) revenue from operating and maintaining the water treatment plants in the consolidated statement of comprehensive income.

Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and impairment losses. The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

The carrying amounts of the operation concession carried as intangible assets in the consolidated balance sheet as at 31 December 2017 was RMB110,898,000 (31 December 2016: RMB49,901,000), while the receivables under service concession arrangements was RMB543,744,000 (31 December 2016: RMB351,623,000).

(g) Recognition of government grants

As at 31 December 2017, the Group accrued government grant receivables for value-added tax refund of RMB56,594,000 (31 December 2016: RMB63,560,000) (Note 24). Management considered there is reasonable assurance that the value-added tax refund can be received pursuant to Notice on Issuing the Catalogue of Preferential Value-added Tax Policies for Products Made through and Labor Services for Integrated Utilization of Resources issued by the State Administration of Taxation, and the grants were continuously received in 2017. When the expectation is different from the original estimate, such differences will impact the timing of recognition of government grants and reflect in the period in which such estimate is changed.

5 SEGMENT INFORMATION

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

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

The Group’s reportable segments are as follows:

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

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

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

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

FOR THE YEAR ENDED 31 DECEMBER 2017

5 SEGMENT INFORMATION *(Continued)*

(a) Revenue from all services

The revenue of the Group are set out as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Wastewater treatment	**1,037,163**	765,906
Operating services – under TOO model	**739,620**	697,322
Operating services – under TOT/BOT model	**37,029**	28,122
Construction services – under BT model	**158,800**	3,761
Construction services – under BOT model	**82,213**	22,426
Finance income	**19,501**	14,275
Reclaimed water supply and running water supply	**68,520**	62,366
Operating services of reclaimed water supply – under TOO model	**8,262**	6,814
Operating services of running water supply – under TOT/BOT model	**10,251**	5,668
Construction services – under BT model	**5,657**	11,711
Construction services – under BOT model	**42,491**	36,261
Finance income	**1,859**	1,912
Others	**118,142**	86,653
Management services	**100,098**	75,941
Transportation services	**3,025**	2,914
Others	**15,019**	7,798
	1,223,825	914,925

FOR THE YEAR ENDED 31 DECEMBER 2017

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information

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

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

FOR THE YEAR ENDED 31 DECEMBER 2017

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

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

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

The segment information provided to senior executive management for the reportable segments for the year ended 31 December 2016 is as follows:

	For the year ended 31 December 2016			
Business segment	Wastewater treatment	Water supply	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	765,906	62,366	86,653	914,925
Segment gross profit	386,938	3,292	35,251	425,481
Segment profit/(loss)	355,229	(468)	35,860	390,621
Finance income				16,670
Finance costs				(80,299)
Share of results of associates				(121)
Profit before income tax				326,871
Other information				
Depreciation of property, plant and equipment	157,011	4,642	709	162,362
Amortisation of land use rights	8,646	–	–	8,646
Amortisation of intangible assets	3,812	–	–	3,812
Capital expenditure	651,030	17,034	86	668,150

5 SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

	As at 31 December 2016			
Business segment	Wastewater treatment	Water supply	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	4,220,160	331,504	13,029	4,564,693
Unallocated:				
Deferred income tax assets				23,697
Investments in associates				15,101
Total assets				4,603,491
Segment liabilities	2,036,766	9,494	3,932	2,050,192
Unallocated:				
Deferred income tax liabilities				9,321
Current income tax liabilities				44,568
Total liabilities				2,104,081

(c) Geographical information

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

5 SEGMENT INFORMATION *(Continued)*

(d) Information about major customers

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Customer A	**493,298**	487,008
Customer B	**201,604**	191,066
	694,902	678,074

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

6 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost	**501,205**	479,091
Accumulated amortisation	**(55,231)**	(45,607)
Net book value	**445,974**	433,484
Opening net book value	**433,484**	347,560
Acquisition of subsidiaries *(Note 35)*	**24,046**	–
Additions	**–**	98,984
Disposals	**(1,746)**	(4,414)
Amortisation charges *(Note (a))*	**(9,810)**	(8,646)
Closing net book value	**445,974**	433,484

6 LAND USE RIGHTS *(Continued)*

(a) Amortisation of land use rights has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of sales *(Note 26)*	**9,810**	8,646

7 LONG TERM PREPAYMENTS

The Company made prepayments to KDI to purchase four wastewater treatment facilities under construction stage during the year ended 31 December 2017. According to the purchase agreement, the ownership of these wastewater treatment facilities will not be transferred to the Company unless KDI complete the construction and pass the required quality testing. In January 2016, KDI had completed the construction of three wastewater treatment facilities and transferred the ownership of these assets to the Company of RMB413,950,000.

As at 31 December 2017, wastewater treatment facilities of Kunming No. 10 Water Purification Plant were still in the progress of quality testing and the underlying prepayments amounted to RMB450,000,000 (31 December 2016: RMB450,000,000). The quality testing of the wastewater treatment facilities was completed and the final consideration was determined as RMB572,323,000 in January 2018. All the relevant facilities were transferred to the Company in January 2018 (Note 38).

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8 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Machinery and equipment	Office and electronic equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2016						
Opening net book value	1,066,128	450,993	40,195	14,074	389,627	1,961,017
Additions	343,882	75,111	30,779	1,422	113,800	564,994
Transfer	98,740	1,326	1,147	2,228	(103,441)	–
Acquisition of subsidiaries	5,039	3,298	103	350	34	8,824
Disposals	(3,343)	(14)	–	(27)	–	(3,384)
Depreciation *(Note 26)*	(72,856)	(73,429)	(12,782)	(3,295)	–	(162,362)
Closing net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089
At 31 December 2016						
Cost	1,783,245	874,146	111,807	32,402	400,020	3,201,620
Accumulated depreciation	(345,655)	(416,861)	(52,365)	(17,650)	–	(832,531)
Net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089
Year ended 31 December 2017						
Opening net book value	1,437,590	457,285	59,442	14,752	400,020	2,369,089
Additions	729	6,159	1,269	199	58,425	66,781
Transfer	28,482	345	–	–	(28,827)	–
Acquisition of subsidiaries *(Note 35)*	70,125	2,796	270	–	–	73,191
Disposals	(59)	(380)	(1)	(7)	–	(447)
Depreciation *(Note 26)*	(77,286)	(74,820)	(10,489)	(3,356)	–	(165,951)
Closing net book value	1,459,581	391,385	50,491	11,588	429,618	2,342,663
At 31 December 2017						
Cost	1,880,103	882,040	113,340	32,455	429,618	3,337,556
Accumulated depreciation	(420,522)	(490,655)	(62,849)	(20,867)	–	(994,893)
Net book value	1,459,581	391,385	50,491	11,588	429,618	2,342,663

8 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The net book values of property, plant and equipment pledged as collateral for the Group's borrowings (Note 21) as at the respective balance sheet dates were as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Buildings and facilities	**274,455**	298,705
Machinery and equipment	**110,460**	137,722
	384,915	436,427

(b) Depreciation of property, plant and equipment has been charged to the consolidated statement of comprehensive income (Note 26) as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of sales	**162,421**	158,388
Administrative expenses	**3,530**	3,974
	165,951	162,362

(c) As at 31 December 2017, the Group is still in the process of applying for the building ownership certificates of certain of its buildings and the aggregated carrying amounts of these buildings amounted to approximately RMB48,403,000 (31 December 2016: RMB59,459,000).

(d) During the year ended 31 December 2017, the Group has capitalised borrowing costs amounting to RMB6,615,000 on qualifying assets (31 December 2016: RMB8,544,000). Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.36% during the year ended 31 December 2017 (2016: 5.07%).

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS

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

As further explained in the accounting policy for "service concession arrangements" set out in Note 2.10 to the consolidated financial statements, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) (Note 10) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

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

9 RECEIVABLES UNDER SERVICE CONCESSION ARRANGEMENTS *(Continued)*

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Receivables under service concession arrangements		
Current portion:	**13,747**	9,679
Non-current portion:	**529,997**	341,944
	543,744	351,623

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

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in the PRC, as grantors in respect of the Group's service concession arrangements. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances still considered fully recoverable.

The directors of the Company are of the view that, as at 31 December 2017, none of the receivables under service concession arrangements is past due and impaired.

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10 INTANGIBLE ASSETS

	Computer software *RMB'000*	Operating concession *RMB'000*	Development cost *RMB'000*	Total *RMB'000*
Year ended 31 December 2016				
Opening net book value	15,825	44,778	8,044	68,647
Additions	1,351	–	2,822	4,173
Acquisition of subsidiaries	–	6,189	–	6,189
Amortisation *(Note 26)*	(2,746)	(1,066)	–	(3,812)
Closing net book value	14,430	49,901	10,866	75,197
At 31 December 2016				
Cost	23,723	51,742	10,866	86,331
Accumulated amortisation	(9,293)	(1,841)	–	(11,134)
Net book value	14,430	49,901	10,866	75,197
Year ended 31 December 2017				
Opening net book value	**14,430**	**49,901**	**10,866**	**75,197**
Additions	**2,574**	**–**	**400**	**2,974**
Acquisition of subsidiaries *(Note 35)*	**–**	**62,808**	**–**	**62,808**
Transfer	**1,424**	**–**	**(1,424)**	**–**
Amortisation *(Note 26)*	**(4,069)**	**(1,811)**	**–**	**(5,880)**
Closing net book value	**14,359**	**110,898**	**9,842**	**135,099**
At 31 December 2017				
Cost	**27,721**	**114,550**	**9,842**	**152,113**
Accumulated amortisation	**(13,362)**	**(3,652)**	**–**	**(17,014)**
Net book value	**14,359**	**110,898**	**9,842**	**135,099**

10 INTANGIBLE ASSETS *(Continued)*

(a) Amortisation of intangible assets has been charged to the consolidated statement of comprehensive income (Note 26) as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cost of sales	**1,814**	1,066
Administrative expenses	**4,066**	2,746
	5,880	3,812

(b) **Impairment assessment**

(i) ***Operating concession***

The recoverable amount of operation concession which are not yet available for use is determined based on the value-in-use calculation using cash flow projections, based on financial forecast approved by management. Management's assumptions and estimation including forecast of utilisation, discount rate and useful lives of 24.6 to 45.2 years. The discount rate used in measuring value-in-use was 11% to 12%, which are pre-tax and reflect special risk relating to operating concessions.

(ii) ***Development cost***

The recoverable amount is determined based on the value-in-use calculation using cash flow projections, based on financial forecast on cost savings approved by management and management's assumptions and estimation including forecast of cost savings, discount rate and useful life of 15 years after the expected completion date of the development in 2018. The discount rate used in measuring value-in-use was 16%, which is pre-tax and reflect special risk relating to development cost.

11 INVESTMENTS IN ASSOCIATES

Investments accounted for using the equity method refer to the associates held by the Group and the Company, a movement of which is set out as follows.

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Beginning of the year	**15,101**	15,222
Share of associates' results	**156**	(121)
End of the year	**15,257**	15,101

Particulars of the Group's investments in associates during the year ended 31 December 2017 which are unlisted, are set out as follows:

Company name	**Country/place and date of establishment**	**Paid-up capital**	**Attributable equity interests to the Group As at 31 December**		**Principal activities**
			2017	2016	
Kunming Dianchi Information Construction Management Co., Ltd. (昆明滇池信息建設管理有限公司, "**Dianchi Information**")	PRC, Kunming 14 May 2012	2,500	**40%**	40%	Construction of the communication pipeline
Yunnan Dianchi Jiajing Environmental Technology Co., Ltd. (雲南滇池嘉淨環保科技有限公司, "**Dianchi Jiajing**")	PRC, Kunming 13 April 2012	11,600	**40%**	40%	Research and promotion of the environment technology
Kunming Zaojing Quanxiang Biological Technology Co., Ltd. (昆明藻井泉香生物科技有限公司, "**Kunming Zaojing**")	PRC Kunming, 12 August 2010	8,000	**35%**	35%	Research and development of the biological products

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11 INVESTMENTS IN ASSOCIATES *(Continued)*

The Group's investments in associates and certain of its key financial information attributable to the Group are as follows:

Year	Assets	Liabilities	Revenues	Profits/ (Losses)	Net assets
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017	**11,383**	**1,907**	**579**	**156**	**9,476**
Year ended 31 December 2016	9,335	3,192	728	(121)	6,143

No individual associate is considered as material to the Group.

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Deferred income tax assets:		
– to be recovered within 12 months	**5,365**	1,468
– to be recovered after more than 12 months	**27,592**	22,229
	32,957	23,697
Deferred income tax liabilities:		
– to be recovered within 12 months	**890**	149
– to be recovered after more than 12 months	**38,958**	9,172
	39,848	9,321

12 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(Continued)*

Movement in deferred income tax assets and liabilities during the year ended 31 December 2017, without taking into consideration the offsetting of balance within the same tax jurisdiction, is as follows:

Deferred income tax assets	**Tax losses carried forward *(Note a)*** *RMB'000*	**Government grants** *RMB'000*	**Depreciation and amortisation differences arising from the revaluation results *(Note b)*** *RMB'000*	**Unrealised foreign exchange losses**	**Total** *RMB'000*
At 1 January 2016	1,605	16,583	7,512	–	25,700
Recognised in the consolidated statement of comprehensive income	(300)	(523)	(473)	–	(1,296)
At 31 December 2016	1,305	16,060	7,039	–	24,404
Acquisition of subsidiaries *(Note 35)*	76	–	–	–	76
Recognised in the consolidated statement of comprehensive income	(817)	7,537	(771)	2,731	8,680
At 31 December 2017	**564**	**23,597**	**6,268**	**2,731**	**33,160**

(a) Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of related tax benefits through future taxable profits is probable. Carrying forward of these tax losses will expire, if unused, in the years ending 31 December 2018 to 31 December 2022.

(b) As described in Notes 6 and 8, certain wastewater treatment facilities and land use rights were recorded at the carrying amounts from KDI's perspective in the consolidated financial statements, which are different from tax bases of these assets. The deferred income tax assets arising from such differences were initially recognised as a credit to reserve.

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12 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(Continued)*

Deferred income tax liabilities	**Fair value adjustment arising from acquisition of subsidiaries**	**Differences arising from service concession receivables**	**Differences arising from construction contracts**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	3,305	1,908	415	144	5,772
Acquisition of subsidiaries	434	–	–	–	434
Recognised in the consolidated statement of comprehensive income	(142)	3,818	280	(134)	3,822
At 31 December 2016	3,597	5,726	695	10	10,028
Acquisition of subsidiaries *(Note 35)*	27,483	–	–	–	27,483
Recognised in the consolidated statement of comprehensive income	(367)	3,483	(695)	119	2,540
At 31 December 2017	**30,713**	**9,209**	**–**	**129**	**40,051**

13 INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Materials for wastewater treatment and water distribution services	**2,355**	4,245
Spare parts	**5,160**	6,091
	7,515	10,336

No provision for inventories has been made during the year ended 31 December 2017 (2016: nil).

The cost of inventories recognised as cost of sales amounted to approximately RMB37,063,000, for the year ended 31 December 2017 (31 December 2016: RMB42,710,000) (Note 26).

14 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

Costs incurred to date plus recognised profits less recognised losses:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Costs incurred to date plus recognised profits less recognised losses		
Current portion:	**12,296**	5,716
Non-current portion:	**238,383**	35,573
	250,679	41,289

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current assets		
Structured deposit	**80,000**	–

During the year, the gains of RMB7,615,000 were recognised in comprehensive income as other income, being reclassified from other comprehensive income upon disposal (2016: nil).

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16 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*:		
– Third parties	**4,852**	941
– Related parties *(Note 36)*	**95,467**	39,678
– Local government	**146,232**	85,381
Trade receivables – net	**246,551**	126,000
Other receivables:		
– Third parties	**5,176**	6,539
– Hongzetianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司, "**Hongze Water**") *(Note b)*	**–**	41,725
– Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "**Qutang Water**") *(Note b)*	**–**	3,744
– Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, "**Libao Water**") *(Note b)*	**–**	2,279
– Related parties *(Note 36)*	**68,857**	39,472
– Local government	**55,665**	51,590
Other receivables – net	**129,698**	145,349
Prepayments:		
– Listing expenses	**–**	28,946
– Others	**10,148**	6,600
Prepayments – net	**10,148**	35,546
Trade and other receivables – net	**386,397**	306,895

16 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2017, 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 2017, the carrying amounts of trade and other receivables are denominated in RMB.

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Within one year	**243,528**	125,542
– Over one year and within two years	**3,023**	458
	246,551	126,000

Based on the past experiences, the directors believe that no impairment allowance is necessary because the customers are mainly local government authorities in Kunming and related parties and there has not been a significant change in their credit quality. Accordingly, these long-aged balances are considered fully recoverable.

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

(b) RMB41,725,000, RMB3,744,000 and RMB2,279,000 was granted to Hongze Water, Qutang Water and Libao Water respectively and all of the three companies were acquired by the Company in January 2017.

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17 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,291,170**	446,830

(a) Cash and cash equivalents are denominated in

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
RMB	**990,739**	446,830
HKD	**297,824**	–
USD	**2,607**	–
	1,291,170	446,830

(b) All cash at bank are deposits with original maturity within 3 months. The Group earns interest on cash at bank at floating bank deposit rates ranged from 0.35% to 1.54% during the year ended 31 December 2017 (2016: 0.35% to 1.54%).

18 SHARE CAPITAL

	As at 31 December	
	2017	2016
Registered, issued and fully paid		
Number of shares *(in thousand)*	**1,029,111**	720,000
Share capital *(in RMB'000)*	**1,029,111**	720,000

18 SHARE CAPITAL *(Continued)*

(a) The Company was established on 23 December 2010, with an initial registered share capital of RMB360,000,000, divided into 360,000,000 shares with a nominal value of RMB1.00 each. 344,943,000 shares or 95.82% equity interest amounting to RMB1,260,091,000 were issued to KDI at a premium of RMB915,148,000, in exchange for the property, plant and equipment and land use rights under TOO Model of RMB1,189,277,000, certain investments in subsidiaries of RMB5,814,000, and cash of RMB65,000,000. The remaining 15,057,000 shares or 4.18% equity interest amounting to RMB55,000,000 were issued to other four shareholders at a premium of RMB39,943,000, Kunming Development Investment Group Co., Ltd. (昆明發展投資集團有限公司, "**DIG**"), Kunming Industrial Development and Construction Co., Ltd. (昆明產業開發投資有限責任公司, "**KIDC**"), Kunming State-owned Assets Management and Operation Co., Ltd. (昆明市國有資產管理運營有限責任公司, "**Kunming State-Owned Asset Management**") and Kunming Xindu Real Estate Co., Ltd. (昆明新都置業有限公司, "**Xindu Real Estate**").

The capital contributions were paid up by two instalments. The first instalment of RMB1,208,841,000 was received upon the establishment of the Company and the second instalment of RMB106,250,000 was received in the year ended 31 December 2012. The excess of the assets or cash consideration received by the Company over the share capital with the amount of RMB955,091,000 was recorded as share premium. In 2015, RMB360,000,000 was converted from share premium into share capital.

(b) On 12 October 2015, as approved by the shareholders of the Company, the Company increased its share capital by issuing 360,000,000 ordinary shares of RMB1.00 each. The consideration for these newly issued ordinary shares was satisfied for by way of capitalisation of share premium of RMB360,000,000 to share capital.

(c) On 6 April 2017, the Company newly issued 308,572,000 H shares of RMB1.00 each at HKD3.91 per share in connection with the initial listing of H shares of the Company on the Main Board of HKEX, and raised gross proceeds of approximately HKD1,206,517,000 (equivalent to RMB1,070,421,000). Subsequently on 10 May 2017, after the exercise of the over-allotment option, additional 539,000 H shares of RMB1.00 each were issued at HKD3.91 per share and raised gross proceeds of HKD2,107,000 (equivalent to RMB1,870,000). Net proceeds of RMB997,460,000 (after deducting the underwriting commissions and other listing expenses) was raised by the Company, of which RMB309,111,000 was credited to share capital with remaining RMB688,349,000 credited to share premium.

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19 OTHER RESERVES

	Share premium *(Note 18(c))* *RMB'000*	Statutory reserve *(Note (a))* *RMB'000*	Capital reserve *(Note (b))* *RMB'000*	Translation reserve *RMB'000*	Total *RMB'000*
At 1 January 2016	595,091	121,763	(47,793)	–	669,061
Appropriation to statutory reserves	–	27,452	–	–	27,452
At 31 December 2016	595,091	149,215	(47,793)	–	696,513
Appropriation to statutory reserves	–	30,922	–	–	30,922
Currency translation differences	–	–	–	(1,847)	(1,847)
Increase in share premium upon issue of new shares	688,349	–	–	–	688,349
At 31 December 2017	1,283,440	180,137	(47,793)	(1,847)	1,413,937

(a) Statutory reserve

In accordance with the PRC Company Law and the articles of association of the PRC companies of the Group (the "**PRC Companies**"), the PRC Companies are required to allocate 10% of their profits attributable to the respective owners of the PRC Companies as set out in their statutory financial statements, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective PRC Companies. The appropriation to the reserve must be made before any distribution of dividends to the respective owners of the PRC Companies. The statutory surplus reserve can be used to offset previous year's losses, if any, and part of the statutory surplus reserve can be capitalised as the share capital of the respective PRC Companies provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the respective PRC Companies.

(b) Capital reserve

Capital reserve mainly represented the existing book value from KDI's prospective of certain acquired wastewater treatment facilities and land use rights transferred to the Group from KDI, which did not form part of the capital contribution in the form of share capital in 2010 (Note 18(a)), netting of the consideration of these assets and the deferred tax impact. These wastewater treatment facilities and land use rights were included in the consolidated financial statements as if they had been consolidated from the earliest period presented.

20 RETAINED EARNINGS

	Group
	RMB'000
At 1 January 2016	830,254
Profit for the year	274,993
Appropriation to statutory reserves *(Note 19)*	(27,452)
At 31 December 2016	**1,077,795**
Profit for the year	**313,077**
Appropriation to statutory reserves *(Note 19)*	**(30,922)**
Dividend declared and paid to the Company's shareholders *(Note 32)*	**(102,911)**
At 31 December 2017	**1,257,039**

21 BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Non-current:		
Unsecured long-term borrowings	**397,000**	–
Secured long-term borrowings *(Note (b))*	**–**	48,356
Corporate bonds *(Note (c))*	**694,625**	693,639
Total non-current borrowings	**1,091,625**	741,995
Current:		
Unsecured short-term borrowings	**552,000**	660,000
Secured short-term borrowings *(Note (b))*	**47,570**	118,737
Total current borrowings	**599,570**	778,737
Total borrowings	**1,691,195**	1,520,732

(a) All the borrowings were denominated in RMB.

21 BORROWINGS *(Continued)*

(b) As at 31 December 2017, analysis of the secured borrowings are as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Secured by:		
Property, plant and equipment *(Note 8)*	**47,570**	167,093

(c) As approved by the National Development and Reform Commission on 25 November 2015, the Company issued corporate bonds of RMB700,000,000 for a term of 7 years, bearing interest at 4.35% per annum on 25 December 2015. At the end of the fifth year, the Company can adjust the interest rate within a range of 0.00% to 3.00% for the remaining 2-year period, and the investors have an option to request early redemption at par value of the outstanding corporate bond if they don't agree the adjusted interest rate.

(d) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity dates whichever is earlier are as follows:

	6 months or less	**Between 6 and 12 months**	**Between 1 and 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017	**372,063**	**227,507**	**1,091,625**	**1,691,195**
As at 31 December 2016	317,093	510,000	693,639	1,520,732

(e) The maturity of borrowings is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
On demand or within 1 year	**599,570**	778,737
Between 1 and 2 years	**317,000**	48,356
Between 2 and 5 years	**80,000**	–
Later than 5 years	**694,625**	693,639
	1,691,195	1,520,732

21 BORROWINGS *(Continued)*

(f) The weighted average effective interest rates for borrowings at each balance sheet date are as follows:

	As at 31 December	
	2017	2016
Borrowings	**4.58%**	4.78%

Interest rates of borrowings denominated in RMB are reset periodically according to the benchmark rates announced by the People's Bank of China.

(g) The fair values of current borrowings equal their carrying amount as the discounting impact is not significant. The fair values of non-current borrowings are estimated based on discounted cash flow using the prevailing market interest rates available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates. The fair values of non-current borrowings approximated to their carrying amount.

(h) The Group had the following undrawn borrowing facilities:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
RMB facilities	**1,301,000**	740,000

22 DEFERRED REVENUE

Deferred revenue of the Group and the Company included government grants in respect of the Group or the Company's construction of various facilities and wastewater treatment facilities as well as the conduction of research and development activities.

Government grants relating to property, plant and equipment are recognised to the consolidated statement of comprehensive income on a straight-line basis over the estimated lives of the related assets.

Government grants relating to research and development activities are recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Government grants related to:		
– property plant and equipment	**151,372**	95,835
– research and development activities	**6,107**	11,286
	157,479	107,121

The movement of government grants during the year ended 31 December 2017 is set out as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Opening net book value	**107,121**	110,623
Additions	**73,793**	30,250
Decrease *(Note (a))*	**–**	(22,000)
Amortisation *(Note 24)*	**(23,435)**	(11,752)
Closing net book value	**157,479**	107,121

(a) As the result of the cease of certain project, relevant government grants of RMB22,000,000 was returned according to resolution of the meeting among Kunming Development and Reform Commission, KDI and the Company in 2016. The project was yet to start, and no amortisation of deferred revenue was recognised.

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23 TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables	**3,802**	2,093
Other payables due to:	**71,899**	53,176
– related parties *(Note 36)*	**18,171**	20,881
– local government	**4,416**	–
– third parties	**49,312**	32,295
Consideration payable for acquisition of subsidiaries *(Note 35)*	**12,690**	18,447
Staff salaries and welfare payables	**28,667**	28,661
Advance from customers	**6,124**	12,177
– related parties *(Note 36)*	**4,222**	9,879
– local government	**101**	–
– third parties	**1,801**	2,298
Payables of property, plant and equipment due to:	**84,297**	151,957
– related parties *(Note 36)*	**32,521**	29,769
– third parties	**51,776**	122,188
Payables on acquisition of land use rights from related parties *(Note 36)*	**58,194**	58,194
Interest payables	**2,021**	1,310
Accrued taxes other than income tax	**102,156**	96,324
	369,850	422,339

(a) As at 31 December 2017, all trade and other payables of the Group were non-interest bearing, and their fair values, except for the advance from customers, staff salaries and welfare payables and accrued taxes other than income tax which are not financial liabilities, approximated their carrying amounts due to their short maturities.

(b) During the year ended 31 December 2017, the Group's trade and other payables are denominated in RMB.

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23 TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
– Within one year	**3,471**	2,093
– Over one year and within two years	**331**	–
	3,802	2,093

24 OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Government grants:	**80,029**	75,312
– relating to property plant and equipment	**11,671**	5,461
– relating to research and development activities	**11,764**	6,291
– relating to tax refund *(Note (a))*	**56,594**	63,560
Interest income from cash and cash equivalents	**3,307**	3,329
Interest income from structured deposits	**7,615**	–
Others	**2,340**	3,378
	93,291	82,019

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

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25 OTHER LOSSES – NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Losses on disposal of property, plant and equipment – net	**85**	3,219
Gains on disposal of land use rights – net	**(964)**	(2,420)
Donation expenses	**3,763**	–
Others	**1,933**	473
	4,817	1,272

26 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Depreciation of properties, plant and equipment *(Note 8)*	**165,951**	162,362
Utilities and electricity	**87,555**	80,779
Employee benefit expenses *(Note 27)*	**99,420**	97,546
Costs of wastewater and water distribution services	**49,120**	54,100
– Material costs	**37,063**	42,710
– Costs for sludge and water hyacinth treatment	**12,057**	11,390
Cost of construction services	**289,161**	74,159
Taxes and levies	**40,035**	27,796
Transportation costs	**9,001**	11,326
Repair and maintenance costs	**26,411**	19,166
Commission charge *(Note 36)*	**8,289**	7,692
Amortisation of land use rights *(Note 6)*	**9,810**	8,646
Office expenditures	**8,344**	9,960
Labour costs	**25,581**	14,617
Professional expenses	**13,548**	13,337
Materials used in research and development activities	**2,433**	3,685
Amortisation of intangible assets *(Note 10)*	**5,880**	3,812
Auditor's remuneration	**3,500**	311
Listing expenses	**13,255**	2,507
Miscellaneous	**11,688**	13,250
Total cost of sales, selling expenses, administrative expenses and research and development expenses	**868,982**	605,051

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27 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS)

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**73,786**	72,488
Contributions to pension plans *(Note (a))*	**13,079**	12,413
Housing fund, medical insurance and other social insurance *(Note (b))*	**12,555**	12,645
	99,420	97,546

(a) As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group contributes 20% to 26% of such relevant income, subject to certain ceiling and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

In addition to the government-sponsored defined contribution pension plans as mentioned above, effective from 1 January 2014, the Group operates an additional employee pension plan. All the employees are entitled to an additional pension aggregating to 8.33% of previous year's salaries. The Group has no further obligation for this additional employee pension plan beyond the contribution made.

(b) Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on approximately 25.4% of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period.

During the year ended 31 December 2017, no director received any emolument from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and chief executives' emoluments

Directors and chief executives' emoluments for the year ended 31 December 2017 are set out as follows:

	Fees	Salary	Discretionary bonuses	Employer's contribution to Benefit scheme	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2017						
Executive directors						
Ms. Guo Yumei (郭玉梅) *(i)*	–	492	–	36	63	591
Mr. Luo Yun (羅雲) *(ii)*	–	443	–	34	56	533
Non-executive directors						
Mr. Zeng Feng (曾鋒) *(iii)*	–	–	–	–	–	–
Ms. Song Hong (宋紅) *(iv)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. Wong Man Chung Francis (黃文宗) *(v)*	–	220	–	–	–	220
Mr. Yin Xiaobing (尹曉冰) *(vi)*	–	150	–	–	–	150
Mr. He Xifeng (何錫鋒) *(vii)*	–	150	–	–	–	150
Supervisors						
Mr. Na Zhiqiang (那志強) *(viii)*	–	443	–	34	56	533
Mr. Yao Jianghua (姚建華) *(ix)*	–	229	–	36	62	327
Mr. Shao Wei (邵偉) *(x)*	–	–	–	–	–	–
Chief executive						
Mr. Mei Yili (梅益立) *(xi)*	–	443	–	36	63	542
Mr. Yang Yang (楊陽) *(xii)*	–	443	–	34	53	530
	–	3,013	–	210	353	3,576

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

Directors and chief executives' emoluments for the year ended 31 December 2016 are set out as follows:

	Fees	Salary	Discretionary bonuses	Employer's contribution to Benefit scheme	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2016						
Executive directors						
Ms. Guo Yumei (郭玉梅) *(i)*	–	180	–	32	59	271
Mr. Luo Yun (羅雲) *(ii)*	–	144	–	28	55	227
Non-executive directors						
Mr. Zeng Feng (曾鋒) *(iii)*	–	–	–	–	–	–
Ms. Song Hong (宋紅) *(iv)*	–	–	–	–	–	–
Independent non-executive directors						
Mr. Wong Man Chung Francis (黃文宗) *(v)*	–	–	–	–	–	–
Mr. Yin Xiaobing (尹曉冰) *(vi)*	–	–	–	–	–	–
Mr. He Xifeng (何錫鋒) *(vii)*	–	–	–	–	–	–
Supervisors						
Mr. Na Zhiqiang (那志強) *(viii)*	–	144	–	28	54	226
Mr. Yao Jianghua (姚建華) *(ix)*	–	173	–	31	54	258
Mr. Shao Wei (邵偉) *(x)*	–	–	–	–	–	–
Chief executive						
Mr. Mei Yili (梅益立) *(xi)*	–	144	–	32	60	236
Mr. Yang Yang (楊陽) *(xii)*	–	144	–	28	50	222
	–	929	–	179	332	1,440

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executives' emoluments *(Continued)*

(i) Ms. Guo Yumei was appointed as an executive director of the Company in January 2011, and the chairperson of the board in June 2016.

(ii) Mr. Luo Yun was appointed as an executive director of the Company in June 2016. Mr. Luo served as the assistant to general manager from June 2013 to January 2015 and was appointed as the deputy general manager of the Company since January 2015.

(iii) Mr. Zeng Feng was appointed as a non-executive director of the Company in January 2011.

(iv) Ms. Song Hong was appointed as a non-executive director of the Company in June 2016.

(v) Mr. Wong Man Chung Francis was appointed as an independent non-executive director in June 2016.

(vi) Mr. Yin Xiaobing was appointed as an independent non-executive director in June 2016.

(vii) Mr. He Xifeng was appointed as an independent non-executive director in June 2016.

(viii) Mr. Na Zhiqiang was appointed as the chairman of the Board of Supervisors and an employee representative supervisor in January 2011.

(ix) Mr. Yao Jianghua was appointed as an employee representative supervisor in January 2011.

(x) Mr. Shao Wei was appointed as a supervisor in May 2016.

(xi) Mr. Mei Yili was appointed as the deputy general manager of the Company since January 2015. Mr. Mei Yili served as management role in different subsidiaries of the Company and the Controlling Shareholder before the appointment as chief executive in the Company.

(xii) Mr. Yang Yang was appointed as the chief financial officer of the Company in January 2015.

28 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Directors' retirement benefits

There is no retirement benefits by a defined benefit pension plan operated by the Group.

(c) Directors' termination benefits

There is no directors' termination benefits operated by the Group.

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2017, no consideration was provided to third parties for making available directors' services (2016: nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors

During the year ended 31 December 2017, there were no loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by or entities connected with directors (2016: nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2017 (2016: nil).

(g) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included 2 director, 1 supervisor and 2 chief executive for the year ended 31 December 2017 (2016: 2 director, 2 supervisor and 1 chief executive). Their emoluments are reflected in the analysis presented above.

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29 FINANCE COSTS – NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income:		
– Interest income charged to related parties *(Note 36)*	**26,314**	14,693
– Interest income arising from construction contracts	**7,392**	1,923
– Others	**–**	54
	33,706	16,670
Finance costs:		
– Interest expenses on unsecured borrowings	**(47,397)**	(45,107)
– Interest expenses on corporate bonds	**(30,952)**	(31,360)
– Interest expenses on secured borrowings	**(3,811)**	(12,314)
– Total interest expenses on borrowings	**(82,160)**	(88,781)
– Less: borrowing costs capitalised in property, plant and equipment *(Note 8(d))*	**6,615**	8,544
– Interest expenses – net	**(75,545)**	(80,237)
– Exchange losses	**(29,130)**	–
– Others	**(79)**	(62)
	(104,754)	(80,299)
Finance costs – net	**(71,048)**	(63,629)

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30 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**64,476**	46,075
Deferred income tax *(Note 12)*	**(6,140)**	5,118
Income tax expense	**58,336**	51,193

The Group was not subject to Hong Kong profits tax during the year ended 31 December 2017 as there was no assessable income 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 2017, except for certain subsidiaries that enjoy tax exemption or a preferential income tax rate as approved by the tax authorities, which was discussed as follows:

(a) China's west region development policy (the "**West Region Development Policy**") is a preferential tax ruling issued by the State Administration of Taxation for companies whose business fall into the catalogue of encouraged industries and located in west region of China. During the year ended 31 December 2017, the Company and certain subsidiaries qualified for the West Region Development Policy were granted the preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

(b) In addition to the West Region Development Policy, the Company also qualifies as a "High-tech Enterprise" and enjoys a 15% enterprise income tax rate during the year ended 31 December 2017 (2016: 15%).

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30 INCOME TAX EXPENSE *(Continued)*

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

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**372,425**	326,871
Tax calculated at the domestic CIT rate applicable	**93,106**	81,718
Tax effect of:		
Expenses not deductible for tax purpose *(Note (i))*	**870**	261
Preferential tax rate of the Company and certain subsidiaries *(Note (a) and (b))*	**(35,085)**	(30,653)
Income not subject to income tax *(Note (c))*	**(126)**	(156)
Share of results of associates	**(23)**	18
Others	**(406)**	5
Income tax expense	**58,336**	51,193

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

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31 EARNINGS PER SHARE

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

	Year ended 31 December	
	2017	2016
Profit attributable to equity holders of the Company *(RMB'000)*	**313,077**	274,993
Weighted average number of ordinary shares in issue *(thousand)*	**947,760**	720,000
Basic earnings per share *(RMB)*	**0.33**	0.38

(b) The diluted earnings per share are same as the basic earnings per share as there was no dilutive potential share during the year ended 31 December 2017.

32 DIVIDENDS

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
(a) Final dividend for the year ended 31 December 2016 of RMB0.1 (2015: nil) per share *(Note (i))*	**102,911**	–
(b) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of RMB0.1527 per share (2016 – RMB0.1). The aggregate amount of the proposed dividend expected to be paid in 2018 out of retained earnings at 31 December 2017, but not recognised as a liability at year end, is *(Note 38)*	**157,145**	102,911

(i) As approved by the board of directors' meeting on 25 April 2017, the Company declared a dividend of RMB102,911,100 in respect of the accumulated distributable profit as at 31 December 2016. The declaration of the dividend has been reflected as an appropriation of retained earnings during the year ended 31 December 2017. The dividends were paid out during the year ended 31 December 2017.

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33 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the year before income tax	**372,425**	326,871
Adjustments for:		
– Depreciation of property, plant and equipment	**165,951**	162,362
– Amortisation of land use rights	**9,810**	8,646
– Amortisation of intangible assets	**5,880**	3,812
– Share of results of associates	**(156)**	121
– Finance costs – net	**70,969**	63,567
– Interest income from structured deposits	**(7,615)**	–
– Amortisation of government grants relating to purchase of property, plant and equipment	**(11,671)**	(5,461)
– Losses on disposal of property, plant and equipment	**85**	3,219
– Gains on disposal of land use rights	**(964)**	(2,420)
	604,714	560,717
Changes in working capital:		
– Increase in trade and other receivables	**(74,819)**	(85,184)
– Decrease/(increase) in inventories	**3,096**	(2,384)
– Increase in amount due from customers for construction contracts	**(148,570)**	(4,830)
– Increase in receivables under service concession arrangements	**(112,618)**	(65,918)
– (Decrease)/increase in deferred revenue relating to research and development activities	**(5,179)**	2,059
– Decrease in trade and other payables	**(45,969)**	(258,698)
Cash generated from operations	**220,655**	145,762

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33 CASH FLOW INFORMATION *(Continued)*

(b) In the consolidated cash flow statement, proceeds from disposal of properties, plant and equipment comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net book value *(Note 8)*	**447**	3,384
Losses on disposal of property, plant and equipment *(Note 25)*	**(85)**	(3,219)
Proceeds from the disposal	**362**	165

(c) In the consolidated cash flow statement, proceeds from disposal of land use rights comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net book value *(Note 6)*	**1,746**	4,414
Gains on disposal of land use rights *(Note 25)*	**964**	2,420
Proceeds from the disposal	**2,710**	6,834

33 CASH FLOW INFORMATION *(Continued)*

(d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

Net debt	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash and cash equivalents	**1,291,170**	446,830
Liquid investments	**80,000**	–
Borrowings – repayable within one year (including overdraft)	**(599,570)**	(778,737)
Borrowings – repayable after one year	**(1,091,625)**	(741,995)
Net debt	**(320,025)**	(1,073,902)
Cash and liquid investments	**1,371,170**	446,830
Gross debt – fixed interest rates	**(1,391,195)**	(1,520,732)
Gross debt – variable interest rates	**(300,000)**	–
Net debt	**(320,025)**	(1,073,902)

	Other assets		Liabilities from financing activities		
	Cash/bank over draft	Liquid investments	Borrowing due within 1 year	Borrowing due after 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net debt as at 1 January 2016	1,087,533	–	(780,213)	(1,170,639)	(863,319)
Cash flows	(640,703)	–	430,213	16,492	(193,998)
Other non-cash movements	–	–	(428,737)	412,152	(16,585)
Net debt as at 31 December 2016	446,830	–	(778,737)	(741,995)	(1,073,902)
Cash flows	**875,317**	**80,000**	**258,737**	**(421,081)**	**761,996**
Foreign exchange adjustments	**(30,977)**	**–**	**–**	**–**	**(30,977)**
Other non-cash movements	**–**	**–**	**(79,570)**	**71,451**	**(8,119)**
Net debt as at 31 December 2017	**1,291,170**	**80,000**	**(599,570)**	**(1,091,625)**	**(320,025)**

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34 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Property, plant and equipment	**101,957**	458,123
Land use rights and intangible assets	**–**	16,978
	101,957	475,101

(ii) Acquisition of equity interests in subsidiaries:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Acquisition of equity interests in subsidiaries	**122,200**	–

(b) Operating lease commitments – the Group as lessee

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

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
No later than 1 year	**121**	121
Later than 1 year and no later than 2 years	**121**	121
Later than 2 years and no later than 5 years	**363**	363
Later than 5 years	**2,253**	2,374
	2,858	2,979

35 BUSINESS COMBINATIONS

During the year ended 31 December 2017, the Group acquired equity interests in certain subsidiaries from independent third parties. Details of the acquisitions are as follows:

(i) On 1 January 2017, the Group acquired 100% of the equity interests in Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "**Qutang Water**") at a consideration of RMB5,300,000. After the acquisition, Qutang Water became a directly owned subsidiary of the Company.

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

	As at 1 January 2017
	RMB'000
Consideration:	
Cash consideration	**5,300**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**766**
Land use right	**1,673**
Intangible assets	**3,812**
Property, plant and equipment	**5,252**
Trade and other receivables	**539**
Trade and other payables	**(5,789)**
Deferred tax liabilities	**(953)**
Total identifiable net assets	**5,300**

An intangible asset of concession rights of RMB3,812,000 was recognised as at the acquisition date.

The revenue included in the consolidated statement of comprehensive income of the Group since the acquisition date to 31 December 2017 contributed by Qutang Water was approximately RMB1,517,000. Qutang Water also contributed a net profit of approximately RMB560,000 over the same period.

35 BUSINESS COMBINATIONS *(Continued)*

(ii) On 1 January 2017, the Group acquired 100% of the equity interests in Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, "**Libao Water**") at a consideration of RMB6,750,000. After the acquisition, Libao Water became a directly owned subsidiary of the Company.

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

	As at 1 January 2017
	RMB'000
Consideration:	
Cash consideration	6,750
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	841
Land use right	1,579
Intangible assets	4,345
Property, plant and equipment	4,939
Trade and other receivables	623
Trade and other payables	(4,491)
Deferred tax liabilities	(1,086)
Total identifiable net assets	6,750

An intangible asset of concession rights of RMB4,345,000 was recognised as at the acquisition date.

The revenue included in the consolidated statement of comprehensive income of the Group since the acquisition date to 31 December 2017 contributed by Libao Water was approximately RMB1,505,000. Libao Water also contributed a net profit of approximately RMB360,000 over the same period.

35 BUSINESS COMBINATIONS *(Continued)*

(iii) On 1 January 2017, the Group acquired 100% of the equity interests in Hongzetianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司, "**Hongze Water**") at a consideration of RMB67,900,000. After the acquisition, Hongze Water became a directly owned subsidiary of the Company.

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

	As at 1 January 2017
	RMB'000
Consideration:	
Cash consideration	**67,900**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**1,023**
Receivables under service concession arrangements	**79,503**
Amount due from customers for construction contracts *(Note 13)*	**53,428**
Land use right	**3,555**
Property, plant and equipment	**163**
Trade and other receivables	**5,171**
Inventories	**11**
Trade and other payables	**(63,173)**
Deferred tax liabilities	**(11,781)**
Total identifiable net assets	**67,900**

The revenue included in the consolidated statement of comprehensive income of the Group since the acquisition date to 31 December 2017 contributed by Hongze Water was approximately RMB14,111,000. Hongze Water also contributed a net profit of approximately RMB9,338,000 over the same period.

35 BUSINESS COMBINATIONS *(Continued)*

(iv) On 1 October 2017, the Group acquired 100% of the equity interests in Liuyang Hongyu Water Treatment Co., Ltd. (瀏陽市宏宇水務有限公司, "**Hongyu Water**") at a consideration of RMB126,900,000. After the acquisition, Hongyu Water became a directly owned subsidiary of the Company.

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

	As at 1 October 2017 *RMB'000*
Consideration:	
Cash consideration	126,900
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	4,451
Land use right	17,239
Intangible assets	54,651
Property, plant and equipment	62,837
Inventories	264
Deferred tax assets	76
Trade and other receivables	1,734
Trade and other payables	(689)
Deferred tax liabilities	(13,663)
Total identifiable net assets	126,900

An intangible asset of concession rights of RMB54,651,000 was recognised as at the acquisition date.

The revenue included in the consolidated statement of comprehensive income of the Group since the acquisition date to 31 December 2017 contributed by Hongyu Water was approximately RMB1,785,000. Hongyu Water also contributed a net loss of approximately RMB307,000 over the same period.

Had Hongyu Water been consolidated from 1 January 2017, the annualised consolidated revenue of the Group would be increased by approximately RMB5,179,000 and profit of the Group would be decreased by approximately RMB228,000.

35 BUSINESS COMBINATIONS *(Continued)*

(v) The following table summarised the cash flows from the acquisitions and acquisition-related costs for the year ended 31 December 2017:

	As at 31 December 2017
	RMB'000
Total cash consideration	206,850
Less: change in consideration payable in respect of acquisition of subsidiaries *(Note 23)*	5,757
cash and cash equivalents in the subsidiaries acquired	(7,081)
change in prepayments	(36,594)
Cash outflows from the acquisitions	168,932

36 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Company is controlled by KDI, which is a government-related enterprise established in the PRC by Kunming SASAC. In accordance with IAS 24 (Revised), "Related Party Disclosures", issued by the IASB, government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include KDI and its subsidiaries (other than the Group), entities controlled by Kunming SASAC, other entities and corporations in which the Group is able to exercise significant influence and key management personnel of the Company and as well as their close family members. The Group's significant transactions and balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government mainly include purchases of assets, provision of financial assets, bank deposits and bank borrowings and related trade and other receivables, trade and other payables, borrowings, term deposits with initial term of over three months, cash and cash equivalents. The directors of the Company believe that the meaningful information of related party transactions has been adequately disclosed in the consolidated financial statements.

36 RELATED PARTY TRANSACTIONS *(Continued)*

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year ended 31 December 2017, and balances arising from related party transactions as at 31 December 2017.

(a) Name and relationship with related parties

Name of related party	Nature of relationship
KDI	Controlling shareholder of the Company
DIG	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming State-Owned Asset Management	Controlled by Kunming SASAC and a minority shareholder of the Company
Xindu Real Estate	Controlled by Kunming SASAC and a minority shareholder of the Company
Kunming Xindu Investment Co., Ltd. (昆明新都投資有限公司, "**Xindu Investment**")	Controlled by Kunming SASAC
Kunming Bus Group Co., Ltd. (昆明公交集團有限責任公司, "**Kunming Bus**")	Controlled by Kunming SASAC
Kunming CGE Water Supply Co., Ltd. (昆明通用水務自來水有限公司, "**Kunming CGE**")	Controlled by Kunming SASAC
Kunming Qingyuan Water Supply Co., Ltd. (昆明清源自來水有限責任公司, "**Kunming Qingyuan**")	Controlled by Kunming SASAC
Kunming Panasia Lakes Integrated Regulation Co., Ltd. (昆明泛亞湖泊綜合治理有限公司, "**Kunming Panasia**")	Controlled by KDI

36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

Save as disclosed elsewhere in this report, during the year ended 31 December 2017 and the Group had the following significant transactions with related parties.

(i) Purchase of property, plant and equipment:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
KDI	**–**	448,884

(ii) Purchase of land use right:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
KDI	**–**	67,984
Xindu Investment	**–**	31,000
	–	98,984

(iii) Loans granted to related parties:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Kunming Bus	**100,000**	–
KDI	**–**	67,902
Xindu Investment	**–**	760
	100,000	68,662

The transaction under finance arrangement between the Group and related parties are paid and settled by RMB, repayable on demand.

Interest was charged on certain loans granted to related parties at a rate of 8% and 10%.

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36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(iv) Loans repaid from related parties:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Kunming Bus	**100,000**	–
KDI	**–**	67,902
	100,000	67,902

(v) Interest income from related parties:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
KDI	**25,562**	14,693
Kunming Bus	**752**	–
	26,314	14,693

(vi) Transportation services provided to related parties:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Kunming Panasia	**386**	304

FOR THE YEAR ENDED 31 DECEMBER 2017

36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

(vii) Services provided to related parties:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
KDI	**88,030**	83,318

(viii) Commission charged by related parties:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Kunming CGE	**6,908**	6,531
Kunming Qingyuan	**1,381**	1,161
	8,289	7,692

(c) Key management compensation

Key management includes directors (executive and non-executive), supervisors and executives. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**3,013**	929
Contributions to pension plans	**210**	179
Housing fund, medical insurance and other social insurance	**353**	332
	3,576	1,440

FOR THE YEAR ENDED 31 DECEMBER 2017

36 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties

(i) Trade and other receivables due from related parties:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
KDI	**112,708**	30,677
Xindu Investment	**24,232**	24,232
Kunming CGE	**19,685**	18,295
Kunming Qingyuan	**7,699**	5,946
	164,324	79,150

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

(ii) Trade and other payables due to related parties:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment:		
KDI	**16,481**	13,729
Xindu Investment	**16,040**	16,040
Acquisition of land use rights:		
KDI	**27,194**	27,194
Xindu Investment	**31,000**	31,000
Others:		
KDI	**17,513**	19,039
Kunming CGE	**355**	1,664
Kunming Qingyuan	**303**	178
	108,886	108,844

FOR THE YEAR ENDED 31 DECEMBER 2017

36 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties *(Continued)*

(iii) Advance from related parties for services to be provided:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
KDI	**4,222**	9,879

Other payables are all non-trade payables and will be settled upon demand of these related parties.

Other receivables are all non-trade receivables and will be settled upon demand of the Group.

37 SUBSIDIARIES

Particulars of the subsidiaries as at the date of this report and during the year ended 31 December 2017 are set out below:

Company name	Country or place and date of incorporation	Issued and paid up capital or registered capital	Effective interests held by the Group % 31 December 2017	2016	Direct or Indirect	Principal activities
Yunnan Reclaimed Industry Co. Ltd. (雲南中水工業有限公司, "**Yunnan Reclaimed Water**")	PRC, 28 March 2002	9,162	**100%**	100%	Direct	Reclaimed water supply
Kunming Wastewater Treatment and Operation Co., Ltd. (昆明城市污水處理運營有限責任公司, "**City Operation**")	PRC, 15 June 2005	5,640	**100%**	100%	Direct	Operation of wastewater treatment facilities
Kunming Dianchi Logistics Co., Ltd. (昆明滇池物流有限責任公司, "**Dianchi Logistics**")	PRC, 15 June 2005	3,012	**100%**	100%	Direct	Logistics and leasing services
Kunming Dianchi Water Treatment Occupation Training School (昆明滇池水處理職業培訓學校, "**Dianchi Training School**")	PRC, 26 October 2012	282	**100%**	100%	Direct	Professional training services

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37 SUBSIDIARIES *(Continued)*

Company name	Country or place and date of incorporation	Issued and paid up capital or registered capital	Effective interests held by the Group % 31 December 2017	2016	Direct or Indirect	Principal activities
Xundian Dianchi Water Co. Ltd. (尋甸滇池水務有限公司, "**Xundian Wastewater**")	PRC, 30 April 2009	24,200	100%	100%	Direct	Wastewater treatment
Shidian Dianchi Water Treatment Co., Ltd. (施甸滇池水務有限公司, "**Shidian Water**")	PRC, 21 July 2014	23,300	100%	100%	Direct	Wastewater treatment
Yiliang Dianchi Water Treatment Co., Ltd. (彝良滇池水務有限公司, "**Yiliang Water**")	PRC, 4 June 2015	21,000	100%	100%	Direct	Wastewater treatment
Malong Dianchi Water Treatment Co., Ltd. (馬龍滇池水務有限公司, "**Malong Water**")	PRC, 13 August 2015	62,059	100%	100%	Direct	Wastewater treatment and running water supply
Fanchang Dianchi Water Treatment Co., Ltd. (繁昌縣滇池水務有限公司, "**Fanchang Water**")	PRC, 8 May 2014	39,800	100%	100%	Direct	Wastewater treatment
Zhuji Dianchi Water Treatment Co., Ltd. (諸暨滇池水務有限公司, "**Zhuji Water**")	PRC, 30 November 2015	25,000	100%	100%	Direct	Wastewater treatment
Suijiang Dianchi Water Treatment Co., Ltd. (綏江滇池水務有限公司, "**Suijiang Water**")	PRC, 9 December 2015	22,000	100%	100%	Direct	Wastewater treatment
Ziyunxian Dianchi Water Treatment Co., Ltd. (紫雲縣滇池水務有限公司, "**Ziyun Water**")	PRC, 12 January 2016	12,000	100%	100%	Direct	Wastewater treatment
Guizhou Bafang Water Treatment Co., Ltd. (貴州八方水務有限公司, "**Bafang Water**")	PRC, 5 January 2011	10,000	100%	100%	Direct	Wastewater treatment
Kunming He'ertai Environmental industry and trade Co., Ltd. (昆明和而泰環保工貿有限責任公司, "**He'ertai Environmental**")	PRC, 7 February 2002	10,000	51%	51%	Direct	Manufacturing and sales of chemical products

FOR THE YEAR ENDED 31 DECEMBER 2017

37 SUBSIDIARIES *(Continued)*

Company name	Country or place and date of incorporation	Issued and paid up capital or registered capital	Effective interests held by the Group % 31 December 2017	2016	Direct or Indirect	Principal activities
Shuangjiang Dianchi Water Treatment Co., Ltd. (雙江滇池水務有限公司, "**Shuangjiang**")	PRC, 8 October 2016	10,000	100%	100%	Direct	Running water supply
Dian Chi Water Treatment (LAOS) Sole Co., Ltd.	LAOS, 22 August 2016	27,614	100%	N/A	Direct	Wastewater treatment
Haian Qutang Water Treatment Co., Ltd. (海安曲塘污水處理有限公司, "**Qutang Water**")	PRC, 1 January 2017	5,300	100%	N/A	Direct	Wastewater treatment
Hongzetianying Water Treatment Co., Ltd. (洪澤天楹污水處理有限責任公司, "**Hongze Water**")	PRC, 1 January 2017	81,100	100%	N/A	Direct	Wastewater treatment
Haian Libao Water Treatment Co., Ltd. (海安李堡污水處理有限公司, "**Libao Water**")	PRC, 1 January 2017	6,750	100%	N/A	Direct	Wastewater treatment
Liuyang Hongyu Water Treatment Co., Ltd. (瀏陽市宏宇水務有限公司, "**Hongyu Water**")	PRC, 1 October 2017	126,900	100%	N/A	Direct	Wastewater treatment
Kunming Dianchi Water Environment Monitoring Co., Ltd. (昆明滇池水務環境監測有限公司, "**Environment Monitoring**")	PRC, 25 April 2017	3,000	100%	N/A	Direct	Water quality testing
Kunming Dianchi Water Jizhen Co., Ltd. (昆明滇池水務集鎮污水處理有限公司, "**Jizhen Water**")	PRC, 11 April 2017	1,000	100%	N/A	Direct	Operation of wastewater treatment facilities

All the subsidiaries are companies with limited liability.

The English names of the PRC companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available

38 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed below and elsewhere in the notes to the financial statements set out above, there is no other material subsequent event undertaken by the Company or by the Group after 31 December 2017:

(a) Acquisition of assets/subsidiaries

The quality testing of the wastewater treatment facilities of Kunming No. 10 Water Purification Plant was completed and the final consideration was determined as RMB572,323,000 in January of 2018. All the relevant facilities were transferred to the Company in January of 2018 (Note 7).

Pursuant to a resolution of Board of Directors of the Company and agreement dated 20 September 2017, the Group intended to acquire the wastewater treatment business, which include 100% equity interests in Leshan Debei'ao Water Co. Ltd. (樂山德貝奧水務有限公司), which are directly or indirectly owned by Zou Hanping, Sichuan Debei'ao Environmental Tech Co. Ltd. (四川德貝奧環保科技實業有限公司) and Sichuan Future-Oasis Municipal Co. Ltd. (四川未來綠洲市政公用工程有限公司). The acquisition was completed in January of 2018 with a consideration of RMB80,230,000.

Pursuant to a resolution of Board of Directors of the Company and agreement dated 19 December 2017, the Group intended to acquire the wastewater treatment business, which include 100% equity interests in Zhuji Dongdaciwu Wastewater Co. Ltd. (諸暨市東大次塢污水處理有限公司), which are directly owned by Zhejiang DD Water Industry Co., Ltd. (東大水業集團有限公司) and Zhuji Changyun Urban-Rural Bus Co. Ltd. (諸暨市長運城鄉公交有限公司). The acquisition was completed in January of 2018 with a consideration of RMB85,326,000.

(b) Dividend

Pursuant to a resolution of the Board of the Directors dated 26 March 2018, the Company has proposed dividend of RMB0.1527 per share, which is RMB157,145,000 in total. The proposal is subject to approval in the annual general meeting.

(c) Entrusted loan provided to KIDC

The Company entered into an entrusted loan Contract with KIDC and the Bank of Communications on 16 March 2018, pursuant to which the Company entrusted the Bank of Communications to provide a loan of RMB300,000,000 to KIDC with annual interest of 7%.

39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Land use rights	**452,383**	464,948
Long term prepayments	**450,000**	450,000
Property, plant and equipment	**2,232,081**	2,333,103
Receivables under service concession arrangements	**186,467**	125,469
Amounts due from customers for construction contracts	**182,382**	35,573
Intangible assets	**22,508**	25,211
Investments in subsidiaries	**523,293**	271,629
Investments in associates	**17,939**	17,939
Prepayments for acquisition of subsidiaries	**43,356**	79,950
Deferred income tax assets	**26,198**	15,355
	4,136,607	3,819,177
Current assets		
Inventories	**3,059**	4,203
Amounts due from customers for construction contracts	**9,867**	5,716
Trade and other receivables	**534,972**	322,752
Cash and cash equivalents	**1,226,305**	392,359
	1,774,203	725,030
Total assets	**5,910,810**	4,544,207

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39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
EQUITY		
Share capital	**1,029,111**	720,000
Other reserves (a)	**1,456,923**	740,794
Retained earnings (a)	**1,197,794**	1,050,844
Total equity	**3,683,828**	2,511,638
LIABILITIES		
Non-current liabilities		
Deferred revenue	**157,310**	107,066
Borrowings	**1,091,625**	741,995
	1,248,935	849,061
Current liabilities		
Trade and other payables	**323,342**	361,996
Current income tax liabilities	**55,135**	42,775
Borrowings	**599,570**	778,737
	978,047	1,183,508
Total liabilities	**2,226,982**	2,032,569
Total equity and liabilities	**5,910,810**	4,544,207

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39 BALANCE SHEET AND RESERVES MOVEMENTS OF THE COMPANY *(Continued)*

(a) Reserves movements of the Company

Company

		Other reserves		
	Share premium	**Statutory reserve**	**Total**	**Retained earnings**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	595,091	120,513	715,604	824,024
Profit for the year	–	–	–	252,010
Appropriation to statutory reserve	–	25,190	25,190	(25,190)
At 31 December 2016	595,091	145,703	740,794	1,050,844
Profit for the year	**–**	**–**	**–**	**277,641**
Appropriation to statutory reserve	**–**	**27,780**	**27,780**	**(27,780)**
Increase in share premium upon issue of new shares	**688,349**	**–**	**688,349**	**–**
Dividends declared and paid to the Company's shareholders	**–**	**–**	**–**	**(102,911)**
At 31 December 2017	**1,283,440**	**173,483**	**1,456,923**	**1,197,794**