

Annual Report 2016



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

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Important

- I. The board of directors (the “**Board**”), supervisory committee (the “**Supervisory Committee**”), directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) confirm that the information in this annual report contains no false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of its contents.
- II. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have issued standard unqualified audit reports of the Company.
- III. Mr. Liu Yujun, the officer in charge of the Company, Ms. Peng Yilin, the officer in charge of the accounting function, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2016 annual report.
- IV. The proposal on profit appropriation or transfer of capital reserve fund to share capital for the reporting period as reviewed by the Board

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2016 amounted to RMB443.17 million. After deduction of the statutory common reserve of RMB30.55 million drawn in accordance with the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the retained profit of RMB2,177.20 million at the beginning of the year, and less the distribution in 2016 of the 2015 cash dividend of RMB99.91 million, and less the transfer of retained profit to capital reserve of RMB16.80 million due to restructuring of a subsidiary, the actual profit distributable to the shareholders for this year amounted to RMB2,473.11 million. According to the profit appropriation policy of the Company, it will be proposed that a cash dividend for 2016 of RMB0.95 (gross tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB135.59 million, representing 30.60% of the available-for-distribution profit attributable to the Company realized in 2016. No transfer from the capital reserve fund to share capital was made for 2016. The appropriation proposal shall be submitted to the 2016 annual general meeting of the Company for consideration and shall be implemented after approval.

- V. Risk statements for the forward-looking statements

The forward-looking statements in this annual report, such as the future development plans and strategy, shall not constitute the Company’s actual commitment to investors.

- VI. Did the controlling shareholder of the Company and its related parties misappropriate the Company’s funds for non-operating purposes?

No

- VII. Did the Company provide external guarantees in violation of any specified decision-making procedures?

No

VIII. SIGNIFICANT RISKS WARNING

The Company has disclosed in detail in this annual report the associated risks that may exist. Please refer to the Board's discussion and analysis on the Company's future development in Section 4 "Management Discussion and Analysis" of this annual report for the potential risks that the Company may face.

IX. Others

Unless indicated otherwise, financial figures in this annual report are denominated in RMB.

1. Definitions

I. DEFINITIONS

In this report, unless the context requires otherwise, the following terms shall have the following meanings:

“Group”	Tianjin Capital Environmental Protection Group Company Limited and its subsidiaries
“Subsidiaries”	Subsidiaries of Tianjin Capital Environmental Protection Group Company Limited
“Company”	Tianjin Capital Environmental Protection Group Company Limited
“Tianjin Investment Group”	Tianjin City Infrastructure Construction and Investment Group Company Limited
“TMICL”	Tianjin Municipal Investment Company Limited
“Bohai Chemical”	Tianjin Bohai Chemical Industry (Group) Company Limited
“TCCC”	Tianjin City Construction and Communication Committee
“Tianjin Haihe”	Tianjin Haihe Construction Development and Investment Company Limited
“TECI”	Tianjin City Environment Construction and Investment Company Limited
“Jiayuanxing”	Tianjin Jiayuanxing Innovative Energy Technology Company Limited
“TLP”	Tianjin Lecheng Properties Company Limited
“TYCOM”	Tianjin Yuanyicheng Commercial Operation Management Company Limited
“TMG”	Tianjin City Metro Group Company Limited
“TSC”	Tianjin Sewage Company
“TM Resources”	Tianjin Metro Resources Investment Company Limited
“Tianjin Ziya Investment”	Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited
“Water Recycling Company”	Tianjin Water Recycling Company Limited
“Guizhou Company”	Guizhou Capital Water Company Limited
“Capital Materials Company”	Tianjin Capital New Materials Company Limited
“Baoying Company”	Baoying Capital Water Company Limited
“Qujing Company”	Qujing Capital Water Company Limited
“Fuyang Company”	Fuyang Capital Water Company Limited
“Hangzhou Company”	Hangzhou Tianchuang Capital Water Company Limited
“Hong Kong Company”	Tianjin Capital Environmental Protection (Hong Kong) Company Limited

“Wendeng Company”	Wendeng Capital Water Company Limited
“Jinghai Company”	Tianjin Jinghai Capital Water Company Limited
“Xi’an Company”	Xi’an Capital Water Company Limited
“Kaiying Company”	Tianjin Kaiying Technology Development Company Limited
“Anguo Company”	Anguo Capital Water Company Limited
“Wuhan Company”	Wuhan Tianchuang Capital Environmental Protection Company Limited
“Capital Environmental Company”	Tianjin Capital Environmental Water Company Limited
“Zichuang Company”	Tianjin Zichuang Engineering Investment Company Limited
“Jinning Capital Environmental Company”	Tianjin Jinning Capital Environmental Water Company Limited
“Jiayuantian”	Tianjin Jiayuantian Innovative Energy Technology Company Limited
“Jiayuansheng”	Tianjin Jiayuansheng Innovative Energy Technology Company Limited
“Jiayuanbin”	Tianjin Jiayuanbin Innovative Energy Technology Company Limited
“Shandong Company”	Shandong Capital Environmental Protection Technology Consultant Company Limited
“Yingshang Company”	Yingshang Capital Water Company Limited
“Changsha Company”	Changsha Tianchuang Capital Environmental Protection Company Limited
“Karamay Company”	Karamay Tianchuang Capital Water Company Limited
“Northern China Region”	including Dongjiao Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant, Jingu Sewage Water Treatment Plant and Beicang Sewage Water Treatment Plant in the downtown of Tianjin, Shandong Company, Anguo Company, Jinghai Company and Jinning Capital Environmental Company
“Southwest Region”	including Guizhou Company and Qujing Company
“Northwest Region”	including Xi’an Company and Karamay Company
“Central China Region”	including Fuyang Company, Wuhan Company, Yingshang Company and Changsha Company
“Eastern China Region”	including Hangzhou Company and Baoying Company

2. Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

Chinese name of the Company	天津創業環保集團股份有限公司
Abbreviation of the Chinese name of the Company	創業環保
English name of the Company	Tianjin Capital Environmental Protection Group Company Limited
Abbreviation of the English name of the Company	TCEPC
Legal representative of the Company	Mr. Liu Yujun

II. CONTACT PERSON AND METHOD

	<u>Company Secretary to the Board</u>	<u>Company Secretary in Hong Kong</u>	<u>Securities Affairs Representative</u>
Name	Niu Bo	Lo Wai Keung, Eric	Guo Fengxian
Correspondence address	TCEP Building 76 Weijin South Road Nankai District, Tianjin, the PRC	22/F, Worldwide House, Central, Hong Kong	TCEP Building 76 Weijin South Road Nankai District, Tianjin, the PRC
Telephone number	86-22-23930128	852-22180920	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
Email address	niu_bo@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

III. COMPANY PROFILE

Registered address	No. 45 Guizhou Road, Heping District, Tianjin, the PRC
Postal code of the registered address	300051
Office address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal code of the office address	300381
Website	http://www.tjcep.com
Email address	tjcep@tjcep.com

IV. PLACES WHERE THE COMPANY INFORMATION IS DISCLOSED AND AVAILABLE FOR INSPECTION

Name of the media designated for the disclosure of information	Shanghai Securities News
Website designated by China Securities Regulatory Committee (“CSRC”) for the disclosure of annual report	www.sse.com.cn
Place where the annual report of the Company is available for inspection	Office of the Board, 18/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC

V. PROFILE OF THE SHARES OF THE COMPANY

Shares	Stock Exchange for listing shares	Stock short name	Stock code	Stock short name before its change
A Shares	Shanghai Stock Exchange (the “SSE”)	創業環保	600874	渤海化工
H Shares	The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)	Tianjin Capital	01065	Tianjin Bohai

VI. OTHER RELEVANT INFORMATION

Certified public accountants engaged by the Company (PRC)	Name	PricewaterhouseCoopers Zhong Tian LLP
	Office Address	11/F, PricewaterhouseCoopers Center, 202 Hu Bin Road, Shanghai, the PRC
	Name of Signing Accountant	Li Jun Cao Lu
Certified public accountants engaged by the Company (Hong Kong)	Name	PricewaterhouseCoopers
	Office Address	22/F, Prince’s Building, Central, Hong Kong
	Name of Signing Accountant	Kwong On Cheng

2. Company Profile and Major Financial Indicators

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PREVIOUS THREE YEARS

(i) Major accounting data

		<i>Unit: 0'000 Currency: RMB</i>		
Major accounting data	2016	2015	Increase/decrease for the period as compared to the same period last year (%)	2014
Operating income	195,866.6	193,420.6	1.26	182,807.9
Net profit attributable to the shareholders of the Company	44,316.8	33,053.7	34.08	30,816.8
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	40,683.3	29,723.7	36.87	29,128.3
Net cash flow from operating activities	40,367.0	231,067.9	-82.53	60,936.9
			Increase/decrease as at the end of the period as compared to the end of the same period last year (%)	
	As at the end of 2016	As at the end of 2015	As at the end of 2014	
Net assets attributable to the shareholders of the Company	474,437.7	440,111.5	7.80	417,048.4
Total assets	1,064,089.7	1,004,930.2	5.89	1,085,948.2

(ii) Major financial indicators

Major financial indicators	2016	2015	Increase/decrease for the period as compared to the same period	
			last year (%)	2014
Basic earnings per share (RMB/share)	0.31	0.23	34.78	0.22
Diluted earnings per share (RMB/share)	0.31	0.23	34.78	0.22
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.29	0.21	38.10	0.20
Weighted average return on net assets ratio (%)	9.71	7.73	Increased by 1.98 percentage point	7.57
Weighted average return on net assets ratio after deduction of extraordinary items (%)	8.91	6.95	Increased by 1.96 percentage point	7.15

VIII. DIFFERENCES IN ACCOUNTING DATA UNDER THE DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

- (i) Differences between net profit and net assets attributable to the Company's Shareholders as disclosed in the financial report in accordance with the international accounting standards and that in accordance with the accounting standards of the PRC simultaneously

Not applicable

- (ii) Differences between net profit and net assets attributable to the Company's Shareholders as disclosed in the financial report in accordance with the overseas accounting standards and that in accordance with the accounting standards of the PRC simultaneously

Not applicable

- (iii) Explanation on differences in domestic and overseas accounting standards

Not applicable

2. Company Profile and Major Financial Indicators

IX. MAJOR FINANCIAL DATA BY QUARTER FOR THE YEAR 2016

	<i>Unit: 0'000 Currency: RMB</i>			
	The First Quarter (January to March)	The Second Quarter (April to June)	The Third Quarter (July to September)	The Fourth Quarter (October to December)
Operating Income	45,483.9	47,272.2	55,483.6	47,626.9
Net profit attributable to the shareholders of the Company	9,594.2	14,074.1	13,007.2	7,641.3
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	9,558.6	13,339.5	12,364.6	5,420.6
Net cash flow from operating activities	-5,681.9	30,238.2	10,824	4,986.7
Differences between data by quarter and data disclosed in periodical reports				
Not applicable				

X. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

	<i>Unit: 0'000 Currency: RMB</i>			
	Amount in 2016	Notes (if applicable)	Amount in 2015	Amount in 2014
Profit/loss from disposal of non-current assets	-68.1		0.4	-181
Government grants recognized in current profit and loss, except for those closely related to business operation, in compliance with national policy and settled in certain amount which are constantly granted by government	4,336.0		4,113.7	2,317
Other non-operating income and expenses except for the above items	<u>773.6</u>		<u>407.4</u>	<u>105</u>
Effect on non-controlling interests	-147.6		-61.1	8
Income tax effect	<u>-1,260.4</u>		<u>-1,130.4</u>	<u>-560</u>
Total	<u><u>3,633.5</u></u>		<u><u>3,330.0</u></u>	<u><u>1,689</u></u>

XI. ITEMS MEASURED BY FAIR VALUE

Not applicable

2. Company Profile and Major Financial Indicators

XII. PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS

Results

Unit: 0'000 Currency: RMB

	For the year ended 31st December				
	2016	2015	2014	2013	2012
Turnover	<u>177,381</u>	<u>175,367</u>	<u>167,113</u>	<u>161,468</u>	<u>154,117</u>
Profit before taxation	<u>62,223</u>	<u>49,018</u>	<u>43,326</u>	<u>38,752</u>	<u>37,280</u>
Taxation	<u>(15,432)</u>	<u>(14,570)</u>	<u>(11,555)</u>	<u>(9,916)</u>	<u>(9,825)</u>
Profit after taxation	46,791	34,448	31,771	28,836	27,455
Non-controlling interests	<u>(2,474)</u>	<u>(1,394)</u>	<u>(954)</u>	<u>(646)</u>	<u>(557)</u>
Profit attributable to the shareholders of the Company	<u>44,317</u>	<u>33,054</u>	<u>30,817</u>	<u>28,190</u>	<u>26,898</u>
Dividend	<u>13,559</u>	<u>9,991</u>	<u>9,991</u>	<u>11,418</u>	<u>8,563</u>

Note: The results for each of the five years ended 31 December 2016 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

XII. PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Assets and Liabilities

Unit: 0'000 Currency: RMB

	As at 31st December				
	2016	2015	2014	2013	2012
Fixed assets	53,046	57,114	61,346	477,516	429,068
Intangible assets	621,900	624,475	630,610	264,848	275,369
Associated company	—	2,600	3,135	3,262	3,463
Available-for-sale financial assets	200	200	200	200	400
Long-term receivables	30,915	31,946	32,615	33,361	33,763
Trade receivables due after one year	—	—	—	—	6,879
Other non-current assets	18,774	805	846	725	851
Net current assets	<u>159,479</u>	<u>28,637</u>	<u>161,617</u>	<u>105,961</u>	<u>69,578</u>
	884,314	745,777	890,369	885,873	819,371
Non-controlling interests	25,944	21,764	16,750	15,805	15,244
Long-term liabilities	<u>383,932</u>	<u>283,901</u>	<u>456,570</u>	<u>472,418</u>	<u>426,104</u>
Net assets	<u><u>474,438</u></u>	<u><u>440,112</u></u>	<u><u>417,048</u></u>	<u><u>397,650</u></u>	<u><u>378,023</u></u>

3 Company Business Overview

I. EXPLANATION OF PRINCIPAL BUSINESS OF THE COMPANY, ITS BUSINESS MODEL AND THE INDUSTRY SITUATION DURING THE REPORTING PERIOD

(I) Principal Business of the Company and its Business Model

During the reporting period, there was no significant change in the principal business of the Company, which remains to be water utilities business and new energy cooling and heating supply business. Water utilities business centers on traditional sewage treatment, tap water supply and reclaimed water business, with expansion to the industrial chain of water environmental protection industry, covering industrial wastewater treatment, sludge treatment, solid waste treatment, and products and services (mainly deodorants) based on environment protection research.

1. *Water Utilities and Related Environmental Protection Business*

Water utilities business has been the Company's traditional strength since its incorporation. Through years of operations, the Company has become one of the renowned companies in China's water utilities industry with leading operation and management capabilities in water utilities business, especially in the traditional sewage treatment business. As at the end of the reporting period, the Company had water utilities projects with a total capacity of 4.83 million m³/day, which were located in 13 cities (centering on Tianjin) across northern, central, southwest, eastern and northwest China and managed by 14 subsidiaries. The total capacity comprised 4.39 million m³/day in sewage treatment business (among which 3.80 million m³/day went into operation) in the aforesaid regions and cities, 240,000 m³/day in reclaimed water business mainly based in Tianjin, and 200,000 m³/day in tap water supply business mainly operated in Qujing, Yunnan.

In recent years, the Company was actively conducting technology R&D to provide technical support for multi-dimensional services in the water utilities industry while consolidating and developing traditional water utilities business. The Company was also developing solid waste and sludge treatment business and commercializing its technological achievements to expand to the industrial chain of water environmental protection and improve its comprehensive water service capabilities.

In terms of solid waste business, the Company has a hazardous waste treatment center in Yishui of Shandong which, owned and operated by its wholly-owned subsidiary Shangdong Company, disposes of the industrial hazardous waste in the Yishui Lushan Chemical Industry Park by such means as incineration and safe landfill.

The Company owns patented whole-process deodorization technology for sewage treatment plants which has become well-received in the market in recent years, as well as other environmental research-based products such as heavy metal detector, sludge processor and microbial agents which have been gradually launched and marketed. Meanwhile, the Company seized the opportunity for commissioned trial operation of Jinnan Sludge Treatment Plant to enter into the field of sludge treatment. Kaiying Company, a subsidiary of the Company, undertakes the development of the aforementioned business as the platform for commercializing the Company's technological achievements.

2. *New Energy Cooling and Heating Supply Business*

The new energy cooling and heating supply business is mainly operated in Tianjin by utilizing underground cold and heat exchange technology to provide cooling and heating services for users in certain areas and charge them cooling and heating service fees. As at the end of 2016, the Company had four new energy cooling and heating supply projects that served a total area of approximately 2 million square meters.

3. Business Model

- (1) The principal business model for the Company's sewage treatment, tap water supply and new energy cooling and heating supply business is the concession model involving investment, construction and operation, which mainly comprises two sub-models (i.e. BOT and TOT) and serves as a form of PPP model in a broad sense.

Under the BOT model, the Company acquires a project through public bidding or negotiation, and then sets up a project company either alone or with other participant(s) (under the PPP model, the government is a participant). The project company will enter into a concession agreement with the project owner to obtain the concession of the project for a certain period (i.e. concession period, generally for 25 to 30 years). Then the project company will invest in, build and operate the project within the concession period, charge service fees for sewage treatment and new energy cooling and heating supply, and transfer the project to the government or an entity designated by the government after the concession period.

Under the TOT model, the Company acquires a project through public bidding or negotiation, and then sets up a project company either alone or with other participant(s) (under the PPP model, the government is a participant). The project company will enter into a concession agreement with the project owner to obtain the concession of the project for a certain period (i.e. concession period, generally for 25 to 30 years). Then the project company will acquire and operate the project within the concession period, charge sewage treatment service fees, and transfer the project to the government or an entity designated by the government after the concession period.

In addition, the Company has been committed to drawing upon its existing technology and operational advantages to develop commissioned operation projects of sewage treatment in a model of providing technical services and charging service fees.

As at the end of the reporting period, the Company had a total sewage treatment capacity of 3.67 million m³/day under the BOT and TOT models (among which 3.08 million m³/day went into operation) and a capacity of 720,000 m³/day for commissioned operation projects of sewage treatment under the technical service model. All of the new energy cooling and heating supply projects and tap water supply projects are operated under BOT model or TOT model.

- (2) The Company's reclaimed water business includes the production and sale of reclaimed water and related pipeline connection. A model integrating production, supply and sale is employed for the production and sale of reclaimed water to charge reclaimed water tariff according to the government-guided prices. The reclaimed water pipeline connection business is operated by undertaking reclaimed water pipeline connection projects in accordance with the relevant provisions of the government.

Through years of efforts, the Company has accumulated rich experience in technology, operation and market development in the fields of water utilities and new energy cooling and heating supply, thus guaranteeing the continued and healthy development of the Company's principal business.

(II) Explanation of the Industry Situation

1. *Integrated environmental services have become the mainstream market demand*

Through years of development, the traditional sewage treatment industry has substantially completed the initial “enclosure movement” and developed into a mature stage. According to the National Plan for Construction of Urban Sewage Treatment and Recycling Facilities under the 13th Five-year Plan (《「十三五」全國城鎮污水處理及再生利用建設規劃》, the “Plan”) issued by the National Development and Reform Commission and the Ministry of Housing and Urban-Rural Development in late 2016, as at the end of 2015, the urban sewage treatment rate and county sewage treatment reached 92% and 85% respectively, and during the 13th Five-year Plan period, the government will increase investment in urban sewage treatment facilities to transition from “scaling up” to “improving quality and efficiency”, from “wastewater taking priority over sludge” to “giving equal weight to wastewater and sludge”, and from “sewage treatment” to “recycling”. Meanwhile, in order to solve the problems affecting people’s lives and the orderly urban operation such as water shortage and frequent waterlogging disasters, the government has introduced the concept of “sponge city” for the Ministry of Finance, the Ministry of Housing and Urban-Rural Development and the Ministry of Water Resources to carry out pilot work for sponge city construction. Under the guidance of the above industrial policy, the single-mode sewage treatment will shift to comprehensive water environment treatment and improvement of comprehensive water utilization. As such, comprehensive water environment treatment projects may become an important development model in the water utilities industry.

In the future, the Company will focus on improving its industrial chain covering multi-dimensional services such as water supply, sewage treatment, industrial wastewater treatment, sludge disposal, garbage disposal, reclaimed water and environmental remediation in an effort to enhance its comprehensive water environment treatment capabilities. Meanwhile, the Company will offer comprehensive environmental services in such areas as environmental consulting, technology research and development, engineering design, general contracting, and investment in, construction and operation of environmental protection facilities, so as to enhance its comprehensive environmental service capacity.

(2) *PPP model has become the mainstream business model*

The promulgation of the Implementation Opinions on Partnership between Government and Social Capital on Water Pollution Prevention and Treatment (《推進水污染防治領域政府和社會資本合作的實施意見》) issued by the Ministry of Environmental Protection and the Ministry of Finance of the PRC on 9 April 2015 fully demonstrated the strong national support for promoting the PPP model for environmental protection projects. During the reporting period, the Ministry of Finance issued the Notice on Further Promoting Partnership between Government and Social Capital on Public Services, which requires nationwide mandatory application of the PPP model in setting up new project in public sectors such as garbage disposal and sewage treatment. Guided by the above policy, the PPP model currently serves as the major cooperation model in the booming environmental protection market with extensive scope of cooperation. The Company owns a number of BOT and TOT projects which count as PPP projects in a broad sense. During the reporting period, the Company reconstructed its market development system through organizational restructuring and entered into multiple PPP project agreements tailored based on market conditions under such models as the DBOT (design-build-operate-transfer) model.

(3) *An increasingly competitive market*

Under the background of the above national environmental protection policies, strong environmental enterprises in China are actively competing for environmental protection projects and leveraging their capabilities such as technology and capital strength to seek rapid growth through mergers, acquisitions and other models, thus making market competition increasingly intense. The Company will give full play to its own competitive strengths to actively participate in market competition.

II. EXPLANATION OF THE SIGNIFICANT CHANGES IN THE COMPANY'S MAJOR ASSETS DURING THE REPORTING PERIOD

Not applicable

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The Group's core competitiveness is mainly reflected in the following four aspects: (1) safe, stable, up-to-standard and efficient operation capabilities; (2) practical, leading, flexible and sustained research and development capabilities; (3) professional, dedicated, cooperative and innovative staff team; (4) trustworthy, responsible, standardized and healthy corporate reputation. These four aspects of core competitiveness complement one another. Corporate integrity, diligent employees and technology innovation provide an ultimate assurance to customers, thereby resulting in the Company's sound brand influence in environmental protection.

After the development in 2016, the Company further consolidated its strengths and enhanced its overall competitiveness. In respect of market development, the Company made positive progress as it expanded its strategic presence across the nation by winning the bid for a project in Karamay, Xinjiang. In respect of business development, the Company not only continued to strengthen its grip on water utilities and new energy cooling and heating supply, but also further expanded into hazardous waste treatment business to enhance its comprehensive environmental service capacity in an all-round manner. In respect of technology research and development, the Company upheld the market-oriented approach to constantly improve its R&D system, and committed more R&D resources in such areas as wastewater, sludge, deodorants and microbial agents, in an active effort to accumulate proprietary technologies for future development.

4 Management Discussion and Analysis

I. OPERATION DISCUSSION AND ANALYSIS

With the concept of large environmental market of the environmental protection industry, the Company fully analysed the development trend of environmental protection industry, and actively grasped the policy and market opportunities. While fully exerting the operational advantages, the Company changed business philosophy, strengthened market development, made more efforts in the market development, conducted innovation and market development model; at the same time, the Company strengthened scientific and technological research and development to make it become the leading technology strength of the Company to develop from environmental protection industry to the whole industry chain; the Company adjusted the internal organizational structure and established a management system supporting the business development.

In 2016, under the guidance of the above business policy, the Company steadily carried out the following aspects of the work in accordance with the established business strategy and business plan:

1. To constantly exert operational advantages and ensure stable operation of projects

The new Environmental Protection Law and Water Pollution Prevention Action Plan were introduced to put forward the higher standards for sewage treatment and comprehensive treatment of water environment; stable and standard operation is the government's core requirements for water projects. During the reporting period, as an enterprise with rich experience in operation and management, the Company gave full play to the advantages of operation to ensure that the water projects were running in good condition and ensure the normal operation of the new energy heating and cooling supply projects, providing stable, standard and high quality services, building good image in the industry, and creating a good reputation.

2. To vigorously promote the market development while grasping the existing project upgrade opportunities

In 2016, in response to higher standards for the effluent water quality of local sewage treatment of Tianjin City, four sewage treatment plants of the Company in Dongjiao, Xianyanglu, Jingu, and Beicang of Tianjin central city started upgrading. The Company was responsible for investment and construction of sewage treatment plant upgrade and renovation projects in Jingu and Beicang, and construction of sewage treatment plant upgrade and renovation projects in Xianyanglu and Dongjiao invested by government as the agent. After the upgrade and renovation is completed, the Company will automatically obtain the franchise of the four sewage treatment plants and will continue to operate four sewage treatment plants during the original franchise period. The Company has jointly signed the Supplementary Agreement on Franchise Agreement with Tianjin Municipal Water Affairs Bureau and TCCC on the above-mentioned project. The relevant work has started in the reporting period.

During the reporting period, the Company strengthened efforts in the market development, and made innovation in the market development mode, carried out market expansion in various forms, and signed strategic cooperation agreements with the outstanding enterprises of the industry, including Tianjin Motimo Membrane Technology Co., Ltd., CSMDI and OriginWater to achieve complementary advantages and market development. During the reporting period, the Company won bid for three sewage treatment projects in Jieshou, Anhui Province, Ningxiang, Hunan Province and Karamay, Xinjiang Autonomous Region to enhance the business scale of water projects and expand the business scope to Hunan and Xinjiang. The Company won bid for the BOT project of Cultural Center (Phase I) Energy Station of Binhai New Area, Tianjin, which helped the Company to expand the new energy heating and cooling supply business from Tianjin Central City Area to Binhai New Area. The Company obtained a project of hazardous waste comprehensive disposal center in Yishui County, Linyi City, Shandong Province to make a breakthrough in the field of hazardous waste business.

3. To promote financing and provide protection for business development

In response to the needs of business expansion to support the Company's healthy and rapid development, the Company applied to issue corporate bonds with a total amount not exceeding RMB1.8 billion. The issuance plan was approved by the CSRC and the Company has issued RMB700 million of corporate bonds during the reporting period. The remaining balance will be issued based on the actual need.

In order to optimize the capital structure and improve the profitability and anti-risk ability of the Company, the Company started the non-public issuance of A shares during the reporting period. The issuance plan was approved by the general meeting of shareholders of the Company. Due to the major adjustments made by the CSRC on the equity financing policy of the listed companies at the beginning of 2017, as of the date of this report, the proposal of the non-public issuance of A shares of the Company is being adjusted.

Kaiying Company, a subsidiary of the Company, is responsible for the transformation of the Company's achievements in technology research and has a relatively independent business development scope and system. It has a broad business development prospect. In order to enhance the development capability of Kaiying Company, the Company carried out the restructuring of stockholding system of Kaiying Company and applied for quotation on the National Equities Exchange and Quotations System (the "NEEQ") during the report period, which has been approved by the NEEQ and is currently waiting for the approval of the Stock Exchange.

4. To continue to strengthen scientific research and development work to highlight the leading role of science and technology

During the reporting period, the Company continued to intensify the efforts of R&D and transformation of achievements in technology research; in addition to sewage and sludge related technology research and development subjects, it also strengthened efforts in the research of sponge city, soil repair, environmental water treatment and other aspects, and a progress has been made to provide technical support for improving the Company's comprehensive environmental services capability.

II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

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

In 2016, the Group recorded an operating revenue of RMB1,958.67 million, representing an increase of 1.26% as compared to that of last year. The operating costs were RMB1,150.01 million, representing a decrease of 4.32% as compared to that of last year. Net profit attributable to the Company was RMB443.17 million, representing an increase of 34.08% over last year. The increase in net profit was mainly due to an increase in the unit price of sewage treatment service fee of some subsidiaries, resulting in an increase in revenue over the same period of last year. At the same time, the amount of input tax deductions in the operating expenditure increased as compared to last year and the operating cost decreased as compared to last year. In addition, financial costs significantly reduced as compared to last year due to measures of downsizing the scale of loans and adjusting the outstanding loan interest rate.

2. Analysis of the principal business

During the reporting period, the Group's principal business types did not change significantly compared with the previous year and are still engaged in the sewage treatment and construction of sewage treatment plants business, recycled water business, tap water supply, new energy heating and cooling supply business, toll collection business and transformation of achievements in technology research. It recorded operating income of RMB1,773.81 million and operating profit of RMB730.03 million, representing an increase of 8.57% over the previous year.

3. Other business

The Group's other business mainly includes the sewage treatment entrusted operation business via the technical service model, as well as the technical and engineering consulting business. During the reporting period, it recorded the income of RMB184.85 million, which was basically the same as that of last year.

(I) ANALYSIS OF PRINCIPAL BUSINESSES

Analysis on changes in income statement and cash flow statement

Unit: 0,000 Currency: RMB

Item	Amount		
	Amount for the current period	for the same period last year	Percentage change (%)
Operating revenue	195,866.6	193,420.6	1.26
Operating costs	115,001.2	120,194.4	-4.32
Sales expenses (Note 1)	996.4	316.6	214.72
Administrative expenses	11,648.1	10,536.6	10.55
Financial expenses	15,166.6	18,285.5	-17.06
Impairment losses on assets (Note 2)	5,205.7	3,158.9	64.79
Investment loss (Note 3)	-364.0	-534.9	31.95
Non-operating expenses (Note 4)	126.0	3,494.5	-96.39
Non-controlling interests (Note 5)	2,473.8	1,394.2	77.44
Net cash flow from operating activities	40,367.0	231,067.9	-82.53
Net cash flow from investing activities	-14,248.0	-49,285.5	71.09
Net cash flow from financing activities	-40,864.5	-130,414.1	68.67
Research and development expenses	314.1	281.5	11.59

Note 1: As the number of market development staff in Kaiying Company increased, costs increased correspondingly.

Note 2: Provision is made for impairment of associates.

Note 3: The figure of the current period is higher than the same period last year, mainly due to the decrease in loss of the associate Tianjin International Machinery Co., Ltd. in the current period.

Note 4: The main reason for significant decrease this year compared with last year is that the subsequent expenditure of Jizhuangzi' relocation project was approximately RMB 34 million in 2015 and there was no this item this year.

Note 5: Increase in net profit from non-wholly owned subsidiaries for the current period.

1. Analysis of income and costs

During the reporting period, the operating revenue of the Group was RMB1,958.67 million. The main source of operating revenue was from the principal businesses, including sewage treatment, tap water supply, recycled water business and transforming technological achievements, which achieved a revenue of RMB1,773.81 million, accounting for 90.6% of the Group's operating revenue. In particular, sewage treatment and construction of sewage treatment plants business achieved a revenue of RMB1,362.88 million, representing an increase of 5.5% as compared to last year which was mainly due to the rise in unit price of sewage treatment service fees after completion of ungrading and reconstruction of sewage treatment projects of certain subsidiaries; recycled water business generated a revenue of RMB188.62 million which was slightly higher as compared to last year due to the increase in water consumption of certain users; tap water supply business achieved a revenue of RMB66.85 million, representing an increase of 4.9% as compared to last year mainly due to an increase in water supply; the revenue from new energy cooling and heating supply business was RMB71.71 million which was almost the same as compared to last year; toll collection business generated a revenue of RMB63.88 million, which was slightly lower as compared to last year because of the influence from the replacement of business tax by value added tax.

During the reporting period, in addition to expanding the market, the principal businesses of the Company put effort in strengthening project operation including cost control and agreement maintenance, so to minimize operating costs, timely adjust the unit price of sewage treatment service fees, and secure an income from projects.

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

Unit: 0,000 Currency: RMB

By industry	Major business by industry					
	Operating revenue	Operating costs	Gross profit margin (%)	Increase/decrease in operating revenue as compared to last year (%)	Increase/decrease in operating costs as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)
Sewage treatment and construction of sewage treatment plants business	136,288	79,348	41.78	5.48	1.19	Increased by 2.47 percentage points
Pipe network connection and supply of recycled water business	18,862	13,340	29.28	1.74	5.10	Decreased by 2.26 percentage points
Toll collection business	6,388	712	88.85	-4.70	0	Decreased by 0.52 percentage points
Tap water supply business	6,685	4,913	26.51	4.93	9.86	Decreased by 3.30 percentage points
Cooling and heating supply business	7,171	4,455	37.87	2.75	4.65	Decreased by 1.13 percentage points
Transformation of technology research achievements (Note 1)	1,595	1,206	24.39	-65.87	-71.77	Increased by 15.81 percentage points
Others (Note 2)	392	405	-3.32	-86.48	-87.75	Increased by 10.68 percentage points

Major business by region

By region	Operating revenue	Operating costs	Gross margin (%)	Increase/decrease in operating revenue as compared to last year (%)	Increase/decrease in operating costs as compared to last year (%)	Increase or decrease in gross profit margin as compared to last year (%)
Northern China Region (Note 3)	116,161	64,161	44.77	-6.93	-12.82	Increased by 3.74 percentage points
Southwest Region (Note 4)	13,661	9,922	27.37	11.07	10.54	Increased by 0.35 percentage points
Eastern China Region (Note 5)	24,077	14,776	38.63	31.91	29.97	Increased by 0.92 percentage points
Northwest Region (Note 6)	12,779	8,453	33.85	35.08	14.11	Increased by 12.16 percentage points
Others	10,703	7,067	33.97	1.43	4.19	Decreased by 1.75 percentage points

Note 1: Due to the completion schedule of project(s), revenue and costs decreased as compared to the same period last year;

Note 2: "Others" mainly includes the sale of building materials business. During the reporting period, the revenue and costs significantly decreased due to decrease in sales volume as compared to the same period last year;

Note 3: Northern China region includes Tianjin region, Anguo Company and Wendeng Company;

Note 4: Southwest region includes Qijing Company and Guizhou Company. Revenue increased because of the rise in unit price of Guizhou Company's sewage treatment service after completion of upgrading and reconstruction works, meanwhile, costs increased because of the improvement of discharge standard;

Note 5: Eastern China region includes Hangzhou Company and Baoying Company. Revenue increased because of the rise in unit price of sewage treatment service fees after the completion of upgrading and reconstruction works for Hangzhou Company's sewage treatment plant, while the operation costs increased as well due to the improvement of discharge standard;

Note 6: Northwest region refers to Xi'an Company. Revenue and costs increased due to the increase in volume of sewage treated and the rise in unit price of sewage treatment service fees after the completion of upgrading and reconstruction of Xi'an Company's sewage treatment plant.

(2) *Analysis of production and sales volume*

Not applicable

4 Management Discussion and Analysis

(3) Cost analysis

Unit: 0,000 Currency: RMB

By industry

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Sewage treatment and construction of sewage treatment plants	Labor	11,301	10.83	10,410	9.63	8.56	Nil
	Energy consumption (electricity)	19,786	18.96	20,934	19.36	-5.48	Nil
	Materials consumption	5,032	4.82	4,689	4.34	7.31	Nil
	Depreciation and amortization	25,296	24.23	24,252	22.43	4.30	Nil
	Other manufacturing costs	17,933	17.18	18,132	16.76	-1.10	Nil
	Subtotal	79,348	76.02	78,417	72.52	1.19	Nil
Tap water	Labor	715	0.69	658	0.61	8.66	Nil
	Energy consumption (electricity)	421	0.40	391	0.36	7.67	Nil
	Materials consumption	2,653	2.54	2,477	2.29	7.11	Nil
	Depreciation and amortization	989	0.95	806	0.75	22.70	Nil
	Other manufacturing costs	135	0.13	140	0.13	-3.57	Nil
	Subtotal	4,913	4.71	4,472	4.14	9.86	Nil

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period	Explanation
						last year (%)	
Recycled water	Labor	1,390	1.33	1,331	1.23	4.43	Nil
	Energy consumption (electricity)	764	0.73	818	0.76	-6.60	Nil
	Materials consumption	578	0.55	677	0.63	-14.62	Nil
	Depreciation and amortization	3,610	3.46	3,820	3.53	-5.50	Nil
	Other manufacturing costs	1,426	1.37	1,753	1.62	-18.65	Nil
	Subtotal	7,768	7.44	8,399	7.77	-7.51	Nil
Recycled water pipe network connection	Construction cost	5,572	5.34	4,294	3.97	29.76	Note 1
	Subtotal	5,572	5.34	4,294	3.97	29.76	Note 1
Energy supply	Labor	643	0.62	544	0.50	18.20	Nil
	Energy consumption (electricity)	1,712	1.64	1,749	1.62	-2.12	Nil
	Materials consumption	50	0.05	59	0.05	-15.25	Nil
	Depreciation and amortization	1,443	1.38	1,412	1.31	2.20	Nil
	Other manufacturing costs	607	0.58	493	0.46	23.12	Nil
	Subtotal	4,455	4.27	4,257	3.94	4.65	Nil
Toll collection	Collection management fees	712	0.68	712	0.66	—	Nil
	Subtotal	712	0.68	712	0.66	—	Nil

4 Management Discussion and Analysis

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period	Explanation
						last year (%)	
Transformation of achievements in technology research	Labor	580	0.56	822	0.76	-29.44	Note 2
	Expenditure for materials and facilities	467	0.45	2,588	2.39	-81.96	Note 2
	Other manufacturing costs	159	0.15	862	0.80	-81.55	Note 2
	Subtotal	1,206	1.16	4,272	3.95	-71.77	Note 2
Others	Product sale	338	0.32	2,749	2.54	-87.70	Note 3
	Other manufacturing costs	67	0.06	556	0.51	-87.95	Note 3
	Subtotal	405	0.38	3,305	3.05	-87.75	Note 3
Total		104,379	100.00	108,128	100.00	-3.47	Nil

Note 1: Due to increase in the amount of project settlement, business costs of pipe network connection increased accordingly;

Note 2: Due to schedule of projects, costs decreased significantly along with the decrease in revenue;

Note 3: In respect of sales of pipe materials, etc., costs decreased significantly along with the decrease in revenue due to decrease in sales volume.

(4) *Major customers and major suppliers*

Sales from the top five customers amounted to RMB1,282.40 million, accounting for 65.47% of total sales for the year; among which, sales from related parties was nil, accounting for 0% of total sales for the year.

Procurement from the top five suppliers amounted to RMB308.79 million, accounting for 33.21% of total procurement for the year; among which, procurement from related parties was nil, accounting for 0% of total procurement for the year.

2. Expenses

During the reporting period, the administrative expenses of the Group increased by 10.55% as compared to last year due to such reasons as establishment of new subsidiaries and organizational restructuring; during the reporting period, through reducing loan amount, adjusting the outstanding loans and other measures, the financial expenses of the Group decreased by 17.06% as compared to last year.

4 Management Discussion and Analysis

3. Research and development investment

Research and development investment

Unit: 0,000 Currency: RMB

Expensed research and development investment during the period	261.33
Capitalized research and development investment during the period	52.79
Total research and development investment	314.12
Percentage of total research and development investment on operating revenue (%)	0.16
Number of research and development personnel in the Company	73
Percentage of number of research and development personnel over the total number of personnel of the Company (%)	4.86
Ratio of capitalized research and development investment (%)	16.81

Explanation

During the reporting period, the main direction for research and development of the Group was developing the new technical process and applicable technologies in fields such as sewage and sludge treatment. The Group has completed the research and development plan set for the year 2016.

4. Cash flow

Unit: 0,000 Currency: RMB

Item	2016	2015	Increase/ Decrease	Percentage Change (%)	Remarks of changes
Net cash flow from operating activities	40,367.0	231,067.9	-190,700.9	-82.53	The amount for the period was lower than that of the same period last year mainly because the Company received sewage treatment service fee of RMB 1,890 million owed by the Sewerage Company in the same period last year, while there was no such item in the period.
Net cash flow from investment activities	-14,248.0	-49,285.5	35,037.5	71.09	The amount for this period was higher than that of the same period last year mainly because in this period the Company received subsidies for upgrading and reconstruction projects, Jizhuangzi Sewage Treatment Plant relocation project and cooling and heating projects.
Net cash flow from financing activities	-40,864.5	-130,414.1	89,549.6	68.67	The amount for this period was higher than that of the same period last year mainly because repayment amount for this period was less than that of the same period last year, causing the decrease in net cash outflow.
Net increase in cash and cash equivalents	-14,745.5	51,368.3	-66,113.8	-128.71	Aggregate result of cash flows from operating, investment and financing activities.

4 Management Discussion and Analysis

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

Not applicable

(III) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: 0,000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Notes receivable	40	0	109.4	0.01	-63.44	It was mainly due to the notes of subsidiaries was due for payment in the period.
Accounts receivable	181,542	17.06	123,835.2	12.32	46.6	It was mainly the increase in receivable sewage treatment service fees in the period.
Other receivables	15,087.2	1.42	7,453.1	0.74	102.43	It was mainly the increase in deposits on project bids in the period.
Long-term equity investments	0	0	2,599.8	0.26	-100	It was mainly due to the provision for total impairment of associated company in the period.
Construction in progress	439.6	0.04	294.3	0.03	49.37	It was mainly the project and equipment fee for the new energy station in Binhai in the period.
Other non-current assets	18,774.4	1.76	805.1	0.08	2,231.93	It was mainly the payment for consideration for asset acquisition of Karamay project in the period.
Accounts payable	10,723.9	1.01	8,259.9	0.82	29.83	It was mainly the project fund payable by Water Recycling Company.
Payroll payable	3,441.1	0.32	2,180.9	0.22	57.78	It was mainly the provision for bonuses of 2016.
Dividends payable	143.8	0.01	3,242.6	0.32	-95.57	It was mainly because the dividends for major shareholders were paid in the period.
Non-current liabilities due within one year	21,232.7	2	100,381.6	9.99	-78.85	It was mainly that the RMB 700 million mid-term notes and bank loans due in 2016 were repaid.
Other current liabilities	964.5	0.09	381	0.04	153.15	It was mainly due to the provision for renewal and maintenance fee of equipment in sewage treatment plant in one year.

Items	Amount as at the end of the current period	Percentage of	Amount as at the end of the previous period	Percentage of	Percentage	Explanation
		the amount as at the end of the current period to the total assets (%)		the amount as at the end of the previous period to the total assets (%)	change in amount as at the end of the current period as compared to the end of previous period (%)	
Bonds payable	139,431.3	13.1	69,492.5	6.92	100.64	It was mainly due to the issuance of RMB 700 million corporate bonds in the period
Provision for other liabilities and charges	3,293.0	0.31	0	0	—	It was mainly the provision of renewal and maintenance fee of equipment in sewage treatment plant.

(IV) INDUSTRY ANALYSIS

1. Water utilities industry

With the increasingly stringent environmental protection standards, the existing sewage treatment plants have successively begun to upgrade in order to meet the higher discharge standards. The rise of standards of discharge quality will further increase the operating costs of the sewage treatment plants.

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

“Several Opinions on the Promotion of the Price Mechanism Reform” issued the State Council of the PRC requires that in accordance with the principle of “payment for pollution, fair burdens, compensation of costs and reasonable profit”, the sewage treatment fees shall be reasonably raised and the urban sewage treatment fees should not be lower than the sewage treatment and sludge treatment and disposal costs.

The above industry policies give the enterprises in the water utilities industry a lot of room for development, but they also put forward a great challenge. As one of the enterprises with many years of experience in water utilities investment and operation, the Company will make every effort to make use of strengths and avoid weaknesses, and to seize the opportunity to grow and develop.

4 Management Discussion and Analysis

2. New energy industry

Following the promulgation of the “Ten Requirements Controlling Air Pollution”, air pollution prevention and control has gained unprecedented attention. In order to reduce air pollution, Tianjin city advocated to replace traditional coal-fired boilers by natural gas or new energy. The new energy business will thus have huge room for development. With the opportunity of replacing coal with natural gas in various regions and encouraging the use of clean energy, the new energy industry will face greater demands and a more open market. The Company has four new energy cooling and heating supply projects in Tianjin, and has accumulated a lot of experience in operation and management regarding the new energy cooling and heating supply business. The above policy background will provide the Company with a huge expansion potential for its new energy cooling and heating supply business in the future.

Water Utilities Industry Analysis

1. Capacity and operation condition during the reporting period

Section	Capacity	Utilization rate of capacity (%)
Supply of tap water	200,000 tons/day	56.2
Sewage treatment	3,080,000 tons/day	94.4
Recycled water	240,000 tons/day	46.1

District	Capacity	Scale of new production during the reporting period	Planned capacity of projects under construction	Expected production time
Northern China	1,650,000 tons/day	0	Addition of 350,000 tons/day (Note 1)	Note 2
Southwest	390,000 tons/day	0	0	N/A
Northwest	270,000 tons/day (Note 3)	0	Addition of 150,000 tons/day	2019
Central China	320,000 tons/day	0	90,000 tons/day	Note 4
Eastern China	650,000 tons/day	0	0	N/A

Note 1: The planned addition of capacity for Jingu Sewage Treatment Plant is 100,000 tons/day; the planned addition of capacity for Beicang Sewage Treatment Plant is 50,000 tons/day; the planned addition of capacity for Dongjiao Sewage Treatment Plant is 200,000 tons/day.

Note 2: The expected production time for Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant is the year of 2018; the expected production time for Dongjiao Sewage Treatment Plant and Xianyanglu Sewage Treatment Plant is the year of 2019.

Note 3: During the report period, the total size of the additional Xinjiang Karamay Project was 150,000 tons/day, among which 50,000 tons of TOT mode will be put into operation in 2017. The BOT mode is 100,000 tons/day and it is expected to be put into operation in 2019.

Note 4: The additional capacity of Central China Anhui Yingshang is 40,000 tons/day, which is expected to put into operation in 2017; the additional capacity of Hunan Ningxiang is 50,000 tons/day, which is expected to put into operation in 2018.

2. Sales information

Section	Sales revenue	Cost	Unit: 0,000 Currency: RMB	
			Gross margin (%)	YoY Change (%)
Supply of tap water	6,685	4,913	26.51	-3.30
Sewage treatment	136,009	79,056	41.87	2.53
Recycled water	4,970	7,768	-56.30	24.32

(1) Section of supply of tap water

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

District	Average water price	Pricing principle	Unit: Yuan Currency: RMB	
			Adjustment during the reporting period	Adjustment mechanism (if any)
Qijing	1.688	The price of water supply with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment during the reporting period	Price adjustment by the cost factor adjustment method

4 Management Discussion and Analysis

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

Unit: Yuan Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.688	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment during the reporting period	Price adjustment by the cost factor adjustment method

(2) Section of sewage treatment

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

Unit: Yuan Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Northern China	1.50	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Southwest	1.15	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The average water price has been adjusted from RMB 1.01/m ³ to RMB 1.15/m ³	Price adjustment by the cost factor adjustment method
Northwest	1.31	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The average water price has been adjusted from RMB 1.26/m ³ to RMB 1.31/m ³	Price adjustment by the cost factor adjustment method
Central China	0.93	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The average water price has been adjusted from RMB 0.89/m ³ to RMB 0.93/m ³	Price adjustment by the cost factor adjustment method
Eastern China	1.29	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	The average water price has been adjusted from RMB 0.96/m ³ to RMB 1.29/m ³	Price adjustment by the cost factor adjustment method

4 Management Discussion and Analysis

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

Unit: Yuan Currency: RMB

Type of customer	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.24	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Note 1	Price adjustment by the cost factor adjustment method

Note 1: The above project customers are the governments of the project locations, and details of the average water prices, pricing principle and adjustment of water prices are shown in the above table 2.1.

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

Water quality of water sources of water collection points of tap water: According to the monitoring data of January 2017 released by Qujing City Environmental Protection Bureau, the water quality category of the Xiaoxiang reservoir and Xihe reservoir used by the three tap water plants of Qujing Company is Category II indicating excellent water quality.

4. Supply of tap water

Water supply	Sales volume	Difference of production and sales volume (%)	YoY Change (%)	Reason	Impact on the Company's operation
41,150,000 cubic meters	41,150,000 cubic meters	0	4.8	With the continuous urban development, water used for residents' living and urban greening has increased	Nil

5. Significant capital expenditure

Unit: 0,000 Currency: RMB

Total amount of capital expenditure plan during the reporting period

	Source of capital	Capital cost	Project status
596.48	Domestic bank loans RMB 600 million, self-raised and other funds RMB 235.59 million	0	Construction of upgrading and reconstruction project of the Jingu sewage treatment plant in progress
715.22	Domestic bank loans RMB 327.31 million, self-raised and other funds RMB 135.57 million	0	Construction of upgrading and reconstruction project of the Beicang sewage treatment plant in progress

Among which: Project status

Unit: 0,000 Currency: RMB

Project operation model	Total project budget	Project Progress	The amount invested during the investment period	Accumulated and actual investment amount	Project revenue	If there is any significant change or significant difference in the project progress, the reasons shall be stated and disclosed
Licensed operation (BOT)	129,847	Project at early stage	797.3	797.3	See "Major Non-equity Investments"	Nil

(V) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

During the reporting period, the Company's equity investment was distributed in newly acquired water utilities and new energy PPP projects and for the establishment of the project companies. The total amount of equity investment in 2016 equals to RMB 243.38 million, representing an increase of RMB28.38 million over that of last year.

(1) Major equity investment

- (1) The Company invested RMB 5 million to establish a wholly-owned subsidiary Shandong Company for serving the third party's handling of the environmental pollution in Lushan Chemical Engineering Park and the smooth development of the environmental protection market in the whole Linyi area. With the approval of the Board of the Company, it has been decided to increase the capital by RMB77 million for Shandong Company to invest in construction and operation of the Yishui hazardous waste comprehensive disposal center project. As at the end of 2016, the first installment of capital increase of RMB10 million was completed. The total investment of the project is approximately RMB294.14 million and the first investment installment is approximately RMB224.73 million. After the capital increase, the registered capital of the Shandong Company will be increased to RMB82 million, and the Company still holds 100% of its equity.
- (2) The Company invested RMB 34.6 million to establish a wholly-owned subsidiary Jiayuanbin for its investment and construction of the licensed operation Binhai New Area cultural center (Phase I) Energy Station Project. At present, Jiayuanbin has been established, and the project is in the progress of construction.
- (3) The Company invested RMB 53 million to establish a wholly-owned subsidiary Yingshang Company for its investment and construction of the licensed operation Yingshang County Chengnan sewage treatment BOT project. At present, Yingshang Company has been established, and the BOT project is in the progress of construction.
- (4) On 14 September 2016, the Board of the Company gave consent to the establishment of a joint venture Changsha Company by the Company, Tianjin MOTIMO Membrane Technology Co., Ltd ("MOTIMO") and Changsha Shuntai Investment Management Co., Ltd ("**Shuntai Investment Company**") with the registered capital of RMB40.25 million. The Company invested RMB32,775,575 (accounting for 81.43% of the total registered capital of the project company), MOTIMO invested RMB2,012,500 (accounting for 5% of the total registered capital of the project company), and Shuntai Investment Company invested RMB 5,461,925 (accounting for 13.57% of the total registered capital of the project company), which are used for the licensed operation Ningxiang Economic and

Technological Development Zone sewage treatment plant and its supporting network of PPP projects. At present, Changsha Company has been established, and the project is in the progress of construction.

- (5) The Company established a joint venture Karamay Company with Karamay City Construction Investment and Development Co., Ltd. with a registered capital of RMB120 million. The Company invested RMB108 million (accounting for 90% of the total registered capital of the project company), and Karamay City Construction Investment and Development Co., Ltd. invested RMB12 million (accounting for 10% of the total registered capital of the project company), which are used for the licensed operation Xinjiang Karamay City 2nd sewage treatment plant PPP project. At present, Karamay Company has been established, and the project is in the progress of acquisition and construction.
- (6) To achieve the Company's new energy business integration and resource optimization, during the reporting period, the Company increased the share capital of Jiayuanxing, a wholly-owned subsidiary of the Company with all of the equity of wholly-owned subsidiaries Jiayuansheng, Jiayuantian and Jiayuanbin. At present, the capital increase has been completed, with Jiayuanxing's registered capital increased to RMB191.9505 million.

(2) *Major non-equity investment*

According to Tianjin's latest "Urban Sewage Treatment Plant Pollutant Discharge Standards", during the reporting period, the Company conducted the "expansion, upgrading and reconstruction" project to Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant. The total investment of the project is approximately RMB1,298 million, and the accumulated investment during the reporting period is RMB 7.973 million. According to the plan, the project investment capital source is from the capital raised by equity financing by non-public issuance of A shares intended to be carried out by the Company. At present, the equity financing scheme has not yet been approved by the regulatory authorities. The Company temporarily invests in the construction with its own capital and bank loans. When the non-public issuance of A shares is completed, the capital raised will be used to replace the input capital.

At present, the "upgrading and reconstruction" project is in progress. During the "upgrading and reconstruction" period, effective measures will be taken to ensure that the daily operation of the original Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant will not be affected. Moreover, in accordance with the "Supplementary Agreement of the Licensed Operation Agreement", during the "upgrading and reconstruction" period, sewage treatment service fees will be charged in accordance with "Licensed Operation Agreement". Therefore, during the reporting period no significant impact has been caused on the operating results of the Company.

(3) *Financial assets measured by fair value*

Not applicable

4 Management Discussion and Analysis

(VI) DISPOSAL OF MAJOR ASSETS AND EQUITY INTERESTS

Not applicable

(VII) ANALYSIS OF MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS INVESTED

Unit: 0,000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products or Services	Registered Capital	Type of Legal Person	Percentage of interest	Asset Size	Net Assets	Net Profits
Water Recycling Company	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; manufacturing, installation, debugging and operation of water recycling facilities etc.	10,000	Limited Company	100%	147,970	21,521	4,645
Hangzhou Company	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training.	37,745	Limited Company	70%	105,883	58,457	7,319
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation and management of municipal sewage treatment plants and tap water and its supporting facilities; research and promotion of environment protection technology.	33,400	Limited Company	100%	69,296	34,467	4,003
Jiayuanxing	Tianjin	Development, consulting, service and transfer of energy conservation and energy technology; property management services	19,160	Limited Company	100%	49,270	26,821	1,846
Kaiying Company	Tianjin	Environmental engineering management and technical advice etc	2,000	Stock Limited Company	100%	6,022	4,076	1,303

(VIII) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Not applicable

III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT**(I) Status and trends of the industry**

On January 5, 2017, the State Council issued the “Comprehensive Working Plan for Energy Conservation and Emission Reduction under the 13th Five-Year Plan”, which clarified the main objectives and key tasks regarding energy-saving and emission reduction works to be done under the 13th Five-Year Plan. The Working Plan has also comprehensively mapped out the energy-saving and emission reduction works to be done on a national scale. The Working Plan clearly states the goal of reducing the nation’s energy consumption per RMB10,000 GDP by 15% by the year 2020 as compared to 2015, and to limit the total energy consumption to within 5 billion tons of standard coal by 2020. The total national emissions of chemical oxygen demand, ammonia nitrogen, sulfur dioxide and nitrogen oxide will be controlled at 20.01 million tons, 2.07 million tons, 15.80 million tons and 15.74 million tons, respectively, representing a decrease of 10%, 10%, 15% and 15% as compared to 2015. The total emissions of volatile organic compounds nationwide will be reduced by more than 10% as compared to 2015. The aforementioned objectives entail enormous space of development in the environmental protection market during the “13th Five-Year Plan”. Specifically, the business areas the Company has engaged in, such as municipal sewage treatment, industrial wastewater treatment, sludge treatment, solid waste disposal and new energy usage will be greatly benefited. While the considerable market growth will surely intensify competition, the key to the successful development of enterprises will depend on their ability to provide integrated environmental services, openness to the market, investment and financing capabilities, cost control and technological R&D capabilities in the future.

(II) Development strategies of the Company

The Company has formulated its development strategy under the “13th Five-Year Plan” to be in line with its position as a comprehensive environmental service provider. In view of the future development trends in the environmental protection industry, the Company will continue to step up its market development efforts to consolidate its industry-leading position and brand advantages, while focusing on developing its integrated environmental services capabilities, as supported by the whole industrial chain, so as to gradually meet market demands with respect to “water” (water pollution) and “solid” (solid waste and soil pollution) treatments in the new era. At the same time, in order to support the aforementioned development concepts, the Company will adhere to its strategic direction of being “technology-led”—forming an evolving R&D program through different models, such as proprietary R&D and R&D partnerships, to gradually sharpen its advantages in sustainable environmental-protection technologies and environmental-protection product reserve. In addition, the Company will actively explore a variety of financing channels, keep an eye on mergers and acquisitions opportunities in the market, grow with partners to realize its principles of sharing, and contribute to the national development of ecological civilization.

(III) Operating plans

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

In 2016, the Company has adhered to the vision of “returning clean water to the world, delivering fresh air to the earth” to focus on promoting the upgrade of overall capabilities, so as to achieve the upgrading of capabilities of the comprehensive environmental service provider in terms of capital operation, low-cost financing, agreement maintenance, cost control, market development, integrated environmental service, resource integration, strategic implementation and risk prevention and control. The Company organized the production and operation activities based on the development strategy and operation plan set by the Board at the beginning of 2016. With efforts of all employees, as at the end of the reporting period, such development strategy and operation plan formulated at the beginning of the year have basically been completed. The targets set on revenue, fees and costs have also been achieved successfully.

- 2016 is the first year for the “13th Five-Year Plan”, the Company has completed the drafting of the 13th Five-Year Strategic Planning. Using our strategies as guidance and safeguarding our business by optimizing organizational structure, we joined hands to accomplish significant improvements in business performance. 2017 is an important year for the implementation of the Company’s “13th Five-Year Plan” strategy. The Company has set the direction for its work to align with its transition towards a “comprehensive environmental service provider”. It will fully implement the “technology-led, capital-driven, moderate scale, legal protection” work priorities and target “overcoming key challenges” as the core of its work. Through a comprehensive business layout, meticulous planning, solid progress, and a determination to break through the development bottleneck, we will be able to achieve significant progress in our work.

In 2017, the Group is expected to handle 1,051.31 million cubic meters of sewage (excluding sewage handled under entrustment), produce 39.42 million cubic meters of tap water and sell 28.77 million cubic meters of recycled water; the estimated capital expenditure is RMB1.214 billion, the main projects include the Jingu sewage treatment plant, the Beicang sewage treatment plant upgrading project, the new water projects and the newly awarded energy station construction projects, etc. The specific implementation strategy is as follows:

- (1) Continue to step up efforts in market development and strengthen the construction of business layout

Leveraging on the market development model of “regional business driven by spot bases”, the Company will further improve the development system and strengthen the construction of the business layout. In order to further expand market share, the Company will give first place to independent development while cooperative development is complementary. With respect to project categories, water business will remain the focal point, but the Company will also pay attention to the development of new businesses, so as to facilitate the coordinated development of different business segments and promote the continuous optimization of the overall business structure in the enterprise.

(2) Implement the technology-led strategy and strengthen the management of scientific research

The “technology-led” strategic objectives will be further implemented to continue to provide support for scientific research products. R&D center will serve to promote the construction of a cooperative and open R&D platform where cooperative R&D will be carried out. In scientific research management, the Company seeks to establish a technology R&D direction that is driven by market demand. It also aims to promote the exploration of innovative technological R&D models, strengthen the management of technological R&D programs, and optimize the technological R&D incentive mechanism to comprehensively enhance the construction of the technological R&D team.

(3) Tighten the grip on operations management and facilitate intelligent and big data construction on the premise of operations standardization

The Company strives to promote intelligent operation and construction of big data systems on the premise of operations standardization, to encourage the upgrading and deepening of the advantages in business operations, and to strengthen the collection of data in order to enhance its reproducibility. Project operation and organization models will be continuously improved. With the premise of operations being up-to-standard, the Company will identify and evaluate operational risk factors to strengthen the formulation and exercise of contingency operation plans and advance the prevention and control of operational risks.

(4) Strengthen personnel training and incentive

As the Company’s businesses expand, there will be a need to recruit new talents, such need is especially prominent in business areas such as R&D, construction, operations and scientific research. To build a team of professionals, the Company considers the introduction of new talent while reinforcing the existing talent hierarchy and gradually expanding the team through various forms of internal and external exchanges and trainings. To further propel innovation in the incentive mechanism, the Company looks to optimize the targeted assessment and incentive mechanism, and to further reform the staff incentives system by introducing different incentives mechanisms according to the distinctive job natures of different business areas, so as to ensure that the incentive mechanisms are effective given the internal and external balance is obtained.

- (5) Strengthen party-building works and supervision, enhance internal audit and management of legal matters

Party-building works will be further strengthened to keep a foothold in capturing market demands and reinforce business advantages. Vision, mission and values of the Company will be combined to strengthen its corporate culture. The Company will rigorously uphold the integrity of the party, tighten discipline inspections and strictly perform supervisions against corruption. It will also strengthen internal audit of the enterprise through assessing internal controls and risks, and strengthen the management of the Company's legal matters to ensure the proper enforcement of legal and compliance reviews.

Under the guidance of the above operating strategies, the Company will focus on the following works on the basis of safe and quality operation in 2017:

- (1) Improve the market development system; actively expand new projects in water utilities and environment; focus on acquisition opportunities in the secondary market; achieve the scale expansion in terms of the amount of water handled;
- (2) Expedite the upgrade projects of the Group's Tianjin sewage treatment plant and the construction progress of the BOT projects in other cities, in a manner that is in accordance with the objectives of the plan;
- (3) Continue to resolve the settlement issues regarding the fees receivable from sewage treatment services performed in Tianjin, and strive to establish a reasonable and sustainable payment mechanism;
- (4) Commence works on mergers and acquisitions that aim to improve the industrial chain of the water market and enhance market competitiveness, and complete the initial analysis and selection of targets for mergers and acquisitions;
- (5) Improve the management of R&D centers and expedite the base construction for technological R&D, so as to achieve substantial progress;
- (6) Actively facilitate non-public offering works, the quotation of Kaiying Company and Jiayuanxing on the NEEQ and the introduction of strategic investors;
- (7) Further adjust and optimize the structure of the organization and promote the use of an in-depth segmentation management model;
- (8) Carry through the marketization reforms in the Group, and improve the market-oriented talent-selection, remuneration incentives, recruitment assessment and other mechanisms.

3. *Income, expenses and cost plan*

In 2017, assuming no material changes in the State's existing policy direction conformed by the Group and the operating environment, the increase in the income from sewage treatment services fee will not exceed 7% as compared to 2016.

Cost control target

In 2017, resource and energy expenses and labour costs will continue to increase, and the new environmental law will impose tougher provisions on the industry and the operation cost of each water plant will increase. Assuming no material changes in the existing State's policy direction conformed by the Group and the operating environment, it is expected the Group's cost of sewage treatment business will increase by not more than 15% in 2017 as compared to that of 2016. Also, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

4. *Technology R&D investment plan*

In 2017, the Group will invest no less than RMB5.0024 million in technology research, development and reforms, and will continue to conduct research and development on the new technical processes and application technology in the areas of sewage water treatment and sludge treatment etc.

5. The Group's existing funding channels are basically able to satisfy the requirements of the Group's annual operation plan. In 2017, the Group plans to invest RMB1,171.57 million in engineering projects, which are mainly the expenses for the upgrading of sewage treatment plants and the construction fund for new energy projects. In 2017, the amount for fixed asset purchase plan of the Group will be approximately RMB42.23 million.

In 2017, funding demand of relevant projects will be obtained through the Group's existing financing channels of credit facilities, corporate bonds and equities. The Company will strive to enhance capital cooperation in joint projects through timely introduction of strategic investors and financial investors.

(IV) Possible risks

1. General risk factors

(1) Risk of government credit

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

(2) Risk of change in policy

Currently, the PRC is at the special stage of comprehensive deepening of reform. For a long period in the future, there will be transformative changes in policies related to economy, finance, prices, financial taxation and government functions, etc. The policy changes in prices and taxes will directly influence the adjustment of water price. Various possible problems relating to PPP model may appear gradually in 3 to 5 years. During the licensed operation period lasting for 30 years, as a social investor, one needs to focus on the risk of change in policy.

(3) Risk of operation and management

With the introduction of a series of energy-saving and emission reduction requirements under the nation's "13th Five-Year Plan", the standards for environmental governance will become more stringent. In order to meet the new standards, the upgrading demands from sewage treatment plants will gradually increase. Under this circumstance, the requirement for the ratio of up-to-standard water delivery will be heightened, implying more stringent regulatory risk in the future.

2. *Risk control measures*

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

Strengthen the concept of corporate governance in accordance with the laws, make full use of its overall legal advisory system and protect lawful interests of the Company. Meanwhile, the Company calls for and supports the prompt establishment and perfection of "PPP Law" and "Licensed Operation Law" to further assure equality of the contracting parties, tighten up the performance assessment and benefit distribution mechanisms, and provide for the government obligations to pay according to contracts and the rights for investors to get reasonable returns under the laws, so as to reduce the risk related to government credit and the financial risk of the investors. The Company will focus on the selection of environment to invest in and the screening of investment projects while implementing investment review procedures strictly.

(2) Strengthen comprehensive risk management

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

(3) Continue to raise the standards of operating management

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

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

Not applicable

5 Major Events

I. PROPOSAL ON ORDINARY SHARE PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND

(I) Formulation, Execution or Adjustment of Cash Dividend Policy

In order to establish a sustainable, clear and transparent cash dividend policy and a scientific decision-making mechanism and to improve the quality of the Company's information disclosure in the principle of the "Listed Companies Regulatory Guidance No. 3 – Cash Dividend Distribution of Listed Companies" issued by the CSRC, the Company revised the article related to profit distribution in its Articles of Association. The aforesaid revision to the Articles of Association was considered and approved by the Company at the 16th meeting of the seventh Board on 8 September 2016 and at the second extraordinary general meeting of 2016 held on 30 December 2016. Article 195 of the Articles of Association was amended as follows:

I. Basic principles for profit distribution of the Company:

- (1) The Company shall take full account of the return to investors. The Company shall, after making up for the losses of previous years and contributing to the statutory reserve and discretionary reserve, distribute dividend to the shareholders per annum in proportion to distributable profit realized for the year concerned attributable to the parent company, which shall be determined by resolutions at the general meetings.
- (2) The Company's profit distribution policy shall maintain continuously and stably, for the long term interest of the Company, in the interest of all shareholders as a whole, and for sustainable development of the Company.
- (3) The Company shall give priority to dividend distribution in cash.

II. Dividend distribution policies of the Company:

- (1) Dividend shall be distributed in the following manner: the Company may distribute profits in cash, in shares or in a combination of both cash and shares or by other means permitted by laws and regulations. If the conditions of cash dividends are met, priority shall be given to dividend in cash over dividend in shares.
- (2) Interval of profit distribution: Provided that the Company makes a profit and the distributable profit is a positive figure for the year, the Company shall distribute profit once a year. To the extent that the scale of profit and the capital position are appropriate for the relevant period, the Company may distribute interim dividend in cash.
- (3) Conditions of cash dividend distribution of the Company:
 1. the Company's profit and aggregate undistributed profit realized for the year are positive with sufficient cash flow, and cash dividend distribution has no impact on the Company's sustained operations;
 2. an accounting firm issues a standard unqualified audit report on the Company's financial report for that year;
 3. the Company has no events such as material investment plan or significant cash expenditure, excluding investments projects using proceeds raised.

Material investment plans or significant cash expenditures refer to the proposed external investment, acquisition of assets or purchase of equipment by the Company in the coming twelve months with an accumulated expenditures amounting to or exceeding 30% of the latest audited net assets of the Company.

(4) Proportion of cash dividends:

Subject to the satisfaction of the above conditions, the profit to be distributed in cash per annum will not be less than 20% of the distributable profit realized for that year attributable to the parent company, and the Company's aggregated profit distributable by way of cash for three consecutive years will not be less than 30% of the distributable profit attributable to the parent company realized within such three years. The specific dividend proportion of each year shall be determined by the Board according to the profit for the relevant year and utilization plan for future capital.

The Board shall take into full account of various factors such as features of the industries where the Company operates, the stage of development of the Company, its own business model, level of profitability, and whether there is significant capital expenditure arrangement, to distinguish the following situations and put forward differentiated cash dividend policy in accordance with the procedures as required by this Articles of Association:

1. If the Company is at the mature stage of development and has no significant capital expenditure arrangement, the proportion of cash dividends in the profit distribution shall be at least 80% when the profit distribution is made;
2. If the Company is at the mature stage of development and has significant capital expenditure arrangement, the proportion of cash dividends in the profit distribution shall be at least 40% when the profit distribution is made;
3. If the Company is at the growing stage of development and has significant capital expenditure arrangement, the proportion of cash dividends in the profit distribution shall be at least 20% when the making profit distribution is made;

If it is difficult to distinguish the stage of development of the Company and the Company has significant capital expenditure arrangement, the profit distribution may be dealt with pursuant to the preceding provisions.

- (5) Conditions for distributing dividends in shares by the Company: where the Company's business is in a sound condition, and the Board considers that the stock price of the Company does not reflect its share capital size and distributing dividend in shares will be favorable to all the shareholders of the Company as a whole, provided that the above conditions for cash dividend distribution are fully satisfied, the Company may propose dividend distribution in shares. Distributing profit by way of dividend in shares shall include true and reasonable factors such as growth of the Company and dilution of net assets per share.
- (6) Profit distribution of the Company shall not exceed the cumulative distributable profit or damage the Company's sustainable operation ability.
- (7) In case any shareholder misappropriates the funds of the Company unlawfully, the Company will deduct cash dividends to be distributed to such shareholder for making up the amount misappropriated.

III. Decision making procedures and mechanism of the Company's profit distribution:

(1) Formulation of profit distribution policy

The Company shall scientifically formulate the profit distribution policy of the Company after comprehensively taking into account factors such as the actual conditions of the Company's operating development, the needs and requests of the Shareholders, social capital costs, external financing environment, etc.

The profit distribution policy of the Company shall be considered and approved by more than two-thirds of voting shares held by the shareholders (including their proxies) present at the general meeting. The Board, the Supervisory Committee and shareholders individually or jointly holding 3% or more of the Company's shares, have the right to propose resolution(s) in respect of profit distribution policy to the Company.

The Board shall specifically study and discuss matters relating to the returns for shareholders, set out a specific and clear plan on the returns for shareholders and explain the reasons for the formulation of the plan in details. Opinions of shareholders (especially minority shareholders) and the independent Directors and Supervisors shall be fully heard and considered during the meeting of the Directors, the meeting of the Supervisors of the Company and the general meeting in respect of the study, discussion and decision-making process of the profit distribution policy of the Company.

The Board, independent Directors and shareholders complying with certain conditions can collect the voting rights at general meeting from the shareholders of the Company.

(2) Formulation of specific proposal of profit distribution

The Company's profit distribution plan for each year shall be proposed by the Company's management after taking into account factors such as the requirements in the Company's Articles of Association, production and operation position, cash flows and future business development plan, and shall be submitted to the Board and the supervisory committee of the Company for consideration. If the supervisory committee has no objection to the profit distribution plan, the Board shall thoroughly discuss its rationality, taking into account the opinions from the independent Directors, and form a special proposal as well as an independent view expressed by independent Directors on profit distribution proposal for the consideration and approval by the shareholders at the general meeting.

The Board shall fully consider the capital needs of normal production and operation, arrangement of investment, actual profit status, cash flows and scale of share capital of the Company and the sustainability of development when formulating the specific proposal of cash dividend, and carefully study and discuss the timing, conditions and minimum proportion of cash dividend of the Company, conditions for adjustment and requirements for decision-making procedures. Independent Directors shall express specific views.

Independent Directors can collect views from minority shareholders to propose profit distribution proposal and directly propose to the Board for consideration.

Prior to consideration of the specific proposal of cash dividend at the general meeting, the Company shall actively communicate and exchange ideas with shareholders (especially minority shareholders) through various channels (including but not limited to telephone, facsimile, e-mail and interactive platforms), fully listen to the opinions and requests of minority shareholders and reply in a timely manner the questions from medium and small shareholders. When considering the profit distribution plan, the Company shall make internet voting accessible to the shareholders.

- (3) If the Company makes a profit for the year, but the Board does not propose a profit distribution proposal by the way of cash, the Company shall explain the reason and the usage and plan of utilization for the capital which is not utilized as cash dividends and reserved in the Company, and independent Directors shall express independent views thereupon and timely disclose; it shall propose to the general meeting for consideration after consideration and approval by the Board. Meanwhile, the Company shall make internet voting for medium and small shareholders to vote at the general meeting.

IV. Adjustment to profit distribution policy:

The Company shall strictly implement the profit distribution policy stipulated in this Articles of Association and the specific proposal of profit distribution considered and approved at the general meeting.

In case of war, natural disasters and other force majeure, or changes to the Company's external operational environment resulting in a material impact on its production and operation, or relatively significant changes to the Company's operational position, or new policies on profit distribution published by competent authorities in which cases the profit distribution policy stipulated by this Articles of Association, in particular the cash dividend policy, is required to be adjusted, the Company may adjust its profit distribution policy. The Board shall thoroughly discuss the rationality of the adjustment to the profit distribution policy, and form a special proposal after an independent view is expressed by the independent Directors and submit the same for the consideration by the shareholders at the general meeting. The proposal shall be considered and approved by more than two-thirds or more of voting rights held by the shareholders (including their proxies) present at the general meeting.

The supervisory committee shall issue its review opinions on the adjustment to the profit distribution policy.

The adjusted profit distribution policy shall not contravene the relevant requirements of the CSRC and the stock exchange on which shares of the Company are listed.

When the general meeting considers the adjustment to the profit distribution policy, the Company shall make internet voting accessible to the shareholders or collect voting rights of the shareholders.

V. Disclosures in regular reports:

The Company shall disclose in details the formulation and implementation of cash dividend policy in its annual reports, and specifically explain whether it is in compliance with the provisions of this Articles of Association or requirements of the resolutions of the general meeting, whether the criteria and proportion of dividend distribution is specific and clear, whether the relevant decision-making procedures and mechanism are complete, whether independent Directors duly perform their duties and play their due roles, whether medium and small shareholders have opportunities to fully express their opinions and requests and whether the legitimate interests and interests of medium and small shareholders are fully protected.

Where the Company adjusts or changes its cash dividend distribution policy, it shall explain in details as to whether the conditions and procedures of such adjustments or changes are in compliance with relevant regulations and transportant.

If the Company is unable to determine the profit distribution proposal for the year according to the established cash dividend policy or the minimum cash dividend proportion under extraordinary circumstances, the Board shall explain in details the reason for not proposing cash profit distribution according to this Articles of Association, and the usage and plan of utilization for the capital which is not utilized as cash dividends and reserved in the Company, and the independent Directors shall express independent views thereupon and timely disclose.

VI. Supervision on profit distribution by the supervisory committee:

The supervisory committee shall supervise the Board and the management in respect of the formulation and implementation of the profit distribution policy and the status of returns for shareholders and the relevant decision-making procedures.

The supervisory committee shall give specific opinions and monitor the prompt rectification of the Board in the event of any of the following circumstances:

- (1) the cash dividend policy and the plan on returns for shareholders are not strictly implemented;
- (2) the relevant decision-making procedures in respect of the cash dividend distribution are not strictly implemented;
- (3) the disclosure and implementation of the cash dividend policy are not true, accurate or complete.

The Company has laid emphasis on reasonable return to investors since its reorganization completed in December 2000, and has insisted on cash dividend policy since 2001.

The Company's proposal on profit distribution for 2016 is set out as follows:

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2016 amounted to RMB443.17 million. After deduction of the statutory common reserve of RMB30.55 million drawn in accordance with the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the retained profit of RMB2,177.20 million at the beginning of the year, and less the distribution in 2016 of the 2015 cash dividend of RMB99.91 million, and less the transfer of retained profit to capital reserve of RMB16.80 million due to restructuring of a subsidiary, the actual profit distributable to the shareholders for this year amounted to RMB2,473.11 million. According to the profit distribution policy of the Company, it will be proposed that a cash dividend for 2016 of RMB0.95 (inclusive of tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB135.59 million, representing 30.60% of the available-for-distribution profit attributable to the Company realized in 2016. No transfer from the capital reserve fund to share capital was made for 2016. The distribution proposal shall be submitted to the 2016 annual general meeting of the Company for consideration and shall be implemented after approval.

- (II) Plan or proposal of ordinary share profit distribution or transfer of capital reserve fund to share capital of the Company for the latest three years (including the reporting period):

Unit: 0'000
Currency: RMB

Year of dividends	Number of bonus shares per 10 shares (shares)	Amount of dividends distributed per 10 shares (RMB) (inclusive of tax)	Number of shares transferred per 10 shares (shares)	Amount of cash dividends (inclusive of tax)	Percentage of the	
					Net profit attributable to the ordinary shareholders of the Company in the consolidated financial statements for the year	net profit attributable to the ordinary shareholders of the Company in the consolidated financial statements (%)
2016	0	0.95	0	13,559.0	44,316.8	30.60
2015	0	0.70	0	9,990.6	33,053.7	30.23
2014	0	0.70	0	9,990.6	30,816.8	32.42

- (III) Any inclusion of shares repurchased through cash offer in cash dividend

Not applicable

- (IV) If the Company records profit distributable to the ordinary shareholders of the Company for the reporting period is positive but there is no proposal for cash dividend, the Company shall disclose the reasons, the usage and the utilization plan of the undistributed profits in detail

Not applicable

II. PERFORMANCE OF COMMITMENT

Not applicable

III. FUNDS OCCUPIED AND REPAYMENT PROGRESS DURING THE REPORTING PERIOD

Not applicable

IV. EXPLANATION BY THE COMPANY ON “QUALIFIED AUDIT REPORT” PROVIDED BY THE ACCOUNTING FIRM

Not applicable

V. ANALYSIS AND EXPLANATION OF THE COMPANY ON THE REASONS AND EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS

- (I) Analysis and explanation of the Company on the reasons and effects of the changes in accounting policies and accounting estimates

Not applicable

- (II) Analysis and explanation of the Company on the reasons and effects of correction of material accounting errors

Not applicable

- (III) Communication with former accounting firm

Not applicable

VI. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

	Present Appointment
Name of the PRC accounting firm	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of the PRC accounting firm	RMB 2.5 million
Service years of the PRC accounting firm	22 years
Name of Hong Kong accounting firm	PricewaterhouseCoopers
Remuneration of Hong Kong accounting firm	RMB 1.7 million
Service years of Hong Kong accounting firm	22 years

	Name	Fees
Accounting firm responsible for internal control audit	PricewaterhouseCoopers Zhong Tian LLP	RMB800,000

During the reporting period, the Company did not change its accounting firm. The PRC auditor and Hong Kong auditor of the Company are PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively. As at the end of the previous reporting period, the above two accounting firms have provided auditing services for the Company for 22 years.

VII. RISKS OF SUSPENSION OF LISTING

Not applicable

VIII. SITUATION AND REASONS FOR TERMINATION OF LISTING

Not applicable

IX. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

Not applicable

X. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION

(I) Litigation and arbitration that were disclosed in the Company's announcements without subsequent progress

Not applicable

(II) Litigation and arbitration that were not disclosed in the Company's announcements or have subsequent progress

During the reporting period:

Complaining party	Responding party	Party to bear joint liability	Type of litigation or arbitration	Particulars of litigation (or arbitration)	Amount involved in litigation (or arbitration) (RMB0'000)	Whether	Progress of litigation (or arbitration)	Ruling	Enforcement of award of litigation (or arbitration)
						litigation (or arbitration) forms predicated liability and its amount		results of litigation (or arbitration) and its effect	
Anguo Company	Anguo Municipal Government	None	Arbitration	Note 1	6,000	No	Note 2	None	Note 2

Note 1: As Anguo Municipal Government failed to perform the relevant terms of the licensed operation agreement entered into between Anguo Company and Anguo Municipal Government, Anguo Company applied for arbitration to China International Economic and Trade Arbitration Commission in 2013, requesting for termination of the licensed operation agreement for a water supply project in Anguo; and claiming payment of service fees for water supply and compensation for investment owed to Anguo Company by Anguo Municipal Government in the amount of RMB60 million.

Note 2: China International Economic and Trade Arbitration Commission made an interlocutory judgment in April 2014. Pursuant to the interlocutory judgment, the transfer of tap water project has been completed. Anguo Company will temporarily operate the sewage project based on the original agreement, and the operations and charges of this project are under normal conditions. On 24 September 2016, the third hearing of the case was held by the China International Economic and Trade Arbitration Commission mainly for both parties to express their views as to the expert testimony of the judicial appraiser. Meanwhile, commissioned operating expenses and other issues were also debated and further explained. The final arbitral award is yet to be made.

XI. PUNISHMENTS TO AND RECTIFICATION OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH OVER 5% INTERESTS, ULTIMATE CONTROLLERS AND PURCHASERS

Not applicable

XII. EXPLANATION ON THE INTEGRITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS, ULTIMATE CONTROLLERS DURING THE REPORTING PERIOD

Not applicable

XIII. THE COMPANY'S SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE SCHEME AND THEIR EFFECTS

Not applicable

XIV. MATERIAL CONNECTED TRANSACTIONS

(I) Connected Transactions in the Ordinary Course of Business

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation

- a. On 31 December 2015, the Company entered into the Zhangguizhuang Sewage Water Treatment Plant Entrusted Operation Agreement with Tianjin Investment Group, pursuant to which the Company shall continue to provide operation service for the Zhangguizhuang Sewage Water Treatment Plant invested in and constructed by Tianjin Investment Group for a service period of 6 months from 1 January 2016 to 30 June 2016 at an operation service fee of RMB4.198 million per month, with the total amount of operation service fees expected to be RMB25.188 million.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

- b. On 31 December 2015, the Company entered into the Zhangguizhuang Sewage Water Treatment Plant Sludge Disposal Centre Entrusted Operation Agreement with Tianjin Investment Group, pursuant to which the Company shall operate and maintain the Zhangguizhuang Sewage Water Treatment Plant Sludge Disposal Centre for Tianjin Investment Group for a service period of 6 months from 1 January 2016 to 30 June 2016, with the total amount of service fees expected to be not more than RMB4.67 million.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

XIV. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(I) Connected Transactions in the Ordinary Course of Business (Continued)

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation (Continued)

- c. On 24 May 2016, Jiayuanxing, a wholly-owned subsidiary of the Company, entered into the Cold Supply Agreement 2016 with TLP and TYCOM for the provision of cold supply service by Jiayuanxing at the commercial area of TLP at a unit price of RMB65 per m². The total service area is 363,042 m² and the cold supply service fees will amount to RMB23,597,730.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TLP is a wholly-owned subsidiary of TMICL, the controlling shareholder of the Company. TMICL owns 40% equity interest in TYCOM.

- d. On 30 June 2016, the Company entered into the Zhangguizhuang Sewage Water Treatment Plant Entrusted Operation Agreement with Tianjin Investment Group, pursuant to which the Company shall continue to provide operation service for the Zhangguizhuang Sewage Water Treatment Plant invested in and constructed by Tianjin Investment Group for a service period of 12 months from 1 July 2016 to 30 June 2017 at an operation service fee of RMB4.198 million per month, with the total amount of operation service fees expected to be RMB50.376 million.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

- e. On 30 June 2016, the Company entered into the Zhangguizhuang Sewage Water Treatment Plant Sludge Disposal Centre Entrusted Operation Agreement with Tianjin Investment Group, pursuant to which the Company shall operate and maintain the Zhangguizhuang Sewage Water Treatment Plant Sludge Disposal Centre for Tianjin Investment Group for a service period of 12 months from 1 July 2016 to 30 June 2017, with the total amount of service fees expected to be not more than RMB9.34 million.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

- f. On 15 November 2016, Jiayuanxing, a wholly-owned subsidiary of the Company, and TM Resources entered into the TM Resources Heat Supply Agreement 2016, pursuant to which Jiayuanxing shall provide heat supply services at the underground transportation hub of Tianjin Cultural Centre of TM Resources at a unit price of RMB40 per m². The total service area is 37,218 m² and the service fees will total RMB1,488,720.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TM Resources is an indirect wholly-owned subsidiary of Tianjin Investment Group, the ultimate controller of the Company.

- g. On 15 November 2016, Jiayuanxing, a wholly-owned subsidiary of the Company, entered into the Heat Supply Agreement 2016 with TLP and TYCOM for the provision of heat supply service by Jiayuanxing at the commercial area of TLP at a unit price of RMB40 per square meter. The total service area is 363,042 m² and the service fees will amount to RMB14,521,680.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TLP is a wholly-owned subsidiary of TMICL, the controlling shareholder of the Company. TMICL owns 40% equity interest in TYCOM.

XIV. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(I) Connected Transactions in the Ordinary Course of Business (Continued)

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation (Continued)

According to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the above-mentioned items (a), (b), (d) and (e) are continuing connected transactions. The independent non-executive Directors of the Company have reviewed these continuing connected transactions and confirmed that:

- ① the above continuing connected transactions were in the ordinary course of business of the Company;
- ② the above continuing connected transactions were conducted on normal commercial terms; and
- ③ the above continuing connected transactions were carried out in accordance with the terms of the agreements of the relevant transactions, which were fair and reasonable and in the interest of the Company and its shareholders as a whole.

The Board also confirmed that the auditors of the Company had confirmed the matters as set out in Rules 14A.56 of the Listing Rules regarding the above-mentioned continuing connected transactions occurred in 2016 namely items (a), (b), (d) and (e).

Saved as disclosed above, there is no related party transaction or continuing related party transaction as set out in the Annual Report 2016 of the Company that falls under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

2. Connected transactions which have been disclosed in the Company's announcements, with subsequent progress or changes to their implementation

Not applicable

3. Connected transactions which have not been disclosed in the Company's announcements

Not applicable

XIV. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(II) Connected Transactions as a result of Acquisition, Disposal of Assets or Equity

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation
Not applicable
2. Connected transactions which have been disclosed in the Company's announcements, with subsequent progress or changes to their implementation
Not applicable
3. Connected transactions which have not been disclosed in the Company's announcements
Not applicable
4. Discloseable performance for the reporting period of connected transactions with agreed-upon performance targets
Not applicable

(III) Significant Connected Transactions in Joint External Investment

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation
Not applicable
2. Connected transactions which have been disclosed in the Company's announcements, with subsequent progress or changes to their implementation
Not applicable
3. Connected transactions which have not been disclosed in the Company's announcements
Not applicable

XIV. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(IV) **Creditor's Rights and Debts with Related Parties**

1. Connected transactions which have been disclosed in the Company's announcements, but without subsequent progress or changes to their implementation

Not applicable

2. Connected transactions which have been disclosed in the Company's announcements, with subsequent progress or changes to their implementation

Not applicable

3. Connected transactions which have not been disclosed in the Company's announcements

Not applicable

XV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

(I) **Custody, Contracting and Leasing**

Not applicable

XV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (CONTINUED)

(II) Guarantees

Unit: 0'000 Currency: RMB

Guarantees provided to external parties by the Company (excluding guarantees provided to subsidiaries)	
Total amount of guarantees provided during the reporting period (excluding guarantees provided to subsidiaries)	0
Total balance of guarantees as at the end of the reporting period (A) (excluding guarantees provided to subsidiaries)	0
Guarantees provided to subsidiaries of the Company	
Total amount of guarantees provided to subsidiaries during the reporting period	70,270.41
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	120,980.41
Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)	
Total amount of guarantee (A+B)	120,980.41
Percentage of the total amount of guarantees to the net assets of the Company (%)	28.91
Of which:	
Amount of guarantees provided to shareholders, ultimate controller and their connected parties (C)	0
Amount of guarantees provided directly or indirectly to borrowers with a gearing ratio of over 70% (D)	0
Total amount of guarantees exceeding 50% of net assets (E)	0
Total of the above three classes of guarantees (C+D+E)	0
Explanation on contingent joint liability for undue guarantees	Not applicable
Explanation on guarantees	Not applicable

XV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (CONTINUED)

(III) Cash Asset Management Entrusted to Others

1. Entrusted wealth management
Not applicable
2. Entrusted loans
Not applicable
3. Other financial investments and derivative investments
Not applicable

(IV) Other Material Contracts

Not applicable

XVI. DETAILS OF OTHER MAJOR EVENTS

(I) Sale and Purchase or Redemption of Shares of the Company

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

(II) Corporate Governance Code

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the reporting period, in compliance with the Code on Corporate Governance Practices as set out in the Listing Rules.

(III) Model Code for Securities Transactions by the Directors

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

(IV) Public Float

On the basis of published information and to the best knowledge of the Directors, the Company has maintained the amount of public float as required under the Listing Rules as at the date of this annual report.

XVI. DETAILS OF OTHER MAJOR EVENTS (CONTINUED)

(V) Pre-emptive Rights

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

(VI) Tax Concession

Holders of listed securities of the Company were not granted any tax concession for holding securities of the Company.

(VII) Charge of Assets

For details about charge of assets of the Company, please refer to the financial reports as set out below.

(VIII) Audit Committee

On 31 July 2001, the Board approved the establishment of the Audit Committee which is responsible for reviewing and supervising the financial reporting process and internal control of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the audited accounts for the year ended 31 December 2016 with the Directors.

(IX) Others

- (1) In response to business expansion needs, the Company applied to issue corporate bonds of a total amount up to RMB1,800 million, the issuance proposal has been approved by the CSRC, and corporate bonds of RMB700 million were issued during the reporting period, the remaining amount will be issued by selecting the right timing depending on practical requirements. Please refer to Section 9 “Relevant Details of Corporate Bonds” in this Annual report for details.
- (2) To optimize the capital structure, the Company activated the work on non-public issuance of A Shares during the reporting period, the issuance proposal was approved by the general meeting of the Company on 30 December 2016. Please refer to the announcements dated 8 September 2016 and 30 December 2016 of the Company for details. Since CSRC announced significant policy adjustments to equity financing of listed companies in early 2017, as at the disclosure date of this report, the proposal on non-public issuance of A Shares by the Company is still in the process of adjustment.
- (3) Kaiying Company, a wholly-owned subsidiary of the Company, applied for listing on the NEEQ and has already obtained approval, it is now in the process of completing the procedures for listing. Please refer to the announcement dated 14 September 2016 of the Company for details.

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY

(I) **Poverty Alleviation Work of the Company**

Not applicable

(II) **Social Responsibility Work**

The Company has disclosed its [corporate social responsibility report]. For details, please refer to the website of the SSE (<http://www.sse.com.cn>) on 30 March 2017.

(III) **Explanation on Environmental Protection of the Company and its Subsidiaries Classified as Key Pollutant Discharging Entities as Published by Environmental Protection Authorities**

The Company is mainly engaged in sewage treatment business which is to collect and treat domestic and municipal sewage by removing the main pollutants therein to the extent that the treated sewage meets the discharge standards stipulated by the national or local government, and then discharge the treated sewage to rivers via sewage outfalls as designated after assessment, or further perform advanced treatment for reclaimed water supply. According to the aforesaid effluent quality standards for sewage treatment plants stipulated by the national or local government, the effluent of sewage treatment plants is allowed to contain certain types and amounts of pollutants, mainly comprising chemical oxygen demand (COD), biochemical oxygen demand (BOD), suspended solids (SS), total nitrogen, ammonia nitrogen and total phosphorus. Accordingly, most of sewage treatment projects are classified as key pollutant discharging entities by local environmental protection authorities.

As at the end of the reporting period, the Company owned 20 sewage treatment projects, each of which has 1 to 2 effluent outfalls. According to the relevant agreements, currently the effluent quality required is First Grade A or First Grade B under the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (GB18918-2002). The common pollutant indexes requiring basic control include COD, BOD, SS, total nitrogen, ammonia nitrogen, total phosphorus, etc. The following table sets out the maximum allowable discharge concentrations (daily average) of the pollutant indexes requiring basic control.

Maximum allowable discharge concentrations (daily average) of the pollutant indexes requiring basic control Unit: mg/L

No.	Pollutant index requiring basic control		First Grade standard	
			Class A	Class B
1	COD		50	60
2	BOD		10	20
3	SS		10	20
4	Animal & plant oil		1	3
5	Petroleum		1	3
6	Cationic surfactant		0.5	1
7	Total nitrogen (N)		15	20
8	Ammonia nitrogen (N)		5(8)	8(15)
9	Total phosphorus (P)	Constructed before 31 December 2005	1	1.5
		Constructed after 1 January 2006	0.5	1
10	Chroma (dilution multiple)		30	30
11	PH		6-9	
12	Number of fecal coliforms/L		10 ³	10 ⁴

During the reporting period, the pollutant discharge concentrations and volume of the Company's sewage treatment business were all below the above standards. In aggregate, the COD, BOD, SS, total nitrogen, ammonia nitrogen and total phosphorus discharged by the Company during the reporting period were approximately 29,000 tonnes, 7,300 tonnes, 8,500 tonnes, 13,000 tonnes, 1,800 tonnes and 500 tonnes, respectively. Cumulatively, approximately 887,200 tonnes of environmental pollutants were eliminated, representing a significant contribution to water environmental governance.

XVIII. CONVERTIBLE BONDS

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

I. CHANGES IN ORDINARY SHARE CAPITAL

(i) **Changes in ordinary shares**

During the reporting period, there were no changes in the total number of ordinary shares and the structure of share capital of the Company.

(ii) **Changes in restricted shares**

Not applicable

II. ISSUE AND LISTING OF SECURITIES

Issue of securities as at the end of the reporting period

Types of stock and its derivative securities	Date of issue	Issue price (or interest rate)	Volume of issue	Listing date	<i>Unit: share Currency: RMB</i>	
					Authorized trading volume in respect of the listing	Date of termination of trading
Convertible corporate bonds, bonds with warrants, debentures						
Corporate bonds	25 October 2016	3.13%	7,000,000			25 October 2021

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

(i) **Total number of shareholders**

Total number of ordinary shareholders as at the end of the reporting period 82,453

Total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report 83,084

Note: The total numbers of shareholders above represent the sum of holders of A Shares and H Shares. The total number of ordinary shareholders as at the end of the reporting period is 82,453, among which 68 are holders of H Shares. The total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report is 83,084, among which 68 are holders of H Shares.

6. Details of Changes in Ordinary Shares and Shareholders

(ii) Shareholdings of the top ten shareholders and the top ten shareholders of circulating shares (or shareholders of non-restricted circulating shares) at the end of the reporting period

Name of shareholder	Shareholdings of the top ten shareholders			Number of restricted shares held (shares)	Pledged or frozen Status	Number (shares)	Nature of the shareholder
	Increase/decrease during the reporting period (shares)	Number of shares held at the end of the period (shares)	Percentage (%)				
TMICL	0	715,565,186	50.14	0	None	—	State-owned legal person
HKSCC NOMINEES LIMITED	-97,000	337,830,900	23.67	0	Unknown	—	Unknown
Central Huijin Asset Management Ltd.	0	14,169,800	0.99	0	Unknown	—	State-owned legal person
Chen Hexiang	48,000	5,374,356	0.38	0	Unknown	—	Unknown
Hong Kong Securities Clearing Company Ltd.	415,857	1,810,447	0.13	0	Unknown	—	Unknown
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund	-389,700	1,753,383	0.12	0	Unknown	—	Unknown
Shenyang Railway Coal Group Co., Ltd.	0	1,500,000	0.11	0	Unknown	—	Unknown
Liao Meisheng	1,455,535	1,455,535	0.10	0	Unknown	—	Unknown
Guosen Securities Co., Ltd.- Qianhai Kaiyuan CSI Health Industry Index Classified Securities Investment Fund	281,581	1,397,381	0.10	0	Unknown	—	Unknown
Agricultural Bank of China Limited-SWS MU CSI Environmental Protection Industry Index Classified Securities Investment Fund	-269,849	1,336,027	0.09	0	Unknown	—	Unknown

6. Details of Changes in Ordinary Shares and Shareholders

Shareholdings of the top ten shareholders of non-restricted circulating shares

Name of shareholder	Number of non-restricted circulating shares held	Type
TMICL	715,565,186	Ordinary RMB Shares
HKSCC NOMINEES LIMITED	337,830,900	Overseas listed Foreign Shares
Central Huijin Asset Management Ltd.	14,169,800	Ordinary RMB Shares
Chen Hexiang	5,374,356	Ordinary RMB Shares
Hong Kong Securities Clearing Company Ltd.	1,810,447	Ordinary RMB Shares
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund	1,753,383	Ordinary RMB Shares
Shenyang Railway Coal Group Co., Ltd.	1,500,000	Ordinary RMB Shares
Liao Meisheng	1,455,535	Ordinary RMB Shares
Guosen Securities Co., Ltd.- Qianhai Kaiyuan CSI Health Industry Index Classified Securities Investment Fund	1,397,381	Ordinary RMB Shares
Agricultural Bank of China Limited-SWS MU CSI Environmental Protection Industry Index Classified Securities Investment Fund	1,336,027	Ordinary RMB Shares

Notes on the connected relationship or parties acting in concert among the above shareholders

It is not certain whether there is any connected relationship among the top 10 shareholders. It is not certain whether there is any connected relationship between the top 10 shareholders of non-restricted circulating shares and the top 10 shareholders.

Notes:

- (1) According to the register of members as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. There was no client who owned 5% or more interest in the total share capital of the Company.
- (2) The top ten shareholders are not strategic investors of the Company.

(iii) Strategic investors or general legal persons becoming the top ten shareholders due to placing of new shares

Not applicable

IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

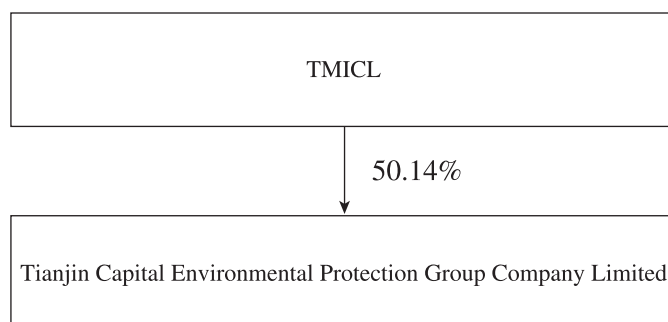
(i) Controlling shareholder

1 Legal person

Name	TMICL
Head of the entity or legal representative	Yu Zhongpeng
Date of incorporation	20 January 1998
Principal operations	Investment, construction, operation and management of city infrastructure, road construction and auxiliary facilities with internal funds; development, operation and leasing of real estates; property management; leasing of facilities; import and export business of self-manufacturing and distribution of various commodities and technologies (except commodities and technologies restricted or prohibited by the State for trading); sales of hardware, chemical (except for dangerous goods), general merchandise and building materials (for the above business covering the industry license, operating with the license within the validity period; for specific projects and operations, in accordance with the State regulations).
The shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested during the reporting period	Nil
Notes on other information	Nil

6. Details of Changes in Ordinary Shares and Shareholders

2 Flowchart on the shareholding interests and relationship of control between the Company and its controlling shareholder



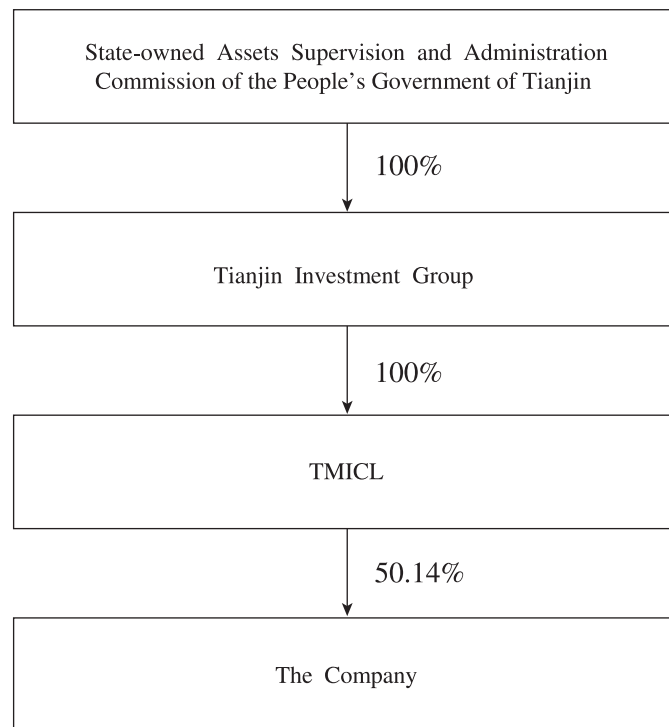
(ii) Ultimate controller

1 Legal person

Name	Tianjin Investment Group
Head of the entity or legal representative	Li Baokun
Date of incorporation	23 July 2004
Principal operations	Investment in the development and reconstruction of seas and rivers, investment, construction, operation and management of urban environmental infrastructure and auxiliary projects such as metro, intercity railway, urban roads and bridges, highways, sewage treatment, water supply, heat supply, waste disposal, parking lots (building), underground pipe network and green land in parks by using its own funds; land consolidation and regional development under the authorisation of the government; protective construction, development and operation of historic architecture; housing building and municipal public project management; investment and planning; corporate management and consultation; market establishment and development services; leasing of self-owned housing; leasing of infrastructural facilities and the development and operation of public facilities projects; operating infrastructure franchise under the authorisation of the government; construction investment consultation (in accordance with the State regulations for specific projects and operations).

The shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested during the reporting period	Nil
Notes on other information	Nil

2 Flowchart on the equity interests and relationship of control between the Company and its ultimate controller



V. OTHER LEGAL PERSON SHAREHOLDERS HOLDING MORE THAN 10% OF THE SHARES

As at the end of the reporting period, there were no other legal person shareholders holding more than 10% of the shares of the Company.

VI. DESCRIPTION OF RESTRICTION ON DECREASE OF SHAREHOLDINGS

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

VII. SUBSTANTIAL SHAREHOLDERS INTERESTS

- (a) As at 31 December 2016, so far as is known to or can be ascertained after reasonable enquiries by the Directors, Supervisors or chief executive of the Company, the following entities (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the “SFO”):

Name of shareholder	Capacity	Number and class of securities (Note)	Approximate percentage of the relevant class of securities	Approximate percentage of the total issued share capital of the Company
TMICL	Beneficial owner	715,565,186 A Shares (L)	65.82%	50.14%
HSBC Asset Management (Hong Kong) Limited	Investment manager	20,000,000 H Shares (L)	5.88%	1.40%
ISIS Asset Management Plc	Investment manager	17,286,000 H Shares (L)	5.08%	1.21%

Note: The letter “L” represents the person’s long position in the shares.

The letter “S” represents the person’s short position in the shares.

- (b) Save as disclosed above, there is no other person (other than the Directors, Supervisors or chief executive of the Company) so far as is known to the Directors, Supervisors or chief executives of the Company who, as at 31 December 2016, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 5% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

7. Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDINGS AND THE REMUNERATION

(I). Changes in shareholdings and the remuneration of the existing and resigned Directors, Supervisors and senior management during the reporting period

Name	Position held (note)	Sex	Age	Appointment date	Termination date	No. of shares held at the beginning of the year (shares)	No. of shares held at the end of the year (shares)	Changes in no. of shares for the year	Reason for changes	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether remuneration was received from related parties of the Company
Liu Yujun	Executive Director, Chairman	M	51	13 March 2015	17 December 2018	0	0	0	No change	83.17	No
Lin Wenbo	Former general manager	M	60	25 March 2010	26 January 2017	0	0	0	No change	86.89	No
	Former Chief Executive			18 December 2009	26 January 2017						
Tang Fusheng	General manager	M	43	26 January 2017	17 December 2018	0	0	0	No change	0	No
	Executive Director			14 March 2017	17 December 2018						
Fu Yana	Executive Director, deputy general manager	F	46	18 December 2012	17 December 2018	0	0	0	No change	71.99	No
Cao Shuo	Former chief accountant	F	38	29 August 2014	29 January 2016	0	0	0	No change	15.29	No
	Former Executive Director			13 March 2015	29 January 2016						
Peng Yilin	Chief accountant	F	36	29 January 2016	17 December 2018	0	0	0	No change	61.14	No
	Executive Director			16 March 2016	17 December 2018						
An Pindong	Non-executive Director	M	48	20 December 2003	17 December 2018	0	0	0	No change	0	Yes
Chen Yixing	Non-executive Director	F	43	18 December 2009	17 December 2018	0	0	0	No change	0	Yes
Gao Zongze	Independent non-executive Director	M	77	15 April 2014	17 December 2018	0	0	0	No change	22.00	Yes
Wang Xiangfei	Independent non-executive Director	M	64	18 December 2015	17 December 2018	0	0	0	No change	22.00	No
Guo Yongqing	Independent non-executive Director	M	42	18 December 2015	17 December 2018	0	0	0	No change	22.00	No
Wang Jing	Chairwoman Supervisory Committee	M	46	24 November 2016	17 December 2018	0	0	0	No change	22.27	No
Zhang Mingqi	Former chairman of Supervisory Committee	M	59	21 July 2009	23 November 2016	0	0	0	No change	72.81	No
Nie Youzhuang	Supervisor	M	48	19 December 2003	17 December 2018	959	959	0	No change	34.55	No
Wu Baolan	Supervisor	F	49	24 August 2011	17 December 2018	0	0	0	No change	42.87	No
Li Xiaoshen	Supervisor	M	58	18 December 2012	17 December 2018	0	0	0	No change	0	No
Li Yang	Former supervisor	M	48	8 September 2009	15 March 2017	0	0	0	No change	82.25	No
	Deputy general manager			15 March 2017	17 December 2018						
Niu Jing	Supervisor	F	47	18 December 2015	17 December 2018	0	0	0	No change	42.01	No
Qi Lipin	Chief economist	F	39	29 October 2015	17 December 2018	0	0	0	No change	66.65	No
Deng Biao	Deputy general manager	M	51	5 March 2009	17 December 2018	0	0	0	No change	71.87	No
Yang Guang	Deputy general manager	M	46	5 March 2009	17 December 2018	0	0	0	No change	72.03	No
Zhang Qiang	Deputy general manager	M	53	5 March 2009	17 December 2018	0	0	0	No change	72.19	No
Li Yuqing	Former chief engineer	M	51	30 June 2009	1 March 2017	0	0	0	No change	72.39	No
	Former Deputy general manager			18 October 2016	1 March 2017						
Wang Hong	Former Deputy general manager	M	42	25 March 2010	1 March 2017	0	0	0	No change	73.51	No
Zhao Yi	Deputy general manager	M	46	18 October 2010	17 December 2018	0	0	0	No change	72.00	No
Zhang Jian	Deputy general manager	M	47	17 January 2012	17 December 2018	822	822	0	No change	87.82	No
Niu Bo	Secretary to the Board	M	40	29 January 2016	17 December 2018	0	0	0	No change	61.18	No
Lo Wai Keung, Eric	Company secretary (Hong Kong)	M	40	30 April 2008	17 December 2018	0	0	0	No change	13.18	No
Total	/	/	/	/	/	1,781	1,781	0	/	1,344.06	/

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Liu Yujun	Mr. Liu is now the deputy chief accountant of Tianjin Investment Group and chairman of the Company. Mr. Liu was the chief accountant of Tianjin No. 4 Municipal Engineering Company from December 1996 to August 2000; the chief accountant of Tianjin Metro General Company from August 2000 to October 2007; the deputy general manager and the chief accountant of TMG from October 2007 to November 2008; the deputy chief accountant of Tianjin Investment Group and the deputy general manager and the chief accountant of TMG from November 2008 to April 2011; the deputy chief accountant of Tianjin Investment Group, the deputy general manager and chief accountant of TMG and the secretary of the party branch, chairman of the board and general manager of TM Resources from April 2011 to April 2013. He has been the deputy chief accountant of TMG since April 2013; and the general manager, secretary of the party general branch and director of Tianjin Haihe Jinan Investment Construction Development Company Limited from January to March 2015. Mr. Liu has been a Director and chairman of the Company since 13 March 2015.
Tang Fusheng	Mr Tang is a Senior engineer. He obtained a bachelor degree in Engineering and holds a Master of Business Administration. He is now the Director and General Manager of the Company. Mr. Tang served as the head of development department, deputy general manager and general manager of Water Recycling Company(中水公司) from July 2001 to April 2009. He served as the assistant to the general manager of the Company, and at the same time served as the director and general manager of Water Recycling Company from April 2009 to February 2010. He served as the deputy general manager of the Company from March 2010 to February 2015. During his tenure as the deputy general manager of the Company, Mr. Tang concurrently served as the director of Water Recycling Company and the general manager of the Company's energy and resources department. His role as the general manager of Water Recycling Company ceased in June 2014 as a result of work rearrangement. He has been serving as the chairman of Hong Kong Company(香港公司) since June 2011, and has been serving as an executive director of Tianjin Jiayuanxing (天津佳源興) since June 2014. In February 2015, Mr. Tang resigned from all of the abovementioned positions as a result of work rearrangement and was transferred to Tianjin Urban Pipe Network Construction Investment Company Limited* (天津城市道路管網配套建設投資有限公司) and has been serving as a director and general manager of the company since then. Mr. Tang has been serving as the general manager of the Company since 26 January 2017 and has been serving as the Director of the Company since 14 March 2017.
Lin Wenbo	Mr. Lin was the Executive Director and General Manager of the Company during the reporting period, and retired from the Company as Executive Director and General Manager on 26 January 2016.
Fu Yana	Ms. Fu is now a Director, deputy general manager, the manager of the human resources department and also the officer to the office of general manager of the Company. She was appointed as the Director, deputy general manager and the secretary to the Board of the Company since December 2003 and has been the manager of the human resources department since November 2010 and she has also been the officer to the office of general manager since November 2015. She ceased to be the secretary to the Board of the Company from 28 January 2016. Ms Fu also acted as the director of the Tianjin Hangu North Talent Port Joint Stock Limited Company, which is a subsidiary company in which the Company has invested from March 2004 to February 2017.
Cao Shuo	Ms. Cao was a Director and chief accountant of the Company during the reporting period. Ms. Cao resigned as a Director and chief accountant of the Company on 29 January 2016 due to personal reasons.
Peng Yilin	Ms. Peng is now a Director, chief accountant and the assistant general manager of the Company. Ms. Peng worked as project manager of the investment management department of Tianjin Haitai Technology Development Company Limited* (天津海泰科技發展股份有限公司) from October 2005 to March 2008. From March 2008 to September 2015, she worked for Tianjin Investment Group, acting as assistant department head of the financing development department and financial central manager, respectively. Ms. Peng has been the assistant general manager of the Company since 29 October 2015, chief accountant of the Company since 29 January 2016 and a Director of the Company since 16 March 2016.
An Pindong	Mr. An is now a Director of the Company and the deputy chief economist of Tianjin Investment Group. From December 2000 to February 2005, Mr. An was the chief accountant of the Company. From February 2005 to April 2016, he was the general manager of TMICL. Mr. An Pindong was appointed as the Director of the Company since December 2000.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Chen Yinxing	Ms. Chen is now the the deputy chief accountant of Tianjin Investment Group, a Director of the Company and a certified public accountant in the PRC. From December 2003 to December 2004, Ms. Chen Yinxing was appointed as the deputy chief economist, general administrative officer, and manager of the asset management department of TMICL. She joined the Company in January 2005 and was the chief accountant of the Company since February 2005. Ms. Chen resigned as the chief accountant of the Company on 5 March 2009 and began to be the deputy chief accountant of Tianjin Investment Group. Ms. Chen Yinxing was appointed as a Director of the Company since 18 December 2009.
Gao Zongze	Mr. Gao is an independent non-executive Director of the Company, a consultant to China Maritime Law Association, an arbitrator and an expert panel member of the China Maritime Arbitration Commission, an arbitrator of the Arbitration Institute of the Stockholm Chamber of Commerce, an arbitrator of the Arbitration Institute of the International Chamber of Commerce in Paris, an arbitrator of the Hong Kong Arbitration Centre, a special researcher and an invited professor of the Institute of Law of Chinese Academy of Social Sciences, a part-time professor of the China University of Political Science and Law, a part-time professor of the National Judges College of China, a part-time professor of the National Prosecutors College of China and a professor of the Law School of Central University of Finance and Economics. Mr. Gao studied at Dalian Maritime University of China, the Graduate School of Chinese Academy of Social Sciences and the Law School of Columbia University in the United States. Mr. Gao was the chairman and general manager of China Legal Services (Hong Kong) Company Limited from 1998 to November 2001 and a solicitor of Beijing Fusheng Law Firm from December 2001 to July 2004. From August 2004 to April 2015, he was a partner of King & Wood Mallesons. Mr. Gao has years of experience in legal practice. He specializes in maritime law, international trade law and securities law. Mr. Gao has served as a special advisor to the Supreme People's Court of the PRC, a legal counsel of the General Administration of Customs of the PRC, the former State Commodity Inspection Bureau and more than 20 major enterprises including China Petroleum & Chemical Corp., China Agri-Industries, Metals & Minerals, China National Cereals, Oils and Foodstuffs Import and Export Corporation, China National Arts & Crafts Import and Export Corporation and China Huaneng Power International Corporation. He served as an independent director of Huaneng Power International Inc. from 1995 to 2005, an independent director of Shanxi Zhangze Electric Power Co., Ltd. from 2000 to 2006, an independent director of Shenzhen Capstone Industrial Co., Ltd. from 2003 to 2006, an independent director of HL Corp. (Shenzhen) from 2006 to 2011 and an independent director of Beijing Tianqiao Beida Jade Bird Sci-Tech Co., Ltd. from 2007 to 2009. Mr. Gao was appointed as the independent non-executive Director of the Company from 2002 to 2008 and was re-appointed as the independent non-executive Director of the Company on 15 April 2014.
Wang Xiangfei	Mr. Wang is now an independent non-executive Director of the Company, an independent non-executive director of China Development Bank International Investment Limited and SEEC Media Group Limited, the vice chief financial officer of Sonangol Sinopec International Limited, the financial advisor of China Sonangol International Holding Limited, an executive director of Nan Nan Resources Enterprise Limited and an external supervisor of Shenzhen Rural Commercial Bank. Mr. Wang is a senior accountant, graduated from Renmin University of China, majoring in finance and received a bachelor degree in economics. He also has worked in senior management teams of a couple of companies engaging in banking and other financial services. He was the independent non-executive director of China CITIC Bank Co., Ltd. and Shandong Chenming Paper Holdings Limited, and was the independent non-executive Director of the Company from April 2002 to April 2008.
Guo Yongqing	Mr. Guo is now an independent non-executive Director of the Company, a post-doctorate, professor in accounting and certified public accountant in the PRC. Mr. Guo is now an accounting professor of the Shanghai National Accounting Institute, and concurrently serving as an independent director of Sanxiang (Group) Co., Ltd., Chongqing Brewery Co., Ltd., and Shanghai Haixin Group Co., Ltd.. Mr. Guo has been the department head of Shanghai National Accounting Institute. Mr. Guo Yongqing was appointed as the independent non-executive Director of the Company since 18 December 2015.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Wang Jing	Ms. Wang is now the staff representative Supervisor, chairwoman of the Supervisory Committee, deputy secretary of the Communist Party Committee and chairwoman of the labour union of the Company. Ms. Wang served as the deputy director, director and minister of the administration department of Tianjin Municipal Construction Group Co. Ltd. (天津市政建設集團) from June 2007 to December 2010, served as a party branch member, deputy secretary, secretary of the party general branch, chairwoman of the labour union and director of Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited* (天津子牙循環經濟產業投資發展有限公司) from December 2010 to July 2016, acted as a member of the management committee, deputy secretary, deputy director of Tianjin Ziya Circular Economy Industrial District* (天津子牙循環經濟產業區) from September 2012 to July 2016; Ms. Wang has been serving as the deputy secretary of the Communist Party Committee and chairwoman of the labour union of the Company since August 2016. Ms. Wang has been serving as the staff representative Supervisor and chairwoman of the Supervisory Committee of the Company since 24 November 2016.
Zhang Mingqi	Mr. Zhang was the present staff representative Supervisor and chairman of the Supervisory Committee of the Company during the Reporting Period. Due to work adjustment, Mr. Zhang resigned as the staff representative Supervisor and chairman of the Supervisory Committee in November 2016.
Nie Youzhuang	Mr. Nie is now the Supervisor of the Company and the deputy manager of the market development division. Mr. Nie Youzhuang joined the Company since January 2001 and worked in the production operation department, and held positions as departmental deputy general manager, manager and deputy chief engineer of the Company. From February 2008 to December 2009, he was the general manager of the 1st water operation branch of the Company. He was the general manager of the southern region of the Tianjin water business division from January 2010 to February 2011. From February 2011 to February 2013, he was the general manager of the eastern region of the Tianjin water business division and the factory director of Dongjiao Sewage Treatment Plant. Mr. Nie was the general manager of Zichuang Company from February 2013 to January 2016 and was appointed as the deputy manager of the market development division of the Company with effect from January 2016. Mr. Nie Youzhuang was appointed as a Supervisor of the Company since 19 December 2003.
Wu Baolan	Ms. Wu is now the Supervisor of the Company and the head of the party-masses department of the Company. Ms. Wu joined the Company since December 2000 and was the assistant to the general manager of human resource department of the Company. Ms. Wu was director of office of Tianjin Rijiyan Company under TMICL from December 2004 to December 2005. Ms. Wu joined the Company again in December 2005, and acted as the vice head of the party-masses department of the Company, and chairman of the institutional labour union of the Company, head of the party-masses department of the Company. Ms. Wu has been elected as the Supervisor on behalf of the Company's staff since 24 August 2011.
Li Xiaoshen	Mr. Li is now a Supervisor of the Company, the deputy secretary of the party general branch and chairman of the labour union of TMICL. Mr. Li Xiaoshen graduated from college in 1975 and joined the Down to the Countryside Movement. In 1976, Mr. Li joined the army. From July 1985 to May 1988, Mr. Li successively held the position of advisor at deputy company commander level in the Communication Department and the Organization and Mobilization Department of Tianjin Garrison Headquarter. From May 1988 to April 2001, Mr. Li served in the Organization and Mobilization Department of Tianjin Garrison Headquarter, holding office as advisor at company commander level, advisor at deputy battalion level, advisor at a deputy organization level and deputy head. From April 2001 to March 2002, Mr. Li served as deputy minister of the Tianjin Tanggu District People's Armed Forces. From March 2002 to November 2004, Mr. Li served as manager of Tianjin Garrison Student Military Training Office. From November 2004 to August 2009, Mr. Li successively held the posts of deputy head of the party committee work department and vice-chairman of the organ labour union of Tianjin Investment Group. From August 2009 to April 2011, he successively held the posts of deputy head of the party committee work department, deputy secretary of the organ party general branch and vice-chairman of the organ labour union of Tianjin Investment Group. From April 2011 to April 2012, he was the secretary of the commission for discipline inspection of the Company. Since May 2012, he has taken office as deputy secretary of the party general and chairman of the labour union of TMICL. Since 18 December 2012, Mr. Li Xiaoshen has been the Supervisor of the Company.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Li Yang	Mr. Li is now the deputy general manager of the Company, the general manager of the northwest region of the Company, the chairman and the general manager of Xi'an Company. He was the Supervisor of the Company during the Reporting Period. From November 2005 to April 2009, he was the general manager of Fuyang Company. From April 2009 to December 2009, he was the general manager of the 2nd water operation branch of the Company. He has been the general manager of the eastern region of Tianjin water business division from January 2010 to February 2011 and has been the general manager of the northwest region of the Company and the general manager of Xi'an Company since February 2011. Mr. Li was appointed as the assistant to general manager of the Company since January 2012, and as the chairman of Xi'an Company since September 2015. Mr. Li Yang was a Supervisor of the Company from 8 September 2009 to 15 March 2017. Mr. Li was appointed as the deputy general manager of the Company since 15 March 2017.
Niu Jing	Ms. Niu is now a Supervisor of the Company, the manager of the legal and audit department and an assistant accountant. Ms. Niu Jing worked as accountant in Tianjin Xianda Hotel from 1993 to 1995; worked as financial controller in Tianjin Shandong McDonald's Food Company Limited from 1995 to 2002; and worked as financial manager and internal control manager of Tianjin Jiafu Commercial Company Limited from 2002 to 2009. She joined the Company since July 2009 and served as manager of the legal and audit department of the Company since then. She was appointed as the Supervisor on behalf of the Company's shareholders since 17 December 2015.
Deng Biao	Mr. Deng is now the deputy general manager of the Company. Mr. Deng was the chief engineer of the Company from December 2003 to June 2009. He has been the deputy general manager of the Company since 5 March 2009. He also acted as the general manager of the 3rd engineering branch company of the Company from the end of 2010 to January 2016.
Qi Lipin	Ms Qi is now the chief economist and the manager of investment and management department of the Company. Ms Qi Lipin worked for Binhai City Municipal Construction and Development Company Limited from July 1999 to February 2001. She joined the Company in February 2001, acted successively as an officer of project development department, assistant to the manager of market development department, deputy manager of the department of assets management and corporate development and research, deputy manager of planning department, and manager of operation and management department. She was appointed as an the deputy chief economist and manager of operation and management department of the Company since January 2010. She was appointed as the chief economist of the Company since October 2015. Ms. Qi was the Supervisor of the Company from June 2009 to October 2015.
Yang Guang	Mr. Yang is now the deputy general manager of the Company. From June 2003 to November 2010, Mr. Yang worked as the deputy general manager and general manager in Guizhou Company and the general manager of the western region of water business division of the Company; he was also the director and/or chairman of Xi'an Company, Qujing Company, Guizhou Company and Wuhan Company. From November 2010 to January 2016, he has also acted as the general manager of the Tianjin water business division of the Company, and the executive director of Jing Hai Company, Jinning Capital Environmental Company, Anguo Company and Capital Environmental Company since November 2011. Mr. Yang has been the deputy general manager of the Company since 5 March 2009 and general manager of the operational branch of the Company since January 2016.
Zhang Qiang	Mr. Zhang is now the deputy general manager of the Company. From October 2007 to February 2009, Mr. Zhang was appointed as the chairman and general manager of Tianjin Seventh Municipal Highway Engineering Company Limited in charge of the overall work. Mr. Zhang joined and served as the deputy general manager of the Company since 5 March 2009. Before that period, he was also the general manager of the business department of the urban projects of the Company. From December 2010 to January 2016, he also served as the general manager of the 2nd engineering branch of the Company.
Li Yuqing	Mr. Li was the deputy general manager, chief engineer of the Company and also the chairman of Kaiying Company during the Reporting Period. Due to work allocation, he resigned from the duty he held in the Company on 1 March 2017.
Wang Hong	Mr. Wang was the deputy general manager of the Company during the Reporting Period. Due to work allocation, he resigned from the duty he held in the Company on 1 March 2017.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Zhao Yi	Mr. Zhao is now the deputy general manager of the Company. From August 2005 to March 2009, Mr. Zhao held the positions of the general manager of Qujing Company and Kaiying Company. He was the deputy general manager of Tianjin Beiyangyuan Investment Development Company Limited from April 2009 to October 2010. He has been the deputy general manager of the Company since 18 October 2010. He served as the general manager of the non-local water business division from November 2010 to January 2016. Also, he acted as the chairman of eight controlling subsidiaries under the non-local business division from November 2010 to September 2015.
Zhang Jian	Mr. Zhang is now the deputy general manager of the Company, the general manager in Zhejiang region, chairman of Hangzhou Company, and the director and chairman of Baoying Company. From April 2006 to December 2009, Mr. Zhang was the administrative deputy general manager (presiding over the work) of Hangzhou Company. He has been the general manager of the non-local water business division of the Zhejiang region and the general manager of Hangzhou Company since December 2009. He has been the chairman of Hangzhou Company, and the director and chairman of Baoying Company since September 2015. He has been the deputy general manager of the Company since January 2012.
Niu Bo	Mr. Niu is now the secretary to the Board of the Company and deputy chief economist. Mr. Niu Bo joined the Company in August 2004, and from then to December 2009, he has acted as the project manager, assistant department manager and department manager of the market development department. He has been the deputy chief economist of the Company since December 2009. He also served as the chairman of Hong Kong Company since February 2015. Mr. Niu has been appointed as the secretary to the Board of the Company since 29 January 2016.
Lo Wai Keung, Eric	Mr. Lo is now the Company Secretary (Hong Kong) of the Company. Mr. Lo graduated from the Chinese University of Hong Kong with a bachelor degree in business administration. Mr. Lo obtained a postgraduate diploma in laws from the Manchester Metropolitan University and a postgraduate certificate in laws from the University of Hong Kong. Mr. Lo is a solicitor admitted in Hong Kong and has extensive experience in handling compliance related matters for listed companies. Mr. Lo has been the Company Secretary (Hong Kong) of the Company since 30 April 2008.

Each Director or Supervisor has not entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors', Supervisors' and the Company's chief executives' interests and/or short positions in the shares, underlying shares and debentures of the Company or its associated corporations

As at 31 December 2016, the interests and/or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which were taken as or deemed to have pursuant to the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

Name	Company/name of associated corporations	Capacity	Number and class of securities (Note)	Approximate percentage in the total issued share capital of the Company/ associated corporations
<i>Supervisor</i>				
Nie Youzhuang	Company	Beneficial owner	959 domestic shares (non-restricted circulating shares) (L)	0.000067%

Note: The letter "L" represents the person's long positions in the shares, underlying shares and debentures of the Company or its associated corporations.

As at 31 December 2016, none of the Directors, Supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

II. POSITIONS HELD BY THE EXISTING AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(i) Positions held at the shareholder's entity

Name	Name of shareholder's entity	Position held in shareholder's entity	Date of appointment	Date of termination
Li Xiaoshen	TMICL	Deputy secretary of the party general branch and chairman of the labour union	7 May 2012	—

(ii) Positions held at other entities

Not applicable

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The procedures for determining the remuneration of the Directors, Supervisors and senior management	The remuneration of the Directors and Supervisors will be determined in accordance with the remuneration standard as approved at the Company's general meetings. The remuneration of the senior management officers will be determined on the basis of the remuneration plan approved by the Board and the operation result of the Company, and implements an annual income system and year-end award system for completion above the annual operating target. The Directors (other than the independent non-executive Directors) and Supervisors of the Company do not receive remuneration for acting as directors or supervisors.
The basis for determining the remuneration of the Directors, Supervisors and senior management	The remuneration of the Company's senior management will be distributed in accordance with their achievements in production and operation and usual management activities. The annual performance remuneration and bonus will be distributed according to the achievement of annual operating targets and performance appraisal results.
Actual payment of the remuneration to the Directors, Supervisors and senior management	The remuneration distributed by the Company to the Directors, Supervisors and senior management is in line with the salaries and performance evaluation requirements of the Company and distributed according to the requirements.
Actual remuneration received by all Directors, Supervisors and senior management as at the end of the reporting period (in total)	RMB13.4406 million

7. Directors, Supervisors, Senior Management and Employees

During the financial year, the Company did not pay any housing allowance, other allowance, and benefits in kind and bonus to the Directors, Supervisors and senior management, nor any payment to them as an inducement to join the Company or as compensation for loss of office of Directors, Supervisors or senior management. None of the Directors, Supervisors and senior management of the Company waived or agreed to waive any emoluments. The Company has not provided any loans or guarantees to the Directors, Supervisors or senior management. Except for remuneration, the Directors, Supervisors and senior management of the Company or such entities connected thereto have not derived other material interests, whether directly or indirectly, from other transactions, arrangements or contracts. The Company, during the reporting period, did not enter into any administration or management contracts for all or material part of its business.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position held	Changes	Reason for changes
Lin Wenbo	Director, general manager	Resignation	Retirement
Tang Fusheng	Director, general manager	Appointment	Work engagement
Cao Shuo	Director, chief accountant	Resignation	Personal reasons
Peng Yilin	Director, chief accountant	Appointment	Work engagement
Zhang Mingqi	Supervisor	Resignation	Re-designation
Wang Jing	Supervisor	Appointment	Work engagement
Li Yuqing	Deputy general manager	Appointment	Work engagement
Wang Hong	Deputy general manager	Resignation	Re-designation
Li Yuqing	Deputy general manager, chief engineer	Resignation	Re-designation
Li Yang	Supervisor	Resignation	Re-designation

V. PUNISHMENTS IMPOSED BY SECURITIES REGULATORY AUTHORITIES IN THE LASTEST THREE YEARS

Not applicable

VI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(i) Employees

Number of on-duty employees of the Company	441
Number of on-duty employees of major Subsidiaries	1,062
Total number of on-duty employees	1,503
Number of retired employees to whom the Company and its major Subsidiaries are required to pay charges	0

Composition by profession

Category of profession	Number
Production	748
Sales	86
Technical	348
Finance	74
Administration	247
Total	1,503

Education

Category of education	Number (persons)
Doctor	6
Master	195
Undergraduate	583
Tertiary	394
Below Tertiary	325
Total	1,503

(ii) Remuneration policy

The Company has established a sound remuneration system, implementing the job-rank salary system and the year-end award system. The remuneration of the Company's employees under annual salary system comprises standard annual job-rank salary and performance-related annual salary. The remuneration of the Company's employees under monthly salary system comprises job-rank salary, skill-based salary and performance-related salary. The performance-related annual salary is based on the completion of the annual targets. The year-end award is provided and distributed according to the completion of the annual profit targets.

(iii) Training programs

The Company implements an independent training policy under the control of training funds. Each of the Company's departments and units develops the training programs according to the needs of the employees and the enterprise, to ensure the training courses are target-oriented and ensure the employees to grow with the enterprise.

(iv) Subcontracting labor

Not applicable

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY

(i) Corporate Governance of the Company

During the reporting period, the Company strictly complied with the requirements under the PRC Company Law, Code on Corporate Governance for Listed Companies, the Articles of Association of the Company and the requirements of the relevant laws and regulations of the CSRC, to improve its corporate governance structure and regulate its daily operation.

According to the Articles of Association of the Company and the relevant regulations, the general meeting shall be the highest authority of the Company. The Company shall convene and hold general meetings in strict compliance with the Rules of Procedures for General Meetings in order to ensure shareholders can exercise their voting rights duly and successfully. Within the scope of authorization by the general meetings, the Board shall be responsible for the overall operation and management of the Company and convene the Board meetings in strict compliance with the Rules of Procedures for Board Meetings. All Directors shall duly discharge their duties in a diligent way, independently perform their duties and pay sufficient attention to the interests of all medium and small shareholders. Committees of the Board of the Company such as the Audit Committee, Remuneration and Assessment committee, Nomination Committee and Strategy Committee shall perform their work independently according to their respective detailed working rules, and provide support for the scientific decisions of the Board. Managers of the Company shall, with the authorization, and leadership of the Board, be responsible for the daily operation and management of the Company according to the Rules of Procedures for General Manager's Meeting. Within the scope of authorization by general meetings, the Supervisory Committee shall be responsible for supervision of the legality and compliance of the performance of duties by the Board and managers.

The Company is in compliance with the relevant requirements of regulatory authorities in respect of major governance aspects such as the controlling shareholder and the Company, the Directors and the Board, the Supervisors and the Supervisory Committee, performance appraisal and incentive control mechanism, stakeholders as well as information disclosure and transparency. There is no difference between the actual governance practices of the Company and the requirements of the PRC Company Law and the relevant requirements of the CSRC.

In order to further improve the structure of the corporate governance of the Company, the Company has formulated the "Rules of Procedures for General Manager's Meeting" (《總經理辦公會議事規則》) in accordance with the Articles of Association and the actual situation during the reporting period, ensuring the Company's managers' scientific and collective decision-making under the leadership of the Board; In order to protect the interests of investors, the Company has formulated the "Working System for Handling Investors' Complaints" (《投資者投訴處理工作制度》) and the "Individual Vote-counting for Small and Medium Shareholders on the Shareholders' General Meeting and Disclosure Measures" (《股東大會中小投資者單獨計票及披露辦法》)。

In 2015, in light of the latest amendments to Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules issued by the Stock Exchange, the Directors of the Company has incorporated risk management function into the terms of reference of the Audit Committee. The Audit Committee has led the Company's competent department to sort out the Company's risk management system accordingly.

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

(i) Corporate Governance of the Company (continued)

During the reporting period, according to the latest “Guidelines on the Environmental, Social and Governance Reporting” issued by the Stock Exchange, the Company initiated the evaluation on the environmental, social and governance matters that have a significant impact on the environment and society or have significant influence on the equity holders’ assessment and decision-making, and disclosed the Environmental, Social and Governance Report (referred to as ESG report), together with this annual report.

(ii) Corporate Governance Report

1. About Corporate Governance Practices

The Company has continuously amended its relevant codes on corporate governances with strict implementation pursuant to the revised corporate governance rules of regulatory bodies. During the reporting period, the Company complied with the Corporate Governance Code.

2. About Securities Transactions by the Directors

The Company has adopted a code of practice in respect of securities transactions by Directors, the standards of which are similar to the “Model Code for Securities Transactions by Directors of Listed Issuers” under Appendix 10 of the Listing Rules. According to the Company’s Articles of Association and the “Management System for Inside Information”(《内幕信息管理制度》), the Company has formulated and implemented the “Management System for the Shareholding of Directors, Supervisors and Senior Management”(《董事、監事、高級管理人員持股管理制度》), which requires that the Directors, Supervisors, managers and other senior management shall during their terms of office make regular reports to the Company on the Company’s shares they held, shall not transfer more than a total of 25% of the shares of the Company they held for each year during their terms of office, and shall not transfer the Company’s shares they held within six months after their resignation, etc.

After making specific enquiries by the Board, as at the end of the reporting period, except the 959 domestic shares of the Company held by Mr. Nie Youzhuang mentioned above, none of Directors of the Company held any share of the Company and they did not conduct any share transaction during the reporting period.

3. About the Board

According to the Articles of Association of the Company, the Board of the Company consists of nine directors. During the reporting period, the Board of the Company includes Mr. Liu Yujun (Chairman of the Board), Mr. Lin Wenbo, Ms. Fu Yana and Ms. Peng Yilin as executive Directors; Mr. An Pindong and Ms. Chen Yinxing as non-executive Directors; Mr. Gao Zongze, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors. Except Mr. Lin Wenbo, the Directors shall serve until December 17, 2018. Due to his retirement, Mr. Lin Wenbo ceased to be the Director on 26 January 2017. Mr. Tang Fusheng was elected as the executive Director of the Company for replacement at the general meeting of the Company with a term of office from 14 March 2017 until December 17, 2018.

8. Corporate Governance

Ms. Peng Yilin was appointed as the executive Director of the Company to replace Ms. Cao Shuo since March 16, 2016. Ms. Cao Shuo resigned as a director for personal reasons.

There was no relationship including financial, business, family or other material and relevant relationship between the members of the Board of the Company. All of the Board members possess immense qualifications and management experience. The qualifications and professional experiences of the independent non-executive Directors have fully complied with the requirements under the Listing Rules. The Board of the Company has accepted the declaration of independence for the year 2016 by each independent non-executive Director, and confirms that they comply with the relevant independence requirements as set out under Rule 3.13 of the Listing Rules of the Stock Exchange.

The Company held 23 Board meetings and three general meetings during the reporting period. For details of the attendance of Directors, please refer to “Attendance of Directors at the Board meetings and general meetings” in this section.

There is a clear demarcation on the duties of the Board and the management in the Articles of Association of the Company and the “Rules of Procedures for Board Meetings”. The Rules of Procedures for Board Meetings and the Rules of Procedures for General Manager’s meeting have made specific requirements on the decision making procedure and basis of decisions for the Board and the managerial level, so as to ensure the decisions of the Directors, the Board, the senior management and the managerial level to be scientific and legal. Within the scope of authorization by general meetings, all matters that are required to be disclosed shall be submitted to the Board of the Company for its decision and disclosed according to the requirements under the share listing rules of the SSE and the Listing Rules, and matters which are not required to be disclosed are generally decided and implemented by the managerial level of the Company.

Trainings for Directors in 2016

With the continuous growth of the Company’s business and the amendments of the Listing Rules from time to time, occupational development on an on-going basis has become very important for the Directors. In order to ensure the Directors to constantly develop talents and knowledge necessary for their performance of duties, the Company has arranged some training for the Directors with proper training records kept at the Board office of the Company.

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

4. About the Chairman and the Chief Executive Officer

In accordance with the Articles of Association of the Company, the main duties of the Chairman of the Board and the Chief Executive Officer (the Articles of Association refers the Chairman of the Board as “Chairman” and the Chief Executive Officer as “General Manager”, therefore hereinafter referred to as “Chairman” and “General Manager” respectively) are clearly separated. The Chairman is responsible for holding and presiding over the Board meetings, and the effective operation of the Board, while the General Manager of the Company is responsible for various operation activities of the Company, and is accountable to the Board. The appointment of the Chairman should be approved by more than a half of all the Directors while the General Manager should be nominated by the Chairman with his appointment to be approved by the Board.

During the reporting period, Mr. Liu Yujun served as the chairman of the Company and Mr. Lin Wenbo was the General Manager. Mr. Lin Wenbo resigned as the General Manager of the Company on 26 January 2017 due to his retirement, and Mr. Tang Fusheng was elected as the General Manager of the Company at the Board meeting held on the same day.

5. About Non-executive Director

The tenures of Mr. An Pindong and Ms. Chen Yinxing as non-executive Directors, Mr. Gao Zongze, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors, of the seventh Board of the Company, who were elected on 17 December 2015, will expire on 17 December 2018.

6. About Committees under the Board

- (1) The Remuneration and Assessment Committee of the Company consists of three independent non-executive Directors with Mr. Wang Xiangfei as its chairman. Its primary duties are to propose remuneration plan for the Directors and senior management of the Company to the Board and to assess and evaluate the performance of the Company, by adopting the second model under B.1.2 (c) as set out in Appendix 14 to the Listing Rules. For its written working scope, please refer to the Implementation Rules for the Remuneration and Assessment Committee of the Company which is available on the website of the Stock Exchange.

During the reporting period, the Company held 3 meetings of the Remuneration and Assessment Committee which mainly discussed the performance of the Company and its evaluation for the year 2016 (including the performance of executive Directors and its evaluation as well as the advice on remuneration of new Directors, Supervisors and Senior Management). The members of the Remuneration and Assessment Committee attended all the meetings held during the reporting period.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

6. About Committees under the Board (continued)

- (2) The members of the Nomination Committee of the Company comprised two executive Directors (being the Chairman and General Manager) and three independent non-executive Directors with Mr. Gao Zongze as its chairman. The primary duties of the Nomination Committee are to study and propose candidates, selection criteria and nomination procedures of directors and senior management of the Company. For its written working scope, please refer to the Implementation Rules for the Nomination Committee of the Company which is available on the website of the Stock Exchange.

In respect of the nomination procedures as well as the selection and recommendation of candidates of Director, the Articles of Association of the Company provides that, the Board of the Company and shareholders representing, in aggregate, more than 10% of the total shares of the Company may nominate candidates to the Director of the Company. The Nomination Committee under the Board of the Company shall make suggestions to the Board regarding the nomination, selection and recommendation of candidates of Directors pursuant to the Implementation Rules for the Nomination Committee of the Company. The appointment of executive Directors is determined by the general meeting. The nomination and appointment of two executive Directors, namely Ms. Peng Yilin and Mr. Tang Fusheng, and the election of the seventh Board of the Company have all been carried out in accordance with the above-mentioned procedures of nomination, selection and recommendation. In addition, the qualifications for acting as independent non-executive Directors are subject to review and approval by SSE. The Nomination Committee considers that in terms of sex, age, culture and education background, professional experience, skill and knowledge, the present members of the Board of the Company are generally in line with the Implementation Rules for the Nomination Committee of the Company and the Board Diversity Policy as well as the present situation and future development plan of the Company.

During the reporting period, the Company held 2 meetings of the Nomination Committee which discussed matters in relation to, among other things, the nomination of candidates to be the Directors, the nomination and appointment of chief accountant, Secretary to the Board and deputy general manager. The members of the Nomination Committee attended all the meetings held during the reporting period.

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

6. About Committees under the Board (continued)

- (3) The Audit Committee of the Company comprised three independent non-executive Directors, with Mr. Guo Yongqing as the chairman. The primary duties of the Audit Committee include reviewing of yearly, half-yearly and quarterly financial statements, reviewing and monitoring the financial management, internal control, risk management and corporate governance of the Company and making proposal for the appointment of external auditors. For details of its written working scope, please see the Implementation Rules for the Audit Committee of the Company which is available on the website of the Stock Exchange.

With respect to reviewing of the Company's periodic reports, during the preparation of annual reports, semi-annual reports and quarterly reports, the Audit Committee hears the audit opinions of the external auditor and internal auditor, and reviews the results report at a separate meeting; With the assistance of the internal audit department of the Company, the Audit Committee reviews the effectiveness of the Company's internal control system at the beginning of each year and reviews the annual internal control evaluation report of the Company and discloses it together with the annual results report.

With respect to corporate governance, the Company has established a sound corporate governance structure according to the relevant laws and regulations and the actual situation of the Company. For details of the corporate governance, please refer to "(i) Corporate Governance" above. The Audit Committee reviews and assesses the internal control of the Company annually, including the evaluation of the corporate governance of the Company.

With respect to risk management and internal audit, the Company has set up the Legal Audit Department as an internal audit department, which reports the internal audit work to the Audit Committee; At the beginning of each year, the Audit Committee reviews the summary of the internal audit work of the Company for the previous year and formulates the plan of the internal audit work of the Company for the coming year so as to control the internal audit of the Company. The Company has set up the investment and management department as the risk management department, and the Legal Audit Department is a department to perform the evaluation for the risk management system. During the reporting period, the Audit Committee conducted a review and evaluation of the Company's risk control system with the assistance of the investment and management department and the Legal Audit Department.

During the reporting period, the Company held 7 meetings of the Audit Committee which mainly discussed financial information in quarterly reports, half-year report and annual report, and reviewed the internal control of the Company, and made proposal for the appointment of external auditors, etc. The members of the Audit Committee have attended all the meetings during the reporting period.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

7. About the Remuneration of Auditors

During the reporting period, the Company re-elected PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the Company's external auditors which were approved at the general meeting. The appointment agreement sets out the details of the audit content and remuneration of the auditors. For the remuneration of auditors, please see "Appointment and removal of accountants" in this report.

During the reporting period, the auditors provided internal control audit services to the Company and issued an audit opinion on the internal control of the Company. The Company signed an appointment agreement with the auditors with respect to such non-auditing services, which sets out the scope of the audit contents and remuneration of the auditors.

8. About Company Secretary

The Company appointed Mr. Lo Wai Keung, Eric of Li & Partners, the legal advisor in Hong Kong, as Company Secretary (Hong Kong) who generally contacts Mr. Niubo, the executive Director and the secretary to the Board of the Company (and Ms. Fu Yana, the secretary to the Board of the Company before 29 January 2016). Mr. Lo attended not less than 15 hours of relevant professional trainings during 2016 financial year in accordance with Rule 3.29 of the Listing Rules.

9. About Shareholders' Rights

In accordance with the relevant requirements of the Articles of Association and the Rules of Procedures for General Meetings of the Company, shareholders who severally or jointly hold 10% or more shares in the Company are entitled to ask the Board or Supervisory Committee to convene or convene by themselves an extraordinary general meeting. The conditions and procedures for application for convening or convening by themselves such a general meeting shall be explicitly stated. For details of the regulations, please refer to the Articles of Association of the Company and the Rules of Procedures for General Meetings.

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

10. About Investor Relationship

During the reporting period, pursuant to the “Opinions of the General Office of the State Council on Further Strengthening the Protection of Legitimate Rights and Interests of Small and Medium Investors in Capital Market (國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見)” together with the “Investor Relations Management System(投資者關係管理制度)” and the actual situation of the Company, the Company has formulated the “Working System for Handling Investors’ Complaints (投資者投訴處理工作制度)”. The Company has also formulated the “Measures for Individual Counting and Disclosure of Small and Medium Investors’ Votes at Shareholders General Meeting (股東大會中小投資者單獨計票及披露辦法)”. Based on its actual requirements, the Company has revised and combined the original “Rules of Procedures for General Manager’s Meetings (總經理議事規則)” and the “System for General Manager’s Office (總經理辦公室制度)” into one which was on this basis revised to become the Rules of Procedures for Meetings of the General Manager’s Office (總經理辦公室議事規則). During the reporting period, no amendment has been made to those rules of governance such as the “Rules of Procedures for Shareholders General Meetings (股東大會議事規則), the “Rules of Procedures for Board Meetings (董事會議事規則)” and the “Rules of Procedures for Supervisory Committee Meetings (監事會議事規則)”.

11. Risk Management and Internal Control

During the reporting period, the Company has established proper internal control system. The internal control system is established and gradually improved with the orientation to possible risks exposed by the Company in various key business and management activities. The investment and management department of the Company is responsible for the construction of risk management and internal control system. The legal and audit department of the Company is responsible for reviewing the effectiveness of internal control.

The Board shall hear the report from the legal and audit department on annual conclusion and plans of the internal audit in due course every year and review the internal control and risk management of the Company.

During the reporting period, the Audit Committee of the Board heard the report of the Company’s operation and management department on the risk management of the Company, and considered that the Company had established a more effective risk management procedure and internal control system. It is recommended to strengthen daily tracking management and post-audit supervision in order to achieve comprehensive risk management.

Each year, the Board shall review the internal control monitoring system, and issue the Annual Internal Control Assessment Report to investors.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

12. About other specific disclosures

The Directors are responsible for supervising the compilation of the accounts for each financial period, in order to ensure that those accounts reflect genuinely and fairly the business and results of the Company for the period. In compiling the accounts for the year ended 31 December 2016, the Directors have chosen and thoroughly applied the appropriate accounting policies with due and reasonable judgment and estimates having been made, and prepared the accounts on a going concern basis.

The Directors consider that there was no occurrence of material uncertainties or situations which may affect the ability of the Company as a going concern during the reporting period.

The Board of the Company has been much concerned about the internal control of the Company. At the 29th meeting of the seventh Board held on 29 March 2017, the resolution in respect of the internal control of the Company was solely considered and a self-assessment report on the internal control was issued. PricewaterhouseCoopers Zhong Tian LLP has audited the internal control of the Company during 2016, and has issued a standard unqualified audit opinion.

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have been the Company's domestic and overseas auditors respectively. In view of their continued understanding to the Company and their high professional level, the Audit Committee has proposed to re-appoint PricewaterhouseCoopers Zhong Tian LLP to provide domestic financial audit and internal control audit services for the Company in 2017, and re-appoint PricewaterhouseCoopers to provide overseas financial audit services for the Company in 2017. The above proposal was reviewed and passed at the 20th meeting of the seventh Board of the Company and will be submitted for the consideration by the shareholders at the general meeting.

(iii) Insiders Registration Management

The Company has established the "Management System for Insiders" and "Management System for Inside Information", making explicit provisions for the definitions of inside information and insider, registration of the insider, duty of confidentiality of inside information and the accountability and handling. During the reporting period, before the preparation of the 2015 Annual Report and the 2016 Interim Report, the Company issued notifications to the Directors, Supervisors, senior management, controlling shareholder and ultimate controller that no dealing of the stocks of the Company shall be made during the sensitive period.

As for the Company's non-public issuance of A shares started In the second half of the year, the Company strictly followed the rules and regulations to fulfill the suspension and information disclosure obligations, and took strict confidential measures before the disclosure of information in accordance with the Company's inside information management system, signed relevant confidentiality agreements with inside information insiders, organized insider information insiders to register for the record so as to prevent the occurrence of insider trading.

II. SHAREHOLDERS' GENERAL MEETINGS

Session of meeting	Date of meeting	Inquiry index for the designated website for publishing the voting results
2016 first extraordinary general meeting	2016-03-16	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/
2015 annual general meeting	2016-05-24	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/
2016 second extraordinary general meeting	2016-12-30	Website of the SSE at www.sse.com.cn ;
2015 First A shareholders' Class Meeting		Website of the Stock Exchange at www.hkex.com.hk ;
2016 First H shareholders' Class Meeting		Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/

8. Corporate Governance

III. PERFORMANCE OF DUTIES BY DIRECTORS

(i) Attendance of Directors at the Board meetings and general meetings

Name of Director	Independent non-executive Director	Number of Board meetings required to attend during the year	Attendance at the Board meetings				Attendance at the general meetings	
			Attending in person (times)	Attending by way of other communication method (times)	Attending by proxies (times)	Absence (times)	Absence for two consecutive meetings in person?	Attending the general meetings (times)
Liu Yujun	No	23	23	18	0	0	No	3
Lin Wenbo	No	23	23	18	0	0	No	3
Fu Yana	No	23	23	18	0	0	No	3
Cao Shuo	No	0	0	0	0	0	No	0
Peng Yilin	No	20	20	15	0	0	No	2
An Pindong	No	23	23	23	0	0	No	3
Chen Yinxing	No	23	23	23	0	0	No	3
Gao Zongze	Yes	23	23	23	0	0	No	3
Wang Xiangfei	Yes	23	23	23	0	0	No	3
Guo Yongqing	Yes	23	23	23	0	0	No	3
Number of Board meetings held during the year (times)								23
Among which: Physical Meetings (times)								0
Meetings held by way of other communication method (times)								18
Meetings held physically together with by way of other communication method (times)								5

(ii) Disagreement on the relevant matters by the independent non-executive Directors with the Company

During the reporting period, the Company's independent non-executive Directors have not disagreed with the resolutions proposed at the meeting of the Board and other meetings of the Company held in this year.

For details of the performance of duties by independent non-executive Directors, please refer to "The Report of Performance of Duties by Independent Directors".

IV. IMPORTANT OPINIONS AND SUGGESTIONS RAISED BY SPECIAL COMMITTEES UNDER THE BOARD WHEN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD AND DISCLOSURE ON EVENTS INVOLVING OBJECTIONS AND DISSENTS

Not applicable

V. DESCRIPTION OF RISKS IN THE COMPANY FOUND BY THE SUPERVISORY COMMITTEE

Not applicable

8. Corporate Governance

VI. SITUATION OF NO GUARANTEE OF INDEPENDENCE AND INCAPABILITY ON SELF-OPERATION BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDER WITH RESPECT TO THE MATTERS INCLUDING BUSINESS, STAFFS, ASSETS, ORGANIZATION AND FINANCE

Not applicable

VII. ESTABLISHMENT AND IMPLEMENTATION OF THE ASSESSMENT MECHANISM AND INCENTIVE SYSTEM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

During the reporting period, the Company operated an assessment mechanism combining objective assessment and post assessment for the senior management. The performance bonus in the annual salary of the senior management is linked to the assessment results of the completion of individual target. The provision of year-end bonus is made on the completion of the targets of the Company or annual profit recorded by respective departments, while distribution of that is tied to the assessment results of individual target assessment and post assessment.

During the accounting period, the contributions made to the pension scheme of the five highest paid individuals by the Company are as follows:

	Unit: RMB (Yuan)
Name	Contribution to pension scheme
Zhang Jian	33,637.5
Lin Wenbo	33,637.5
Liu Yujun	33,637.5
Li Yang	33,637.5
Wang Hong	33,637.5

Note: The basic remuneration for the above five persons is less than HK\$1 million. For details, please refer to the “Directors, Supervisors, Senior Management and Employees” section.

8. Corporate Governance

VIII THE DISCLOSURE OF INTERNAL CONTROL ASSESSMENT REPORT

For details, please refer to “2016 Internal Control Assessment Report” disclosed at the website of the SSE on 30 March 2017.

Descriptions of Material Defects Relating Internal Control during the Reporting Period

Not applicable

IX. EXPLANATION IN RESPECT OF THE INTERNAL CONTROL AUDIT REPORT

PricewaterhouseCoopers Zhong Tian LLP engaged by the Company has audited the effectiveness of internal control relating to financial reporting of the Company and has issued an internal control audit report with standard unqualified opinions.

For details of the internal control audit report, please refer to the “2016 Internal Control Audit Report” disclosed on the website of the SSE on 30 March 2017.

9. Relevant Details of Corporate Bonds

I. BASIC DETAILS OF CORPORATE BONDS

Unit: Currency: RMB

Name of Bond	Abbreviation	Code of Bond	Issue Date	Maturity Date	Balance of Bond	Coupon	Debt Service	Trading Place
Public Issue of Corporate Bonds of Tianjin Capital Environmental Protection Group Company Limited in 2016 (Phase I)	16津創01	136801.SH	25 October 2016	25 October 2021	700,000,000	3.13%	Interest shall be paid annually, while the principal shall be fully repaid upon maturity. Principal will be repaid upon maturity together with interest payable for the last period.	Shanghai Stock Exchange

II. CONTACT PERSON AND MEANS OF COMMUNICATION OF CORPORATE BOND TRUSTEE AND MEANS OF COMMUNICATION OF CREDIT RATING AGENCY

Bond trustee	Name	Ping An Securities Co. Ltd.
	Office address	16/F, North Tower, Financial Street Centre, 9 Financial Street, Xicheng Beijing, the PRC
	Contact person	Li Chuan
	Contact number	010-56800258
Credit rating agency	Name	United Credit Rating Co., Ltd.
	Office address	508 Ailiyuan Apartment, 38 Shuishang Garden North Road, Nankai District, Tianjin, the PRC

III. USE OF PROCEEDS FROM BOND OFFERING

As of the end of the reporting period, the proceeds from bond offering by the Company has been fully utilized as committed in strict compliance with the prospectus.

9. Relevant Details of Corporate Bonds

IV. CORPORATE BOND RATING

According to the integrated rating by United Credit Rating Co., Ltd., the credit rating of this bonds offering was AA+, while the long-term credit rating of issuer entity is AA+. Attention is drawn to the investors for the latest trackings and rating of the corporate bonds to be made in a timely manner by United Credit Rating Co., Ltd. upon disclosure of the annual report.

V. CORPORATE BOND CREDIT ENHANCEMENT MECHANISM, DEBT REPAYMENT SCHEDULE AND OTHER RELEVANT INFORMATION DURING THE REPORTING PERIOD

During the Reporting Period, there was no change in the corporate bond's credit enhancement mechanism, debt repayment schedule and the other debt repayment supporting measures.

VI. CONVENING OF MEETINGS OF BONDHOLDERS

Not applicable

VII. PERFORMANCE OF CORPORATE BOND TRUSTEE

Upon completion of the issue of “16津創01” on 26 October 2016, its bond trustee, Ping An Securities Co. Ltd., has conducted continuous trackings and supervision on the performance of obligations as agreed in the bond prospectus for the Company during the current subsisting period of the bonds.

VIII. ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY IN THE PREVIOUS TWO YEARS AS OF THE END OF THE REPORTING PERIOD

Unit: 0'000 Currency: RMB

Major Indicators	2016	2015	Increase/decrease for the period as compared to the same period last year (%)	Reasons
Profit before EBITDA	109,156.9	100,499.7	8.61%	Increase in revenue with reduction in costs
Current ratio	1.89	1.11	70.27%	Increase in current assets with decrease in current liabilities of 1 year maturity
Quick ratio	1.87	1.10	70.00%	Increase in current assets with decrease in current liabilities of 1 year maturity
Assets liability ratio	52.98%	54.04%	-1.96%	Increase in current assets with decrease in current liabilities of 1 year maturity
Debt to EBITDA ratio	0.45	0.39	15.38%	Increase in profit with decrease in debt
Interest protection multiples	5.26	3.48	51.15%	Increase in profit with reduction in interest
Cash interest protection multiples	3.83	14.46	-73.51%	Decrease in net operating cash flow
EBITDA interest protection multiples	7.47	5.09	46.76%	Increase in profit with reduction in interest
Debt service ratio	100%	100%	0.00%	
Interest coverage rate	100%	100%	0.00%	

9. Relevant Details of Corporate Bonds

IX. REDEMPTION OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

As of the end of the reporting period, redemption of other bonds and debt financing instruments issued by the Company has been fully made as scheduled.

X. BANK CREDIT OF THE COMPANY DURING THE REPORTING PERIOD

As of the end of the reporting period, the Company has obtained, in aggregate, a credit facility of RMB3.987 billion from various banks, namely, ICBC, Ping An Bank, Minsheng Bank and Agricultural Bank, of which credit facility, approximately RMB272 million was utilized with a balance of approximately RMB3.78 billion.

XI. PERFORMANCE OF RELEVANT AGREEMENT OR COMMITMENT OF THE CORPORATE BOND BY THE COMPANY DURING THE REPORTING PERIOD

During the reporting period, the Company has strictly performed the relevant agreements and commitments as set out in the corporate bond prospectus.

XII. MAJOR ISSUES OF THE COMPANY OCCURRED DURING THE REPORTING PERIOD AND ITS EFFECT ON THE OPERATION AND SOLVENCY OF THE COMPANY

Not applicable

10. Financial Report

For details, please refer to the accounting statements and audited reports for 2016 of the Company.

11. Report of the Auditors



Auditor's Report

PwC ZT Shen Zi (2017) No. 10031

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To the Shareholders of Tianjin Capital Environmental Protection Group Company Limited,

OPINION

What we have audited

We have audited the accompanying financial statements of Tianjin Capital Environmental Protection Group Company Limited (hereinafter "Capital Environmental Protection"), which comprise:

- the consolidated and company balance sheets as at 31 December 2016;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Capital Environmental Protection as at 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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.

We are independent of Capital Environmental Protection in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

PricewaterhouseCoopers Zhong Tian LLP

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KEY AUDIT MATTERS

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

Key audit matter identified in our audit is summarised as follows:

Key Audit Matter

Recoverability of overdue trade receivables

Refer to note 4(2) to the financial statements

As at 31 December 2016, RMB 1,485,435 thousand out of the total trade receivables of RMB 1,815,420 thousand was overdue, and RMB 466,352 thousand was overdue for more than one year. The trade receivables overdue for more than one year accounts for 4% of the total assets.

Management needs to assess the recoverability of such overdue trade receivables. In making such assessment, management needs to consider prior year experience and exercise judgement in developing its expectation of the credibility of debtors.

We focussed on this area due to the significance of the overdue balance, and the judgement in assessment of the recoverability of such trade receivables.

How our audit addressed the Key Audit Matter

We evaluated and validated Capital Environmental Protection's control procedures over assessment of the recoverability of trade receivables.

We sent confirmations to debtors with significant trade receivables balances as at 31 December 2016 and reconciled the confirmed amounts with those recorded by the management. We checked the accuracy of the aging profile of trade receivables on a sample basis, focusing on outstanding debts overdue for more than one year.

We interviewed the management to get knowledge of major debtors with overdue balances and the explanations of management in respect of recoverability of them.

We challenged management as to the recoverability of such amounts, and corroborated the explanations through examining the underlying relevant supporting documents such as historical payment record, post year end settlements, settlement plan documents and other correspondence documents. We also conducted interview with the major debtors and independently checked the background information of the major customers.

We found that management's judgements were supported by the available evidence in respect of the relevant receivables.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises all of the information included in 2016 annual report of Capital Environmental Protection other than the financial statements and our auditor's report thereon.

11. Report of the Auditors

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OTHER INFORMATION (cont'd)

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing Capital Environmental Protection'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 management either intend to liquidate Capital Environmental Protection or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Capital Environmental Protection's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Cont'd)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Capital Environmental Protection'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 these 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 Capital Environmental Protection to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Capital Environmental Protection to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China

29 March 2017

Signing CPA Li Jun
(Engagement Partner)

Signing CPA Cao Lu

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Balance Sheet

As at 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

ASSETS	Note 4	Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
CURRENT ASSETS					
Cash at bank and on hand	(1)	1,199,058	1,349,875	459,678	604,199
Notes receivable		400	1,094	—	—
Trade receivables	(2)	1,815,420	1,238,352	1,489,342	1,024,181
Advances to suppliers	(3)	153,198	139,727	423	172
Dividends receivable		—	—	8,713	8,713
Other receivables	(4)	150,872	74,531	287,697	151,549
Inventories	(5)	24,491	27,151	4,333	3,697
Other current assets	(6)	49,107	47,168	103,843	124,043
Total current assets		3,392,546	2,877,898	2,354,029	1,916,554
NON-CURRENT ASSETS					
Available-for-sale financial assets	(7)	2,000	2,000	2,000	2,000
Long-term receivables	(8)	309,148	319,463	309,148	319,463
Long-term equity investments	(9)	—	25,998	1,746,349	1,557,255
Investment properties	(10)	97,590	101,263	75,818	78,986
Fixed assets	(11)	413,486	451,510	125,374	141,424
Construction in progress	(11)	4,396	2,943	—	—
Intangible assets	(12)	6,233,987	6,260,176	3,393,326	3,511,540
Other non-current assets	(6)	187,744	8,051	237,480	181,580
Total non-current assets		7,248,351	7,171,404	5,889,495	5,792,248
TOTAL ASSETS		10,640,897	10,049,302	8,243,524	7,708,802

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Balance Sheet

As at 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note 4	Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
CURRENT LIABILITIES					
Trade payable	(14)	107,239	82,599	20,089	26,193
Advances from customers	(14)	955,507	874,880	5,994	7,666
Taxes payable	(14)	69,080	96,387	38,154	71,522
Dividends payable	(14)	1,438	32,426	1,438	32,426
Other payables	(14)	408,111	475,812	751,895	941,483
Employee benefits payable	(15)	34,411	21,809	22,920	12,667
Current portion of non-current liabilities	(16)	212,327	1,003,816	25,927	721,466
Other current liabilities	(16)	9,645	3,810	86,463	—
Total current liabilities		1,797,758	2,591,539	952,880	1,813,423
NON-CURRENT LIABILITIES					
Long-term borrowings	(16)	510,428	574,186	—	—
Debentures payable	(16)	1,394,313	694,925	1,394,313	694,925
Long-term payables	(16)	285,208	269,777	285,208	269,777
Other non-current liabilities	(16)	43,364	48,638	210,000	—
Provisions	(17)	32,930	—	32,930	—
Deferred income	(18)	1,446,971	1,145,674	1,129,013	905,198
Deferred income tax liabilities	(19)	126,108	105,810	54,224	46,104
Total non-current liabilities		3,839,322	2,839,010	3,105,688	1,916,004
TOTAL LIABILITIES		5,637,080	5,430,549	4,058,568	3,729,427
SHAREHOLDERS' EQUITY					
Share capital	(20)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	(21) (a)	399,115	382,311	380,788	380,788
Surplus reserve	(21) (b)	444,925	414,376	444,925	414,376
Undistributed profits	(21) (c)	2,473,109	2,177,200	1,932,015	1,756,983
Equity attributable to owners of the parent		4,744,377	4,401,115	4,184,956	3,979,375
Minority Interests	(22)	259,440	217,638	—	—
Total shareholders' equity		5,003,817	4,618,753	4,184,956	3,979,375
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,640,897	10,049,302	8,243,524	7,708,802

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Income Statement

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Note 4	Group		Company	
		2016	2015	2016	2015
Revenue	(23)	1,958,666	1,934,206	958,983	994,093
Less: Cost of sales	(23)	(1,150,012)	(1,201,944)	(506,081)	(556,440)
Taxes and surcharges	(24)	(45,670)	(33,289)	(24,931)	(18,422)
Selling and distribution expenses	(25)	(9,964)	(3,166)	—	—
General and administrative expenses	(25)	(116,481)	(105,366)	(73,691)	(62,604)
Financial expenses - net	(27)	(151,666)	(182,855)	(100,466)	(109,658)
Asset impairment losses	(28)	(52,057)	(31,589)	(53,481)	(38,928)
Add: Investment (losses)/gains	(9)	(3,640)	(5,349)	93,730	8,713
Including: Share of loss of associates		(3,640)	(5,349)	—	—
Operation profit		429,176	370,648	294,063	216,754
Add: Non-operating income	(29)	194,312	154,479	110,209	110,553
Including: Gains on disposal of non-current assets		17	38	1	—
Less: Non-operating expenses	(30)	(1,260)	(34,945)	(241)	(33,791)
Including: Losses on disposal of non-current assets		(698)	(34)	(241)	—
Total profit		622,228	490,182	404,031	293,516
Less: Income tax expenses	(31)	(154,322)	(145,703)	(98,544)	(100,375)
Net profit		467,906	344,479	305,487	193,141
Attributable to owners of the parent		443,168	330,537	305,487	193,141
Minority interests		24,738	13,942	—	—
Other comprehensive income after deduction of impact of income tax		—	—	—	—
Total comprehensive income		467,906	344,479	305,487	193,141
Attributable to owners of the parent		443,168	330,537	305,487	193,141
Attributable to minority shareholders of the Company		24,738	13,942	—	—
Earnings per share (in RMB Yuan)	(32)				
Basic		0.31	0.23	—	—
Diluted		0.31	0.23	—	—

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Cash Flow Statement

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Note 4	Group		Company	
		2016	2015	2016	2015
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		1,705,972	3,532,338	644,110	2,424,296
Refund of taxes and levies		171,898	17,248	110,782	—
Cash received relating to other operating activities	(33) (c)	82,453	28,051	64,860	13,789
Sub-total of cash inflows		<u>1,960,323</u>	<u>3,577,637</u>	<u>819,752</u>	<u>2,438,085</u>
Cash paid for goods and services		(669,241)	(741,871)	(292,764)	(328,505)
Cash paid to and on behalf of employees		(236,295)	(235,244)	(107,613)	(95,267)
Payments of taxes and surcharges		(448,440)	(246,064)	(281,641)	(127,569)
Cash paid relating to other operating activities	(33) (d)	(202,677)	(43,779)	(189,136)	(28,449)
Sub-total of cash outflows		<u>(1,556,653)</u>	<u>(1,266,958)</u>	<u>(871,154)</u>	<u>(579,790)</u>
Net cash flows from operating activities	(33)	<u>403,670</u>	<u>2,310,679</u>	<u>(51,402)</u>	<u>1,858,295</u>
2. Cash flows from investing activities					
Cash received from disposal of investments		—	—	4,000	—
Cash received from returns on investments		—	—	93,730	—
Net cash received from disposal of fixed assets	(33) (c)	89	95	1	43
Cash received from subsidiaries		—	—	185,738	179,143
Cash received from restricted bank deposits		3,362	—	2,500	—
Cash received from government grants		340,950	—	253,000	—
Sub-total of cash inflows		<u>344,401</u>	<u>95</u>	<u>538,969</u>	<u>179,186</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(461,166)	(468,645)	(66,436)	(211,228)
Cash paid to acquire investments		—	—	(243,375)	(215,000)
Cash paid for restricted bank deposits		—	(16,100)	—	(5,000)
Cash paid to subsidiaries		—	—	(363,128)	(214,548)
Cash paid relating to other investing activities	(33) (f)	(25,715)	(8,205)	(25,715)	(7,294)
Sub-total of cash outflows		<u>(486,881)</u>	<u>(492,950)</u>	<u>(698,654)</u>	<u>(653,070)</u>
Net cash flows from investing activities		<u>(142,480)</u>	<u>(492,855)</u>	<u>(159,685)</u>	<u>(473,884)</u>

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Cash Flow Statement

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Note 4	Group 2016	2015	Company 2016	2015
3. Cash flows from financing activities					
Cash received from borrowings		202,943	145,000	290,000	100,000
Cash received from issuance of debentures		700,000	—	700,000	—
Cash received from capital contributions		19,474	37,000	—	—
Including: Cash received from capital contributions by minority shareholders of subsidiaries		19,474	37,000	—	—
Sub-total of cash inflows		<u>922,417</u>	<u>182,000</u>	<u>990,000</u>	<u>100,000</u>
Cash repayments of borrowings		(1,067,925)	(1,187,542)	(700,000)	(944,350)
Cash payments for distribution of interest expenses		(129,833)	(169,982)	(90,040)	(108,276)
Payments for distribution of dividends or profits		(133,304)	(128,617)	(130,894)	(127,817)
Sub-total of cash outflows		<u>(1,331,062)</u>	<u>(1,486,141)</u>	<u>(920,934)</u>	<u>(1,180,443)</u>
Net cash flows from financing activities		<u>(408,645)</u>	<u>(1,304,141)</u>	<u>69,066</u>	<u>(1,080,443)</u>
4. Effect of foreign exchange rate changes on cash		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
5. Net (decrease)/increase in cash		<u>(147,455)</u>	<u>513,683</u>	<u>(142,021)</u>	<u>303,968</u>
Add: Cash at the beginning of the year		1,328,575	814,892	596,699	292,731
6. Cash at the end of the year	(33) (b)	<u><u>1,181,120</u></u>	<u><u>1,328,575</u></u>	<u><u>454,678</u></u>	<u><u>596,699</u></u>

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Attributable to owners of the parent					Total shareholders' equity
	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Minority interests	
Balance at 1 January 2015	1,427,228	382,311	395,063	1,965,882	167,496	4,337,980
Movements for the year ended 31 December 2015						
Total comprehensive income						
Net profit	—	—	—	330,537	13,942	344,479
Total comprehensive income for the year	—	—	—	330,537	13,942	344,479
Capital contribution by shareholders	—	—	—	—	37,000	37,000
Profit distribution						
Appropriation to surplus reserves	—	—	19,313	(19,313)	—	—
Dividend distribution to shareholders	—	—	—	(99,906)	(800)	(100,706)
Balance at 31 December 2015	<u>1,427,228</u>	<u>382,311</u>	<u>414,376</u>	<u>2,177,200</u>	<u>217,638</u>	<u>4,618,753</u>
Balance at 1 January 2016	1,427,228	382,311	414,376	2,177,200	217,638	4,618,753
Movements for the year ended 31 December 2016						
Total comprehensive income						
Net profit	—	—	—	443,168	24,738	467,906
Total comprehensive income for the year	—	—	—	443,168	24,738	467,906
Capital contribution by shareholders	—	—	—	—	19,474	19,474
Reorganization of a subsidiary	—	16,804	—	(16,804)	—	—
Profit distribution						
Appropriation to surplus reserves	—	—	30,549	(30,549)	—	—
Dividend distribution to shareholders	—	—	—	(99,906)	(2,410)	(102,316)
Balance at 31 December 2016	<u>1,427,228</u>	<u>399,115</u>	<u>444,925</u>	<u>2,473,109</u>	<u>259,440</u>	<u>5,003,817</u>

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Company Statement of Changes in Equity

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2015	1,427,228	380,788	395,063	1,683,061	3,886,140
Movements of the year ended 31 December 2015					
Total comprehensive income					
Net profit	—	—	—	193,141	193,141
Total comprehensive income for the year	—	—	—	193,141	193,141
Profit distribution					
Appropriation to surplus reserves	—	—	19,313	(19,313)	—
Dividend distribution to shareholders	—	—	—	(99,906)	(99,906)
Balance at 31 December 2015	1,427,228	380,788	414,376	1,756,983	3,979,375
Balance at 1 January 2016	1,427,228	380,788	414,376	1,756,983	3,979,375
Movements of the year ended 31 December 2016					
Total comprehensive income					
Net profit	—	—	—	305,487	305,487
Total comprehensive income for the year	—	—	—	305,487	305,487
Profit distribution					
Appropriation to surplus reserves	—	—	30,549	(30,549)	—
Dividend distribution to shareholders	—	—	—	(99,906)	(99,906)
Balance at 31 December 2016	1,427,228	380,788	444,925	1,932,015	4,184,956

The accompanying notes form an integral part of these financial statements.

Liu Yujun
Company representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION

Tianjin Capital Environmental Protection Group Company Limited (the “Company”) was established on the basis of Tianjin Bohai chemical industry(Group) Company Limited (“Bohai Chemical Industry”). Bohai Chemical Industry was established on 8 June 1993 in Tianjin, the People’s Republic of China (the ‘PRC’), listed in Hong Kong Stock Exchange (“H share”) in May 1994 and Shanghai Stock Exchange (“A share”) in June 1995. Bohai Chemical Industry appeared significant losses in 1998 and 1999. Approved by Tianjin Government, the Company had completed the equity and assets reorganization of Bohai Chemical Industry at the end of year 2000. The address of the Company’s registered office is No.45 Guizhou Road, Heping District, Tianjin. The parent company and ultimate holding company of the Company are Tianjin Municipal Investment Company Limited (“Municipal Investment”) and Tianjin City Infrastructure Construction and Investment Group Company Limited (“City Infrastructure Construction and Investment”), respectively. As at 31 December 2016, the Company’s total share capital is RMB 1,427 million with a par value of RMB 1 per share.

The principal activities of the Company and its subsidiaries (the “Group”) include processing of sewage water, construction and management of related facilities, supply of tap water and recycled water, supply of heating and cooling, and construction and management of related facilities as described below:

(a) Processing of Sewage Water

Pursuant to relevant agreements (“Service concession right agreements”), the Group currently provides sewage water processing services via the following plants:

Location	Agreement date	Authorized by
Guiyang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi, Hubei	15 July 2005	Chibi Construction Bureau
Fuyang, Anhui	18 December 2005	Fuyang Construction Committee
Qujing, Yunnan	25 December 2005	Qujing City Water General Company
Honghu, Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou, Zhejiang	20 November 2006	Hangzhou Sewage Company
Jinghai, Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an, Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Anguo, Hebei	14 October 2008	An Guo Municipal Government
Xianning, Hubei	16 October 2008	Xianning Construction Committee
Yingdong, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Qujing, Yunnan	16 August 2011	Qujing Housing and Urban Construction Bureau
Chaohu, Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau
Jingu, Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission (“TUCC”) and Tianjin Water Authority Bureau (“TWAB”)
Xiayanglu, Tianjin	18 February 2014	TUCC and TWAB
Dongjiao, Tianjin	18 February 2014	TUCC and TWAB
Beicang, Tianjin	18 February 2014	TUCC and TWAB
Yingshang, Anhui	16 June 2016	Yingshang Housing and Urban Construction Bureau

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(a) Processing of Sewage Water (Continued)

The Group provides sewage treatment services in accordance with the Concession Agreements and is entitled to charge for the service based on a pre-determined rate.

(b) Construction and Management of the Sewage Water Processing Facilities

The Group provides services including design, construction and operations of sewage water processing facility, as well as financing services, construction and transfer of sewage water processing facility projects.

(c) Supply of Tap Water

Pursuant to relevant agreements, the Group provides tap water supply service initially at the pre-determined rate and the price as pre-determined may be revised subsequently taking into account various cost factors.

(d) Recycled Water Business

The Group's recycled water business includes developing, constructing and operating of recycled water projects, production and sale of recycled water, and provision of related research and development and technical consultation services.

(e) Heating and Cooling Supply Services

The heating and cooling supply services include design, construction, operations and transfer of centralized heating and cooling infrastructures, and provision of heating and cooling services.

(f) Subsidiaries included in the scope of consolidation for the year and newly consolidated subsidiaries are set out in Note 4(9) (a).

(g) These financial Statements were approved by the Company's Board of Directors on 29 March 2017.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group determines the specific accounting policies and accounting estimates according to the production management characteristics, which are reflected mainly in the provision for bad debts of trade receivable (Note 2(9)), valuation method of investment properties (Note 2(12)), depreciation and amortization of fixed assets and intangible assets (Note 2(13) (16)), recognition and amortization of concession rights (Note 2(16) (b)), timing of revenue recognition (Note 2(21)) and so on.

Key assumption adopted by the Group in determining significant accounting policies are set out in Note 2(26).

(1) Basis of Preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises - Basic Standard, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as “the Accounting Standards for Business Enterprises” or “CAS”) and Circular of the China Securities Regulatory Commission on the Issuing of the Rules for the Information Disclosure and Compilation of Companies Publicly Issuing Securities No. 15 - General Provisions on Financial Statements.

The financial statements are prepared on a going concern basis.

(2) Statement of Compliance with Accounting Standard for Business Enterprise

The financial statements of the Company for the year ended 31 December 2016 are in compliance with the Accounting Standard for Business Enterprise and truly and completely present the consolidated and the company’s financial position of the Company as of 31 December 2016 and of their financial performance, cash flows and other information for the year then ended.

(3) Accounting Year

The Company’s accounting year starts on 1 January and ends on 31 December.

(4) Recording Currency

The recording currency is Renminbi (RMB).

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Preparation of Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Company and all its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

In preparing the consolidated financial statements, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company during the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries.

All significant intra-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of a subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to Company are recognized as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealized profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealized profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and minority interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(6) Cash

Cash comprise cash on hand and deposits that can be readily drawn on demand.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Foreign Currency Translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognized in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalized as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial Instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets. The Group's financial assets are represented as available-for-sale assets and receivables.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

(ii) Recognition and measurement

Financial assets are recognized at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. The transaction costs that are attributable to acquisition of the financial assets are included in their initially recognized amounts.

Available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables are subsequently measured at amortized cost using the effective interest method.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial Instruments (Continued)

(a) Financial assets(Continued)

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

Objective evidence indicating impairment of financial assets refers to the matter that actually occurs after the initial recognition of financial assets, it will affect estimated future cash flows of financial assets, and its impact can be reliably measured.

When an impairment loss on a financial asset carried at amortized cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

If an impairment loss on an available-for-sale financial asset carried at cost has been incurred, the amount of the loss is measured as the difference between similar asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. The previously recognized impairment loss will not be reversed in subsequent periods.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial Instruments (Continued)

(a) Financial assets (Continued)

(iv) Derecognition of financial assets

A financial asset is derecognized when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognized directly in equity, is recognized in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities of the Group mainly comprise other financial liabilities, including payables, borrowings and debentures payable.

Payables, including trade payable and other payables, are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Borrowings and debentures payable are recognized initially at fair value, net of transaction costs incurred, and subsequently measured at amortized cost using the effective interest method.

Financial liabilities of which the period is within one year (including one year) are classified as the current liabilities; the period is over one year while will be due within one year (including one year) since the balance sheet date are classified as current portion of non-current liabilities; and the others are classified as non-current liabilities.

A financial liability is derecognized when all or part of the obligation is extinguished. The difference between the carrying amount of a financial liability extinguished and the consideration paid, shall be recognized in profit or loss.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Receivables

Receivables comprise trade receivable and other receivables. Trade receivable arising from sales of tap water or rendering of services are initially recognized at fair value of the contractual payments from the buyers or service recipients.

(a) *Receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts:*

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made.

The criterion for determining “individually significant” amounts is that any individual amount is more than RMB 50 million.

The method of providing for bad debts for those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

(b) *Receivables that are subject to provision for bad debts on the grouping basis*

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

Basis for grouping and methods of determining provision for bad debts on the grouping basis are as follows:

	Basis for grouping	Methods of determining provision for bad debts
General credit portfolio	Trade receivable excluding those which are individually significant and subject to separate assessment for provision for bad debts	Aging analysis method
Project deposit portfolio	All project deposits	None
Value added tax (VAT) refund portfolio	All VAT refund receivables	None
Receivable portfolio from subsidiaries	All receivables from subsidiaries	None
Other portfolio	Other receivables except those mentioned above	Aging analysis method

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Receivables (Continued)

(b) *Receivables that are subject to provision for bad debts on the grouping basis(Continued)*

The provision ratios used under the aging analysis method for the above groupings are as follows:

	Provision ratios used for trade receivable	Provision ratios used for other receivables
Within 2 years	0%	0%
2-3 years	0%	100%
Over 3 years	100%	100%

(c) *Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts*

The reason for making separate assessment for provision for bad debts is that there exists objective evidence that the Group will not be able to collect the amount under the original terms of the receivable.

The provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

(10) Inventories

(a) *Classification*

Inventories include raw materials, finished goods, spare parts, low cost consumables and construction contract, and are measured at the lower of cost and net realizable value.

(b) *Costing of inventories*

The amount for construction contract is calculated based on individual contract by adding profits to or deducting losses recognized and settled amount from the contract cost incurred. Where the balance is positive, the item is recognized in assets, otherwise it is recognized in liabilities.

Except for construction contract, costs for raw materials, finished goods and low cost consumables are determined using the weighted average method. The cost of finished goods comprises raw materials, direct labor and systematically allocated production overhead based on the normal production capacity.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Inventories (Continued)

- (c) *Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories*

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

- (d) *The Group adopts the perpetual inventory system.*

- (e) *Spare parts and low cost consumables are expensed when used.*

(11) Long-Term Equity Investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. Associate are the investee over which the Group has significant influence on their financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

- (a) *Determination of investment cost*

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-Term Equity Investments (Continued)

(b) *Subsequent measurement and recognition of related profit and loss*

Long-term equity investments accounted for using the cost method, are measured at the initial investment costs. Cash dividends or profit distribution declared by the investees are recognized as investment income in profit or loss.

Long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group does not recognise further losses when the carrying amounts of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in investees are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. The Group's share of the changes in investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution is recognised in capital surplus with a corresponding adjustment to the carrying amounts of the long-term equity investment. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investees. Unrealised gains or losses on transactions between the Group and its investees are eliminated to the extent of the Group's equity interest in the investees, based on which the investment income or losses are recognised. Any losses resulting from transactions between the Group and its investees, which are attributable to asset impairment losses are not eliminated.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-Term Equity Investments (Continued)

(c) Basis for determination of control, joint control and significant influence over investees

Control is the right over the investee that entitles enjoy variable returns from their involvement in the investee and the ability to exert the right to affect those returns.

Joint control is agreed sharing of control over an arrangement, and a decision relating to any activity under the arrangement can be made only when the parties sharing the control reach the unanimous agreement.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(17)).

(12) Investment Properties

Investment properties, including buildings that are held for the purpose of leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings are depreciated or amortized to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	40-50 years	5%	1.9%-2.4%

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Investment Properties (Continued)

When an investment property is transferred to owner-occupied properties, it is reclassified as fixed asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset is reclassified as investment properties at its carrying amount at the date of the transfer.

The investment property's estimated useful life, net residual value and depreciation method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognized in profit or loss for the current period.

The carrying amount of an investment property is reduced to the recoverable amount if the recoverable amount is below the carrying amount (Note 2(17)).

(13) Fixed Assets

(a) *Recognition and initial measurement of fixed assets*

Fixed assets comprise buildings and structures, machinery and equipment, motor vehicles and others.

Fixed assets are recognized when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the acquisition date.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognized. All the other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Fixed Assets (Continued)

(b) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings and structures	10-50 years	0%-5%	1.9%-10%
Machinery and equipment	10-20 years	0%-5%	4.8%-10%
Motor vehicles and others	5-10 years	0%-5%	9.5%-20%

Plants and pipelines network are included in buildings with estimated useful lives of 25 years.

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

- (c) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(17)).

(d) Disposal of fixed assets

A fixed asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current period.

(14) Construction in Progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(17)).

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Borrowing Costs

The borrowing costs that are directly attributable to the acquisition and construction of an asset that needs a substantially long period of time for its intended use commence to be capitalized and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognized in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of an asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

(16) Intangible Assets

Intangible assets include land use rights, concession rights, technical know-how and software, and are measured at cost.

(a) Land use rights

Land use rights are amortized on the straight-line basis over their approved use period of 25-50 years. If the acquisition costs of the land use rights and the buildings and structures located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognized as fixed assets.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Intangible Assets (Continued)

(b) Concession rights

As described in Note 1(a) and (e), the Group cooperates with government or its subsidiaries in the development, financing, operation and maintenance of facilities for public services (concession services) over a specified period of time (concession service period). The Group has access to operating the facilities and providing concession services in accordance with the terms specified in the arrangement, and transfers the facilities to the government at the end of the concession service period.

The Service concession right agreement sets out performance standards and price adjustment mechanism to clarify the scope of concession services of the Group. The concession service arrangement is within the scope of Interpretations of Accounting Standards for Business Enterprises No.2, such assets under the concession arrangement can be recognized as intangible assets or financial assets. The operator shall recognize an intangible asset to the extent that it receives a right (concession) to charge users of the public service and shall recognize a financial asset to the extent that it receives unconditional payments or guarantee for minimum charge from the approving authority. Rights in relation to concession services are recognized as intangible assets- concession rights by the Group, which are amortized on a straight-line basis over the terms of operation ranging from 25 to 30 years.

(c) Technical know-how and software

Separately acquired technical know-how and software are shown at historical cost. Technical know-how and software has a finite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of technical know-how and software over their useful lives.

(d) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(e) Impairment of intangible assets

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note 2(17)).

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Impairment of Long-Term Assets

Fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets which are not ready for their intended use are tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized 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 the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

(18) Employee Benefits

Employee benefits refer to all forms of consideration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits and post-employment benefits.

(a) *Short-term employee benefits*

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognized in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Non-monetary benefits are measured at their fair value.

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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Employee Benefits (Continued)

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(19) Dividends Distribution

Cash dividends are recognized as liabilities for the period in which the dividends are approved by the shareholders' meeting.

(20) Provisions

Provisions for maintenance of the sewage water processing facilities are recognized when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognized as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Provisions (Continued)

The provisions expected to be settled within one year since the balance sheet date are classified as current liabilities.

(21) Revenue Recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of discounts, rebates and returns.

Revenue is recognized when it's probable that the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific criteria of revenue recognition have been met for each type of the Group's activities as described below:

(a) *Processing of sewage water and heating and cooling supply services*

Revenues from processing of sewage water and heating and cooling supply services are recognized when services are rendered.

(b) *Construction of sewage water facilities*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized with reference to the percentage of completion of the contract activity at the balance sheet date. The percentage of completion is usually determined by the ratio of aggregate contract costs incurred to the total estimated contract costs. Variations in contract, claims and incentive payments are included in the contract revenue to the extent that they can be reliably measured.

Where the outcome of a construction contract cannot be estimated reliably, the amount of the contract cost which is most likely to be recovered is recognized as contract revenue. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

(c) *Sales of tap water and recycled water*

Revenue from sales of tap water and recycled water is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the tap water and recycled water are delivered to customers.

(d) *Sales of pipeline connection for recycled water*

Revenue for sales of pipeline connection for recycled water is recognized when the connection is completed and recycled water is to be delivered to customers.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue Recognition (Continued)

(e) Sales of environmental protection equipment

If the stage of completion can be measured reliably, revenue and cost are recognized by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs of each contract. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured. The environmental protection equipment is mainly the achievement of technology research.

(f) Contract operation income

Revenue from contract operation is recognized on the accrual basis according to the service agreement.

(g) Technical services income

For sales of technical services, the related revenue is recognized using the percentage of completion method, with the stage of completion being determined based on proportion of costs incurred to date to the estimated total costs.

(22) Government Grants

Government grants refer to the monetary assets obtained by the Group from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets will be recorded as deferred income and recognised evenly in profit or loss over the useful lives of the related assets.

Government grants related to income will be recorded as deferred income and recognised in profit or loss in the period in which the related expenses are recognised if the grants are intended to compensate for future expenses or losses, and otherwise recognised in profit or loss for the current period if the grants are used to compensate for expenses or losses that have been incurred.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(23) Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

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

Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilized, the corresponding deferred tax assets are recognized.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(24) Leases

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease.

(a) Operating leases

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current period.

Rental income from an operating lease is recognised on a straight-line basis over the period of the lease.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Segment Information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

(26) Critical Accounting Estimates and Judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and key assumptions

The critical accounting estimates and key judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Bad debt provisions for receivables

The Group makes provision for doubtful debts based on an assessment on the recoverability of trade receivable. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made. At the time of evaluating the bad debt provisions, the Group needs to make judgments and estimates. When there is any change in accounting estimates, the carrying amount of trade receivable and bad debt provisions recognized in asset impairment loss will also change accordingly.

(ii) Income tax

The Group is subject to income taxes in numerous jurisdictions. There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final identified outcome of these tax matters is different from the initially-recorded amount, such difference will impact the income tax expenses and deferred income tax in the period in which such determination is finally made.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical Accounting Estimates and Judgements (Continued)

(a) Critical accounting estimates and key assumptions (Continued)

(iii) Estimated provision for non-current assets

The Group assesses the impairment of non-current assets based on the recoverabilities of them. An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. These assessments require the use of estimates. The carrying amount and the impairment provision will change, when the accounting estimate changes.

3 TAXATION

(1) The main categories and rates of taxes applicable to the Group are set out below:

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	0%-25%
Value added tax ("VAT") (Note(a))	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	3%-17%
Business tax	Taxable turnover amount	3%-5%
City maintenance and construction tax	The payment amount of VAT and business tax	7%
Educational surcharge	The payment amount of VAT and business tax	3%

- (a) Pursuant to the 'Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax'(Cai Shui [2016] 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from service contract operation and technical services of the Group, is subject to VAT from 1 May 2016, and the applicable tax rate is 6% and 17%, while the business tax was 5% before then.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

3 TAXATION (Continued)

(2) Preferential tax policies for enterprise income tax

The information of preferential tax policies granted to the subsidiaries is as below:

Name of subsidiaries	Enterprise income tax rate for 2016	Reason for the preferential tax policy
Fuyang Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2014 for the first 3 years and reduction half for the next 3 years.
Gui Zhou Capital Water Co., Ltd.	15 %	According to Notice of Guizhou Provincial SAT on Implementation of Preferential Tax Policy Relating to Development of Western Regions, (Qian Guo shui Han[2011] No.19) from 2011 to 2020.
Xi'an Capital Water Co., Ltd.	15 %	According to Notice of Shaanxi Provincial SAT on Issuing Measures for Review and Management of Preferential Tax Policy of Enterprises Relating to Development of Western Regions, (Notice [2010] No. 3) from 2011 to 2020.
Hangzhou Tianchuang Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 1 July 2016 for the first 3 years and reduction half for the next 3 years.
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	15 %	High-tech enterprise entitled to preferential tax policy from 2013 to 2018.
Tianjin Water Recycling Co., Ltd.	The taxable income is 90% of revenue	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, the taxable income amount is 90% of the total revenue.

(3) Preferential tax policies for value-added tax

On 12 June 2015, the Ministry of Finance and the State Administration of Taxation issued the preferential value-added tax catalogue of products and services which comprehensively utilized resources Caishui [2015] No.78 (hereinafter referred to as the No. 78). According to the No.78, the sewage water processing and recycled water business are required to pay value-added tax since July 1, 2015. 70% of value-added tax paid by the sewage water processing business and 50% value-added tax paid by recycled water business will be refunded.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS

(1) Cash at Bank and On Hand

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Cash on hand	173	128	9	13
Cash at bank	1,180,947	1,349,747	454,669	604,186
Other cash balances	17,938	—	5,000	—
	<u>1,199,058</u>	<u>1,349,875</u>	<u>459,678</u>	<u>604,199</u>
Including: Bank deposits overseas	<u>9,143</u>	<u>8,276</u>	<u>—</u>	<u>—</u>

(a) Cash listed in the cash flow statement comprises:

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Cash at bank and on hand	1,199,058	1,349,875	459,678	604,199
Less: Restricted bank deposits (Note (i))	<u>(17,938)</u>	<u>(21,300)</u>	<u>(5,000)</u>	<u>(7,500)</u>
Cash listed in cash flow statement (Note 4(33)):	<u>1,181,120</u>	<u>1,328,575</u>	<u>454,678</u>	<u>596,699</u>

- (i) The restricted bank deposits represent the deposit for the purpose of applying for unconditional, irrevocable bank letters of guarantee.

(2) Trade Receivables

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Trade receivables	1,837,823	1,247,851	1,489,342	1,024,181
Less: Provision for bad debts	<u>(22,403)</u>	<u>(9,499)</u>	<u>—</u>	<u>—</u>
	<u>1,815,420</u>	<u>1,238,352</u>	<u>1,489,342</u>	<u>1,024,181</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) Trade Receivables (Continued)

(a) The aging of trade receivables is analyzed as follows:

	Group			
	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,274,671	69%	1,107,015	89%
1-2 years	533,389	29%	124,862	10%
Over 2 years	29,763	2%	15,974	1%
Total	1,837,823	100%	1,247,851	100%

	Company			
	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	967,622	65%	922,273	90%
1-2 years	511,349	34%	101,908	10%
Over 2 years	10,371	1%	—	—
Total	1,489,342	100%	1,024,181	100%

As at 31 December 2016, trade receivables of RMB1,485 million (31 December 2015: RMB1,097 million) were past due but based on the analysis of the customers' financial status and credit record, the Group expected that the overdue amounts can be recovered, and the trade receivables are not impaired, thus no provisions for bad debts are individually provided. The past-due aging of the trade receivables is analyzed as follows:

	Group	
	31 December 2016	31 December 2015
Overdue within 1 year	1,019,083	1,045,397
Overdue for 1-2 years	458,992	44,870
Overdue for 2-3 years	7,360	6,475
	1,485,435	1,096,742

	Company	
	31 December 2016	31 December 2015
Overdue within 1 year	900,574	919,647
Overdue for 1-2 years	439,836	33,021
Overdue for 2-3 years	10,371	—
	1,350,781	952,668

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2016
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) Trade Receivables (Continued)

(b) Trade receivables are analyzed by customer categories as follows:

Category	Group							
	31 December 2016				31 December 2015			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Trade receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts	1,512,493	82%	16,992	1%	1,055,573	85%	9,499	1%
General credit portfolio	325,330	18%	5,411	2%	192,278	15%	—	—
Total	1,837,823	100%	22,403	1%	1,247,851	100%	9,499	1%

Category	Company							
	31 December 2016				31 December 2015			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Trade receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts	1,397,293	94%	—	—	952,839	93%	—	—
General credit portfolio	92,049	6%	—	—	71,342	7%	—	—
Total	1,489,342	100%	—	—	1,024,181	100%	—	—

(c) As at 31 December 2016, trade receivables with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis are analyzed as follows:

Customer name	Group		
	Ending balance	Bad debts	% of ending balance
TWAB (note (i))	1,397,293	—	—
Qijing City Water General Company (note (ii))	115,200	(16,992)	15%
Total	1,512,493	(16,992)	

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) Trade Receivables (Continued)

(b) Trade receivables are analyzed by customer categories as follows (Continued):

Customer name	Ending balance	Company	
		Bad debts	% of ending balance
TWAB (note (i))	1,397,293	—	—

(i) The outstanding trade receivables from TWAB of the Company is collected on a continuous basis, and there's no impairment risk identified.

(ii) As at 31 December 2016, the total amount of trade receivables due from Qujing City Water General Company, in respect of sewage water processing fee and tap water fee was RMB 115 million. Management estimated and provided RMB 17 million bad debt provision for all foreseeable uncollectible receivables with aging over 2 years.

(d) Trade receivables that the related provision for bad debts is provided on grouping basis using the aging analysis method are analyzed as follows:

	31 December 2016			31 December 2015		
	Ending balance Amount	Amount	Provision for bad debts % of ending balance	Ending balance Amount	Amount	Provision for bad debts % of ending balance
Within 1 year	299,002	—	—	180,381	—	—
1-2 years	18,957	—	—	11,897	—	—
Over 2 years	7,371	5,411	73%	—	—	—
Total	325,330	5,411	2%	192,278	—	—

	31 December 2016			31 December 2015		
	Ending balance Amount	Amount	Provision for bad debts % of ending balance	Ending balance Amount	Amount	Provision for bad debts % of ending balance
Within 1 year	67,518	—	—	59,445	—	—
1-2 years	14,160	—	—	11,897	—	—
2-3 years	10,371	—	—	—	—	—
Total	92,049	—	—	71,342	—	—

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) Trade Receivables (Continued)

- (e) Trade receivables from shareholders holding more than 5 % (inclusive) of the voting rights of the Company are analyzed as follows:

	31 December 2016	31 December 2015
City Infrastructure Construction and Investment	<u>29,337</u>	<u>28,489</u>

- (f) As at 31 December 2016, the trade receivables from the top five debtors in respect of outstanding balance are analyzed as below:

Name of debtor	Relationship with the Group	Amount	Aging	Provision for bad debts	% of total balance
TWAB	Third party	900,104	Within 1 year	—	48.98%
		497,189	1-2 years	—	27.05%
Qijing City Water General Company	Third party	75,565	Within 1 year	—	4.11%
		17,243	1-2 years	—	0.94%
		22,392	Over 2 years	16,992	1.22%
Hangzhou Sewage Company	Third party	76,192	Within 1 year	—	4.15%
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company	35,139	Within 1 year	—	1.91%
City Infrastructure Construction and Investment	Ultimate holding company	<u>29,337</u>	Within 1 year	—	1.60%
Total		<u>1,653,161</u>		<u>16,992</u>	<u>89.96%</u>

(3) Advances to Suppliers

- (a) The ageing of advances to suppliers is analyzed as follows:

	Group			
	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	75,282	49%	74,919	54%
1 to 2 years	50,031	33%	46,007	33%
Over 2 years	<u>27,885</u>	<u>18%</u>	<u>18,801</u>	<u>13%</u>
	<u>153,198</u>	<u>100%</u>	<u>139,727</u>	<u>100%</u>

As at 31 December 2016, advances to suppliers of RMB 78 million (31 December 2015: RMB 65 million) with aging over one year were mainly for recycled water pipeline connection service for which the projects have not been completed and hence balances remain outstanding.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(3) Advances to Suppliers (Continued)

(a) The ageing of advances to suppliers is analyzed as follows (Continued):

	Company			
	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	417	98.6%	66	38.4%
1 to 2 years	—	—	6	3.5%
Over 2 years	6	1.4%	100	58.1%
	<u>423</u>	<u>100%</u>	<u>172</u>	<u>100%</u>

(b) As at 31 December 2016, the advances to suppliers to the top five debtors in respect of outstanding balance are analyzed as follows:

	Amount	% of total balance
Total amounts of advances to suppliers to the top five debtors in respect of outstanding balance	<u>4,282</u>	<u>3%</u>

(c) As at 31 December 2016, there were no advances to suppliers balances due from shareholders holding 5% or more of voting shares of the Company (31 December 2015: Nil), and there were no advances to suppliers to any of the related parties of the Group (31 December 2015: Nil).

(4) Other Receivables

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
VAT refund receivable	27,810	57,071	11,204	44,681
Project deposits	120,149	9,301	116,213	6,613
Receivables from subsidiaries	—	—	159,039	93,852
Others	2,913	8,159	1,241	6,403
Less: Provision for bad debts	—	—	—	—
	<u>150,872</u>	<u>74,531</u>	<u>287,697</u>	<u>151,549</u>

As at 31 December 2016, there were no other receivables overdue but unimpaired (31 December 2015: Nil).

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) Other Receivables (Continued)

(a) The aging of other receivables is analyzed as follows:

	Group			
	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	145,235	96%	69,833	94%
1-2 years	1,586	1%	1,445	2%
2-3 years	1,445	1%	1,179	1%
Over 3 years	2,606	2%	2,074	3%
	<u>150,872</u>	<u>100%</u>	<u>74,531</u>	<u>100%</u>

	Company			
	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	286,251	99.50%	149,668	98.76%
1-2 years	113	0.04%	4	0.00%
2-3 years	3	0.00%	1,051	0.69%
Over 3 years	1,330	0.46%	826	0.55%
	<u>287,697</u>	<u>100%</u>	<u>151,549</u>	<u>100%</u>

(b) Other receivables are analyzed by categories as follows:

Category	Group							
	31 December 2016				31 December 2015			
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Provision for bad debts provided on the grouping basis								
VAT refunds	27,810	18%	—	—	57,071	77%	—	—
Project deposits	120,149	80%	—	—	9,301	12%	—	—
Others	2,913	2%	—	—	8,159	11%	—	—
Total	<u>150,872</u>	<u>100%</u>	<u>—</u>	<u>—</u>	<u>74,531</u>	<u>100%</u>	<u>—</u>	<u>—</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) Other Receivables (Continued)

(b) Other receivables are analyzed by categories as follows (Continued):

Category	Company							
	31 December 2016				31 December 2015			
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Provision for bad debts provided on the grouping basis								
VAT refunds	11,204	4%	—	—	44,681	29%	—	—
Receivables from subsidiaries	159,039	55%	—	—	93,852	62%	—	—
Project deposits	116,213	40%	—	—	6,613	5%	—	—
Others	1,241	1%	—	—	6,403	4%	—	—
Total	287,697	100%	—	—	151,549	100%	—	—

(c) Other receivables that the related provision for bad debts is provided on grouping basis using the aging analysis method are analyzed as follows:

Category	Group							
	31 December 2016				31 December 2015			
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Within 1 year	2,913	2%	—	—	8,159	11%	—	—

Category	Company							
	31 December 2016				31 December 2015			
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Within 1 year	1,241	1%	—	—	6,403	4%	—	—

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) Other Receivables (Continued)

(d) As at 31 December 2016, there were no balances of other receivables due from shareholders holding 5% or more of voting shares of the Company (31 December 2015: Nil), and there were no receivables from any of the related parties of the Group (31 December 2015: Nil).

(e) As at 31 December 2016, other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Nature	Group Amount	Aging	% of total balance
Dalian Bureau of Urban Construction	Project deposits	100,800	Within 1 year	66.81%
Tianjin Municipal Office, SAT	VAT refund receivables	11,204	Within 1 year	7.43%
Hangzhou Sewage Company	Project deposits	11,001	Within 1 year	7.29%
Linxia Water Supply and Sewage Company	Project deposits	10,000	Within 1 year	6.63%
Xi'an Municipal Office, SAT	VAT refund receivables	3,838	Within 1 year	2.54%
		<u>136,843</u>		<u>90.70%</u>

	Nature	Company Amount	Aging	% of total balance
Dalian Bureau of Urban Construction	Project deposits	100,800	Within 1 year	35.04%
Karamay Tianchuang Capital Water Co., Ltd.	Receivable due from subsidiaries	66,000	Within 1 year	22.94%
Xi'an Capital Water Co., Ltd.	Receivable due from subsidiaries	60,000	Over 3 years	20.86%
Chibi Capital Water Co., Ltd.	Receivable due from subsidiaries	13,000	Over 3 years	4.52%
Tianjin Municipal Office, SAT	VAT refund receivables	11,204	Within 1 year	3.89%
		<u>251,004</u>		<u>87.25%</u>

(f) As at 31 December 2016, the amount of receivables from government grants (VAT refunds) was RMB 28 million with aging within 1 year. This amount was collected in the first quarter of 2017.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(5) Inventories

Inventories are summarised by categories as follows:

	Group					
	31 December 2016			31 December 2015		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	10,114	—	10,114	9,237	—	9,237
Finished goods	3,766	—	3,766	2,340	—	2,340
Spare parts and low cost consumables	188	—	188	522	—	522
Construction contract	10,423	—	10,423	15,052	—	15,052
	<u>24,491</u>	<u>—</u>	<u>24,491</u>	<u>27,151</u>	<u>—</u>	<u>27,151</u>

	Company					
	31 December 2016			31 December 2015		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	4,333	—	4,333	3,498	—	3,498
Finished goods	—	—	—	199	—	199
Spare parts and low cost consumables	—	—	—	—	—	—
	<u>4,333</u>	<u>—</u>	<u>4,333</u>	<u>3,697</u>	<u>—</u>	<u>3,697</u>

(6) Other Current and Non-Current Assets

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Other current assets:				
Receivables from subsidiaries	—	—	103,843	124,043
Assets of Anguo	47,143	47,143	—	—
Others	1,964	25	—	—
	<u>49,107</u>	<u>47,168</u>	<u>103,843</u>	<u>124,043</u>
Other non-current assets:				
Receivables from subsidiaries	—	—	237,480	181,580
Acquisition of Karamay Sewage Treatment Plant Concession rights (note (i))	180,145	—	—	—
Others	7,599	8,051	—	—
	<u>187,744</u>	<u>8,051</u>	<u>237,480</u>	<u>181,580</u>

- (i) As at 4 November 2016, Karamay City Construction Bureau signed the service concession right agreement with the Company and granted concession right to the second sewage water processing plant of Karamay Tianchuang Capital Water Co.,Ltd, which is the subsidiary of the Company. The concession right lasts for 27 years and takes effect on 1 January 2017.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) Available-for-sale financial assets

	Group and Company	
	31 December 2016	31 December 2015
Measured at cost		
– Available-for-sale equity instruments	<u>2,000</u>	<u>2,000</u>

Related information of available-for-sale financial assets is analyzed as follows:

	31 December 2016	31 December 2015
Available-for-sale equity instruments - Cost	2,000	2,000
Available-for-sale equity instruments - Provision for impairment	<u>—</u>	<u>—</u>
	<u>2,000</u>	<u>2,000</u>

Available-for-sale financial assets measured at cost mainly include the unlisted equity investments of Tianjin Beifang Rencaigang Company Limited held by the Group and the shareholding ratio is 6.10%. These assets are not quoted in the active market and whose fair value cannot be reliably measured as the variability in the range of reasonable fair value measurements is significant and probabilities of the various estimates used to determine the fair value cannot be reasonably determined. The group has no plan to dispose these investments.

(8) Long-term receivables

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Toll road concession	<u>309,148</u>	<u>319,463</u>	<u>309,148</u>	<u>319,463</u>

Receivables from toll road concession represent the amortized cost, using effective interest method, calculated with reference to a guaranteed minimum future traffic flow over the concession period.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Investment in subsidiaries (note (a))	—	—	1,879,130	1,639,755
Investment in an associate (note (b))	22,358	25,998	—	—
Less: Impairment of Long-term equity investments (note(c))	(22,358)	—	(132,781)	(82,500)
	<u>—</u>	<u>25,998</u>	<u>1,746,349</u>	<u>1,557,255</u>

(a) Subsidiaries

Name of subsidiaries	Type of subsidiary	Place of registration	Major business location	Nature of business and business activity	Registered capital	Enterprise type	Legal representative
Qijing Capital Water Co., Ltd.	A	Qijing	Qijing	Processing of sewage water, tap water supply	178,983	Limited company	Wang Hui
Guizhou Capital Water Co., Ltd.	A	Guizhou	Guizhou	Processing of sewage water	120,000	Limited company	Wang Hui
Baoying Capital Water Co., Ltd.	A	Baoying	Baoying	Processing of sewage water	53,000	Limited company	Zhangjian
Hangzhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Hangzhou	Processing of sewage water	377,445	Limited company	Zhao Yi
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Tianjin	Manufacturing and sale of new building materials	37,500	Limited company	Zhangqiang
Fuyang Capital Water Co., Ltd.	B	Fuyang	Fuyang	Processing of sewage water	107,100	Limited company	Zhou Jingdong
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Hong Kong	Processing of sewage water	62,987	Limited company	Tang Fusheng
Wendeng Capital Water Co., Ltd.	B	Wendeng	Wendeng	Processing of sewage water	61,400	Limited company	Zhao Yi
Tianjin Jing Hai Capital Water Co., Ltd.	B	Tianjin	Tianjin	Processing of sewage water	12,000	Limited company	Yang Guang
Tianjin Water Recycling Co., Ltd.	B	Tianjin	Tianjin	Production and sales of recycled water, development and construction of water recycling facilities, and technical consulting for water recycling business	100,000	Limited company	Han Song
Xi'an Capital Water Co., Ltd.	B	Xi'an	Xi'an	Processing of sewage water	334,000	Limited company	Li Yang

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

Name of subsidiaries	Type of subsidiary	Place of registration	Major business location	Nature of business and business activity	Registered capital	Enterprise type	Legal representative
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	B	Tianjin	Tianjin	Environment governance, technical consulting, etc.	20,000	Stock limited company	Li Yuqing
Anguo Capital Water Co., Ltd.	B	Anguo	Anguo	Tap water supply and drain off for urban area and processing of sewage	41,000	Limited company	Yang Guang
Wuhan Tianchuang Capital Water Co., Ltd.	B	Wuhan	Wuhan	Processing of sewage water, tap water supply	103,240	Limited company	Zhou Jingdong
Tianjin Capital Water Co., Ltd.	B	Tianjin	Tianjin	Processing of sewage water	10,000	Limited company	Wang Hong
Tianjin Zichuang Project Investment Co., Ltd.	B	Tianjin	Tianjin	Construction project investment	23,400	Limited company	Wang Hong
Tianjin Jinning Capital Water Co., Ltd.	B	Tianjin	Tianjin	Processing of sewage water	15,000	Limited company	Yang Guang
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	B	Tianjin	Tianjin	Energy saving, innovative energy research, consulting and transfer services, property management	191,951	Limited company	Li Wei
Yingshang Capital Water Co., Ltd.	B	Yingshang	Yingshang	Processing of sewage water	53,000	Limited company	Zhou Jingdong
Shandong Capital Environmental Protection Technology Development Co., Ltd.	B	Shandong	Shandong	Investment in and construction of sewage water processing facilities	82,000	Limited company	Zhangjian
Changsha Tianchuang Environmental Protection Co., Ltd.	A	Changsha	Changsha	Processing of sewage water	40,250	Limited company	Zhou Jingdong
Karamay Tianchuang Capital Water Co., Ltd.	A	Karamay	Karamay	Processing of sewage water	120,000	Limited company	Li Yang

A: Holding subsidiary

B: Wholly-owned subsidiary

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

Name of subsidiaries	Investment cost	31 December 2015	Additions	Disposals	Provision	31 December 2016	Shareholding (%)		Minority interests	Provision for impairment	Cash dividends declared/ Investment income in the current year
							Direct	Indirect			
Xi'an Capital Water Co., Ltd.	334,000	334,000	—	—	—	334,000	100	—	—	—	—
Hangzhou Tianchuang Capital Water Co., Ltd.	264,212	264,212	—	—	—	264,212	70	—	175,370	—	—
Qijing Capital Water Co., Ltd.	154,918	154,918	—	—	—	154,918	87	—	32,751	—	—
Guizhou Capital Water Co., Ltd. (note (iii))	114,000	114,000	—	—	—	114,000	95	—	5,912	—	30,505
Fuyang Capital Water Co., Ltd.	107,302	107,302	—	—	—	107,302	100	—	—	—	—
Tianjin Water Recycling Co., Ltd. (note (iii))	100,436	100,436	—	—	—	100,436	100	—	—	—	60,000
Wuhan Tianchuang Capital Water Co., Ltd.	98,500	98,500	—	—	—	98,500	100	—	—	—	—
Tianjin Jiayuantian Innovative Energy Technology Co., Ltd (note (ii))	—	64,000	—	(64,000)	—	—	—	100	—	—	—
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,987	62,987	—	—	(50,281)	12,706	100	—	—	(50,281)	—
Wendeng Capital Water Co., Ltd.	61,400	61,400	—	—	—	61,400	100	—	—	—	—
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd. (note (ii))	191,600	60,000	131,600	—	—	191,600	100	—	—	—	—
Anguo Capital Water Co., Ltd.	41,000	—	—	—	—	—	100	—	—	(41,000)	—
Baoying Capital Water Co., Ltd. (note (iii))	37,100	37,100	—	—	—	37,100	70	—	22,741	—	1,680
Tianjin Jiayuansheng Innovative Energy Technology Co., Ltd. (note (ii))	—	33,000	—	(33,000)	—	—	—	100	—	—	—
Tianjin Capital New Materials Co., Ltd.	26,500	—	—	—	—	—	71	—	(98)	(26,500)	—
Tianjin Zichuang Project Investment Co., Ltd.	23,400	23,400	—	—	—	23,400	100	—	—	—	—
Subtotal	1,617,355	1,515,255	131,600	(97,000)	(50,281)	1,499,574			236,676	(117,781)	92,185

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

Name of subsidiaries	Investment cost	31 December 2015	Additions	Disposals	Provision	31 December 2016	Shareholding (%)		Minority interests	Provision for impairment	Cash dividends declared/ Investment income in the current year
							Direct	Indirect			
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd. (note (ii))	16,000	20,000	—	(4,000)	—	16,000	80	20	—	—	—
Tianjin Jinning Capital Water Co., Ltd.	15,000	—	—	—	—	—	100	—	—	(15,000)	—
Tianjin Jing Hai Capital Water Co., Ltd.	12,000	12,000	—	—	—	12,000	100	—	—	—	—
Tianjin Capital Water Co., Ltd.	10,000	10,000	—	—	—	10,000	100	—	—	—	—
Tianjin Jiayuanbin Innovative Energy Technology Co., Ltd. (note (i) (ii))	—	—	34,600	(34,600)	—	—	—	100	—	—	—
Yingshang Capital Water Co., Ltd. (note (i))	53,000	—	53,000	—	—	53,000	100	—	—	—	—
Shandong Capital Environmental Protection Technology Development Co., Ltd. (note (i))	15,000	—	15,000	—	—	15,000	100	—	—	—	—
Changsha Tianchuang Environmental Protection Co., Ltd. (note (i))	32,775	—	32,775	—	—	32,775	81	—	7,474	—	—
Karamay Tianchuang Capital Water Co., Ltd. (note (i))	108,000	—	108,000	—	—	108,000	90	—	11,990	—	—
Honghu Capital Water Co., Ltd. (note (iv))	—	—	—	—	—	—	—	90	2,350	—	—
Sino Legend Industries Limited (note (iv))	—	—	—	—	—	—	—	98	950	—	—
Subtotal	261,775	42,000	243,375	(38,600)	—	246,775			22,764	(15,000)	—
Total	1,879,130	1,557,255	374,975	(135,600)	(50,281)	1,746,349			259,440	(132,781)	92,185

- (i) In 2016, the Company contributed RMB 53 million to establish Yingshang Capital Water Co., Ltd.; subscribed for contribution of RMB 82 million and paid in RMB 15 million to establish Shandong Capital Environmental Protection Technology Development Co., Ltd.; contributed RMB 34.6 million to establish Tianjin Jiayuanbin Innovative Energy Technology Co., Ltd.; contributed RMB 32.8 million to establish Changsha Tianchuang Environmental Protection Co., Ltd.; contributed RMB 108 million to establish Karamay Tianchuang Capital Water Co., Ltd.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

- (ii) And in this year, the Company transferred 20% of Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.'s shares to Tianjin Water Recycling Co., Ltd., a wholly-owned subsidiary of the Company, reducing the Company's share holding of Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd. to 80%. The Company increased investment to the wholly-owned subsidiary Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd. using the 100% of its share-holding in its wholly-owned subsidiaries: Tianjin Jiayuansheng Innovative Energy Technology Co., Ltd., Tianjin Jiayuantian Innovative Energy Technology Co., Ltd., and Tianjin Jiayuanbin Innovative Energy Technology Co., Ltd. After the capital injection, the registered capital of Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd. was increased to RMB 191.6 million.
- (iii) In 2016, the cash dividends declared by the subsidiaries were RMB 30.5 million from Guizhou Capital Water Co., Ltd., RMB 1.7 million from Baoying Capital Water Co., Ltd., and RMB 60 million from Tianjin Water Recycling Co., Ltd.
- (iv) Minority interests in Honghu Capital Water Co., Ltd. (a subsidiary of Wuhan Tianchuang Capital Water Co., Ltd.) are RMB 2 million as at 31 December 2016 (31 December 2015: RMB 2 million). Minority interest in Sino Legend (Hong Kong) Limited (a subsidiary of Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.) is RMB 1 million as at 31 December 2016 (31 December 2015: RMB 1 million).

(b) Investment in associate

	Type	Place of registration	Registered capital	Shareholding/ voting rights (%)
Tianjin International Machinery Co., Ltd.	Limited company	Tianjin	120,000	27.50%

Tianjin International Machinery Co., Ltd. ("International Machinery") is a Sino-foreign joint venture registered in the Tianjin Economics Development Area. The businesses of International Machinery include research and development, production and sale of valve and actuating device, heater exchanger and the whole set, environment protection equipment, and general mechanical equipment.

The movements of the Group's investment in International Machinery are as follows:

	Initial investment cost	31 December 2015	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	31 December 2016	Provision for impairment at the end of the year
International Machinery	33,000	25,998	(3,640)	—	(22,358)	—	(22,358)

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(b) Investment in associate (Continued)

The Group provided full provision of impairment of RMB 22 million for long-term equity investment in International Machinery year 2016.

Summarised financial information for an insignificant associate:

	International Machinery	
	2016	2015
Carrying amount of an investment	—	25,998
The following items in proportion		
Net profit (note (i))	(3,640)	(5,349)
Other comprehensive income (note (i))	—	—
Total comprehensive income	<u>(3,640)</u>	<u>(5,349)</u>

- (i) The net profit and other comprehensive income have taken into account the impacts of both the fair value of the identifiable assets and liabilities upon the acquisition of investment in associate and the unification of accounting policies adopted by the associate to those adopted by the Company.

(c) Provision for impairment of long-term equity investments

	Group			
	31 December 2015	Additions	Disposals	31 December 2016
International Machinery	—	22,358	—	22,358
	<u>—</u>	<u>22,358</u>	<u>—</u>	<u>22,358</u>
	Company			
	31 December 2015	Additions	Disposals	31 December 2016
Tianjin Capital New Materials Co., Ltd.	26,500	—	—	26,500
Anguo Capital Water Co., Ltd.	41,000	—	—	41,000
Tianjin Jinning Capital Water Co., Ltd.	15,000	—	—	15,000
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	—	50,281	—	50,281
	<u>82,500</u>	<u>50,281</u>	<u>—</u>	<u>132,781</u>

12. Financial statements prepared in accordance with PRC Accounting
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(d) Investment income

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Investment income from long-term equity investments under equity method	(3,640)	(5,349)	—	—
Investment income from long-term equity investments under cost method	—	—	92,185	8,713
Investment income from disposal of long-term equity investments	—	—	1,545	—
	<u>(3,640)</u>	<u>(5,349)</u>	<u>93,730</u>	<u>8,713</u>

(10) Investment properties

Buildings	Group	Company
Cost		
1 January 2015, 31 December 2015 and 31 December 2016	<u>137,374</u>	<u>110,648</u>
Accumulated depreciation		
1 January 2015	(32,438)	(28,494)
Charge for the year	<u>(3,673)</u>	<u>(3,168)</u>
31 December 2015	(36,111)	(31,662)
Charge for the year	<u>(3,673)</u>	<u>(3,168)</u>
31 December 2016	<u>(39,784)</u>	<u>(34,830)</u>
Net book value		
31 December 2016	<u>97,590</u>	<u>75,818</u>
31 December 2015	<u>101,263</u>	<u>78,986</u>

The Group's investment properties mainly represent the apportioned cost of its office building of the Company and property of Tianjin Water Recycling Co., Ltd. located in Tianjin held for long-term rental. Based on the management's assessment, the fair value of leased office building of the Company at 31 December 2016 was approximately RMB 260 million (2015: RMB 158 million) and its carrying amount was approximately RMB 76 million. The fair value of leased property of Tianjin Water Recycling Co., Ltd. at 31 December 2016 was approximately RMB 70 million (2015: RMB 52 million) and its carrying amount was approximately RMB 22 million.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(11) Fixed Assets and Construction in Progress

(a) Group

	Buildings and structures (note (i))	Machinery and equipment	Motor vehicles & others	Total
Cost –				
1 January 2015	289,632	308,768	64,967	663,367
Transfers from construction in progress	—	7,040	—	7,040
Other additions in the current year	—	4,228	1,633	5,861
Adjustment for estimated carrying amounts	(8,773)	—	—	(8,773)
Disposals in the current year	—	(27)	(1,009)	(1,036)
31 December 2015	280,859	320,009	65,591	666,459
Transfers from construction in progress (Note 4(11) (c))	—	—	231	231
Other additions in the current year	—	1,377	1,560	2,937
Disposals in the current year	—	(2,275)	(877)	(3,152)
31 December 2016	280,859	319,111	66,505	666,475
Accumulated depreciation –				
1 January 2015	(40,991)	(85,619)	(48,229)	(174,839)
Charge for the year (note (ii))	(12,506)	(25,389)	(3,160)	(41,055)
Decrease in the current year	—	27	918	945
31 December 2015	(53,497)	(110,981)	(50,471)	(214,949)
Charge for the year (note (ii))	(18,647)	(19,651)	(2,124)	(40,422)
Disposals in the current year	—	1,608	774	2,382
31 December 2016	(72,144)	(129,024)	(51,821)	(252,989)
Net book value –				
31 December 2016	208,715	190,087	14,684	413,486
31 December 2015	227,362	209,028	15,120	451,510

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(11) Fixed Assets and Construction in Progress (Continued)

(a) Group (Continued)

- (i) All of the Group's buildings and structures are located in the PRC.
- (ii) The Group's depreciation expenses of RMB 36 million (2015: RMB 37 million) have been included in cost of sales and RMB 4 million (2015: RMB 4 million) in general and administrative expenses and selling and distribution expenses.

As at 31 December 2016, the certificate of title to outsourced assets included in fixed assets, land use rights and investment properties with cost of RMB 175 million and carrying amount of RMB 123 million (31 December 2015: cost of RMB 175 million and carrying amount of RMB 127 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, management believes that the titles will be received in due course without any legal barrier or additional significant cost to the Group.

(b) Company

	Buildings	Machinery and equipment	Motor vehicles & others	Total
Cost –				
1 January 2015	79,867	128,382	30,290	238,539
Other additions in the current year	—	54	331	385
Disposals in the current year	—	(27)	(836)	(863)
31 December 2015	79,867	128,409	29,785	238,061
Transfers from construction in progress	—	—	31	31
Other additions in the current year	—	430	247	677
Disposals in the current year	—	(1,549)	(404)	(1,953)
31 December 2016	79,867	127,290	29,659	236,816
Accumulated depreciation –				
1 January 2015	(16,817)	(40,376)	(23,466)	(80,659)
Charge for the year	(3,652)	(11,784)	(1,362)	(16,798)
Disposals in the current year	—	27	793	820
31 December 2015	(20,469)	(52,133)	(24,035)	(96,637)
Charge for the year	(3,652)	(11,770)	(1,095)	(16,517)
Disposals in the current year	—	1,309	403	1,712
31 December 2016	(24,121)	(62,594)	(24,727)	(111,442)
Net book value –				
31 December 2016	55,746	64,696	4,932	125,374
31 December 2015	59,398	76,276	5,750	141,424

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(11) Fixed Assets and Construction in Progress (Continued)

(c) Movement of significant projects of construction in progress

Name	Budgeted amount	31 December 2015	Increase in the current year	Transfer to fixed assets	Transfer to Intangible assets	31 December 2016	Proportion of expenditures incurred to budgeted amount	Progress	Borrowing costs Capitalized amount	Including: borrowing costs capitalized in current year	Capitalisation rate	Source of funds
Jinggu sewage water processing plant expanding and standard upgrading project	835,590	—	5,017	—	(5,017)	—	1%	1%	—	—	—	Self-raised
Beichen sewage water processing plant expanding and standard upgrading project	462,880	—	2,956	—	(2,956)	—	1%	1%	—	—	—	Self-raised
Others	—	—	31	(31)	—	—	—	—	—	—	—	Self-raised
Total - Company	—	—	8,004	(31)	(7,973)	—	—	—	—	—	—	Self-raised
Hangzhou												
– Qiye sewage water processing plant standard upgrading project	310,000	—	209,355	—	(209,355)	—	91%	100%	735	735	4.90%	Self-raised/ special borrowings
Xi'an												
– Dengjiacun plant and Beishiqiao plant upgrading project	181,620	—	7,758	—	(7,758)	—	98%	100%	—	—	—	Self-raised
Tianjin												
– Jiayuanxing Innovative Energy Technology Co., Ltd. Heiniucheng Roads energy station project	247,270	—	29,054	—	(29,054)	—	12%	12%	—	—	—	Self-raised
Others	—	2,943	17,085	(200)	(15,432)	4,396	—	—	—	—	—	Self-raised
Total - Group	—	2,943	271,256	(231)	(269,572)	4,396	—	—	735	735	—	—

12. Financial statements prepared in accordance with PRC Accounting
Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(12) Intangible Assets

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Concession rights (note (a))	6,213,445	6,238,611	3,377,365	3,494,736
Land use rights (note (b))	14,986	15,426	11,067	11,394
Technical know-how and computer software (note (c))	5,556	6,139	4,894	5,410
	<u>6,233,987</u>	<u>6,260,176</u>	<u>3,393,326</u>	<u>3,511,540</u>

(a) The movements of concession rights are as follows:

	Group	Company
Cost		
1 January 2015	7,204,909	3,722,093
Transfers from construction in progress	228,030	—
Increase in the current year	987	—
31 December 2015	<u>7,433,926</u>	<u>3,722,093</u>
Transfers from construction in progress (Note 4(11) (c))	269,572	7,973\
31 December 2016	<u>7,703,498</u>	<u>3,730,066</u>
Accumulated amortisation		
1 January 2015	(888,398)	(90,788)
Charge for the year	(271,629)	(136,569)
31 December 2015	<u>(1,160,027)</u>	<u>(227,357)</u>
Charge for the year	(277,943)	(125,344)
31 December 2016	<u>(1,437,970)</u>	<u>(352,701)</u>
Provision for impairment		
31 December 2015	(35,288)	—
Charge for the year (Note 4(28))	(16,795)	—
31 December 2016	<u>(52,083)</u>	<u>—</u>
Net book value		
31 December 2016	<u>6,213,445</u>	<u>3,377,365</u>
31 December 2015	<u>6,238,611</u>	<u>3,494,736</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(12) Intangible Assets (Continued)

(a) The movements of concession rights are as follows: (Continued)

(i) As at 31 December 2016, certain of concession rights with net book value of RMB 191 million (Cost: RMB 302 million) (31 December 2015: cost of RMB 302 million, net book value of RMB 201 million) have been secured against long-term borrowings of RMB 50 million (31 December 2015: RMB 75 million) (Note 4(16) (a)).

(ii) The remaining amortization period of concession rights range from 12 to 30 years.

(b) The movements of land use rights are as follows:

	Group	Company
Cost		
1 January 2015, 31 December 2015 and 31 December 2016	17,841	13,088
Accumulated amortisation		
1 January 2015	(1,975)	(1,367)
Charge for the year	(440)	(327)
31 December 2015	(2,415)	(1,694)
Charge for the year	(440)	(327)
31 December 2016	(2,855)	(2,021)
Net book value		
31 December 2016	14,986	11,067
31 December 2015	15,426	11,394

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(12) Intangible Assets (Continued)

(c) The movements of technical know-how and software are as follows:

	Group	Company
Cost		
1 January 2015	11,321	10,291
Increase in the current year	141	—
31 December 2015	11,462	10,291
Increase in the current year	56	—
31 December 2016	11,518	10,291
Accumulated amortisation		
1 January 2015	(4,725)	(4,381)
Charge for the year	(598)	(500)
31 December 2015	(5,323)	(4,881)
Charge for the year	(639)	(516)
31 December 2016	(5,962)	(5,397)
Net book value		
31 December 2016	5,556	4,894
31 December 2015	6,139	5,410

In 2016, the amounts of amortization charged to cost of sales and general and administrative expenses were RMB 278 million (2015: RMB 272 million) and RMB 1 million (2015: RMB1 million), respectively.

(13) Provision for Asset Impairment

Group	31 December 2015	Increase in the current year	31 December 2016
Provision for bad debts (note (i))	9,499	12,904	22,403
Provision for impairment of intangible assets (note (i))	35,288	16,795	52,083
Provision for impairment of other current assets (note (i))	29,205	—	29,205
Provision for impairment of long-term equity investments (note (i))	—	22,358	22,358
	73,992	52,057	126,049

(i) In 2016, the provisions for bad debts and for impairment of trade receivable, intangible assets, other current assets, and long-term equity investments have been provided by the Group, see Note 4(28).

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(14) Trade Payables, Advances from Customers, Other Payables, Taxes Payable and Dividends Payable

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Trade payables (note (a))	107,239	82,599	20,089	26,193
Advances from customers (note (b))	955,507	874,880	5,994	7,666
Other payables (note (c))	408,111	475,812	751,895	941,483
Taxes payable (note (d))	69,080	96,387	38,154	71,522
Dividends payable (note (e))	1,438	32,426	1,438	32,426
	<u>1,541,375</u>	<u>1,562,104</u>	<u>817,570</u>	<u>1,079,290</u>

- (a) As at 31 December 2016, trade payables are mainly for inventory purchase. Trade payables aged over one year are RMB 12 million (31 December 2015: RMB 1 million), mainly representing payables for source water from the subsidiary Qujing Capital Water Co., Ltd. Since such amount has not been received from Qujing City Water General Company, it has not been finally settled.

As at 31 December 2016, there were no trade payables from any of the shareholders of the Company who hold 5% or more of voting rights (31 December 2015: Nil). And there were no trade payables from any of the related parties of the Group (31 December 2015: Nil).

- (b) Advances from customers:

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
For pipeline connection service	941,081	858,647	—	—
For heating service	3,069	6,720	—	—
Received from project of Han Gu	4,467	5,267	4,467	5,267
Others	6,890	4,246	1,527	2,399
	<u>955,507</u>	<u>874,880</u>	<u>5,994</u>	<u>7,666</u>

As at 31 December 2016, advances from customers aged over one year are RMB 723 million (31 December 2015: RMB 625 million), which mainly represent advances in relation to the project of pipeline connection service. The balance is yet to be settled as the project has not been completed.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(14) Trade Payables, Advances from Customers, Other Payables, Taxes Payable and Dividends Payable (Continued)

(b) Advances from customers (continued):

As at 31 December 2016, there were no advances from customers from any of the shareholders of the Company who hold 5% or more of voting rights (31 December 2015: Nil). And there were no advances from customers from any of the related parties of the Group (31 December 2015: Nil).

(c) Other payables comprise:

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Construction costs payable	300,161	307,810	136,100	170,639
Payable for purchase of fixed assets and concession rights	13,892	13,892	—	—
Interests payable for debentures payable (Note 4(16) (b))	26,575	28,098	26,575	28,098
Payables to subsidiaries	—	—	575,365	666,406
Others	67,483	126,012	13,855	76,340
	<u>408,111</u>	<u>475,812</u>	<u>751,895</u>	<u>941,483</u>

As at 31 December 2016, other payables of RMB 123 million (31 December 2015: RMB 205 million) are aged over one year, which mainly represent construction costs payable for Jingu Sewage Water Processing Plant and Water Recycling Plant. The balance is yet to be settled as the projects have not been completed.

As at 31 December 2016, there were no other payables from any of the shareholders of the Company who hold 5% or more of voting rights (31 December 2015: Nil). And there were no other payables from any of the related parties of the Group (31 December 2015: Nil).

(d) Balances of taxes payable

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Enterprise income tax payable/(prepaid)	42,589	2,237	31,304	(4,523)
Unpaid VAT	22,011	78,493	4,858	63,981
Business tax payable	—	3,783	—	2,687
Others	4,480	11,874	1,992	9,377
	<u>69,080</u>	<u>96,387</u>	<u>38,154</u>	<u>71,522</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(14) Trade Payables, Advances from Customers, Other Payables, Taxes Payable and Dividends Payable (Continued)

(e) Dividends payable

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Ordinary share dividends payable	1,438	32,426	1,438	32,426

(15) Employee Benefits Payable

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Short-term employee benefits payable (note (a))	34,269	21,682	22,920	12,667
Defined contribution plans payable (note (b))	142	127	—	—
	<u>34,411</u>	<u>21,809</u>	<u>22,920</u>	<u>12,667</u>

(a) Short-term employee benefits payable

	31 December 2015	Group		31 December 2016
		Increase in the current year	Decrease in the current year	
Wages and salaries, bonuses, allowances and subsidies	15,184	160,228	(148,243)	27,169
Staff welfare	—	9,197	(9,197)	—
Social security contributions	65	13,971	(13,926)	110
Including: Medical insurance	59	12,880	(12,838)	101
Work injury insurance	1	491	(491)	1
Maternity insurance	5	600	(597)	8
Housing funds	277	29,591	(29,567)	301
Labour union funds and employee education funds	6,156	4,694	(4,161)	6,689
Others	—	468	(468)	—
	<u>21,682</u>	<u>218,149</u>	<u>(205,562)</u>	<u>34,269</u>

As at 31 December 2016, no defaulted payables are included in the balance of employee benefits payable and the balance is estimated to be used up in 2017.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(15) Employee Benefits Payable (Continued)

(b) Defined contribution plans payable

Group	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Basic pensions	118	29,530	(29,516)	132
Unemployment insurance	9	1,218	(1,217)	10
	<u>127</u>	<u>30,748</u>	<u>(30,733)</u>	<u>142</u>

(c) Directors' emoluments

The remuneration of every director for the year ended 31 December 2016 is set out below:

	Fees	Salaries and other emoluments	Total
Executive directors:			
Liu Yujun	—	832	832
Lin Wenbo (note (i))	—	869	869
Fu Yana	—	720	720
Peng Yilin (note (ii))	—	527	527
Cao Shuo (note (iii))	—	153	153
Non-executive directors:			
Gao Zongze	220	—	220
Wang Xiangfei	220	—	220
Guo Yongqing	220	—	220
	<u>660</u>	<u>3,101</u>	<u>3,761</u>

- (i) In 2016, Lin Wenbo served as the general manager and executive director of the Company. On 25 January 2017, as approved by the twenty-sixth meeting of the seventh board of directors, Lin Wenbo was no longer as the general manager of the Company since he achieved the legal retirement age and Tang Fusheng took place of him.
- (ii) On 16 March 2016, as approved by the first temporary general shareholders' meeting, Peng Yilin was selected as executive director of the Company.
- (iii) On 29 January 2016, as approved by the third meeting of the seventh board of directors, Cao Shuo was no longer as the executive director of the Company due to her personal reasons.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(15) Employee Benefits Payable (Continued)

(c) Directors' emoluments (Continued)

The remuneration of every director for the year ended 31 December 2015 is set out below:

	Fees	Salaries and other emoluments	Total
Executive directors:			
Liu Yujun (note (i))	—	526	526
Zhang Wenhui (note (i))	—	325	325
Lin Wenbo (note (ii))	—	851	851
Fu Yana	—	709	709
Cao Shuo (note (iii))	—	666	666
Non-executive directors:			
Li Jieying (note (iv))	212	—	212
Gao Zongze (note (iv))	220	—	220
Guan Yimin (note (iv))	212	—	212
Wang Xiangfei (note (iv))	8	—	8
Guo Yongqing (note (iv))	8	—	8
	<u>660</u>	<u>3,077</u>	<u>3,737</u>

- (i) On 23 January 2015, after the authorization of the twenty-sixth meeting of the sixth board of directors, Zhang Wenhui was no longer the chairman of the Company since he achieved the legal retirement age. On 13 March 2015, after the authorization of the first temporary general shareholders' meeting, Liu Yujun took the place of chairman.
- (ii) In 2015, Lin Wenbo served as the chairman and executive director of the Company.
- (iii) On 13 March 2015, after the authorization of the first temporary general shareholders' meeting in 2015, Cao Shuo took the place of executive director of the Company.
- (iv) On 17 December 2015, after the authorization of the second temporary general shareholders' meeting in 2015, Gao Zongze, Wang Xiangfei and Guo Yongqing took places of non-executive directors. Li Jieying and Guan Yimin were no longer the non-executive directors of the Company.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Long-Term Borrowings, Debentures Payable, Long-Term Payables and Other Liabilities

	Note	Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Non-current:					
Long-term borrowings	(a)	696,828	856,536	—	—
Less: Current portion due within one year	(a)	(186,400)	(282,350)	—	—
		<u>510,428</u>	<u>574,186</u>	<u>—</u>	<u>—</u>
Debentures payable	(b)	1,394,313	1,393,175	1,394,313	1,393,175
Less: Current portion due within one year	(b)	—	(698,250)	—	(698,250)
		<u>1,394,313</u>	<u>694,925</u>	<u>1,394,313</u>	<u>694,925</u>
Long-term payables	(c)	311,135	292,993	311,135	292,993
Less: Current portion due within one year	(c)	(25,927)	(23,216)	(25,927)	(23,216)
		<u>285,208</u>	<u>269,777</u>	<u>285,208</u>	<u>269,777</u>
Other non-current liabilities	(d)	<u>43,364</u>	<u>48,638</u>	<u>210,000</u>	<u>—</u>
Current:					
Current portion of long-term borrowings	(a)	186,400	282,350	—	—
Current portion of debentures payable	(b)	—	698,250	—	698,250
Current portion of long-term payables	(c)	25,927	23,216	25,927	23,216
		<u>212,327</u>	<u>1,003,816</u>	<u>25,927</u>	<u>721,466</u>
Other current liabilities	(d)	<u>9,645</u>	<u>3,810</u>	<u>86,463</u>	<u>—</u>

(a) Long-term borrowings

The long-term borrowings are summarized by the bank names as below:

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Borrowings from:				
China Construction Bank (“CCB”)	250,000	300,000	—	—
China Minsheng Bank (“CMBC”)	144,900	99,000	—	—
Industrial and Commercial Bank of China (“ICBC”)	134,078	237,236	—	—
China Development Bank (“CDB”)	78,600	109,900	—	—
Industrial Bank (“CIB”)	40,250	45,000	—	—
Agriculture Bank of China (“ABC”)	39,000	50,400	—	—
Bank of China (“BOC”)	10,000	15,000	—	—
	<u>696,828</u>	<u>856,536</u>	<u>—</u>	<u>—</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Long-Term Borrowings, Debentures Payable, Long-Term Payables and Other Liabilities (Continued)

(a) Long-term borrowings (Continued)

Summary of current portion of long-term borrowings by terms:

	Note	Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Pledged	(i)	25,000	25,000	—	—
Guaranteed	(iii)	26,000	25,000	—	—
Unsecured		135,400	232,350	—	—
		<u>186,400</u>	<u>282,350</u>	<u>—</u>	<u>—</u>

Summary of non-current portion of long-term borrowings by terms:

	Note	Group		Company	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Pledged	(ii)	25,000	50,000	—	—
Guaranteed	(iv)	174,000	200,000	—	—
Unsecured		311,428	324,186	—	—
		<u>510,428</u>	<u>574,186</u>	<u>—</u>	<u>—</u>

- (i) As at 31 December 2016, the current portion of bank borrowings of RMB 25 million (31 December 2015: RMB 25 million) is secured by the concession rights (Note 4(12) (a)).
- (ii) As at 31 December 2016, the non-current portion of bank borrowings of RMB 25 million (31 December 2015: RMB 50 million) is secured by the concession rights (Note 4(12) (a)).
- (iii) As at 31 December 2016, the current portion of bank borrowings of RMB 26 million (2015: RMB 25 million) is guaranteed by City Infrastructure Construction and Investment for the subsidiary of the Company Xi'an Capital Water Co., Ltd. (Note 7(5) (b)).
- (iv) As at 31 December 2016, the non-current portion of bank borrowings of RMB 174 million (2015: RMB 200 million) is guaranteed by City Infrastructure Construction and Investment for the subsidiary of the Company Xi'an Capital Water Co., Ltd. (Note 7(5) (b)).
- (v) As at 31 December 2016, these long-term borrowings bear interest rates between 4.275% and 5.460% in 2016 (2015: between 4.410% and 6.150%).

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Long-Term Borrowings, Debentures Payable, Long-Term Payables and Other Liabilities (Continued)

(a) Long-term borrowings (Continued)

(vi) Borrowings were repayable as follows:

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Within 1 year	186,400	282,350	—	—
1 to 2 years	131,053	235,650	—	—
2 to 5 years	287,975	245,536	—	—
Over 5 years	91,400	93,000	—	—
	<u>696,828</u>	<u>856,536</u>	<u>—</u>	<u>—</u>

(vii) Top five of current portion of long-term borrowings at 31 December 2016 is analyzed as follows:

	Grant date	Maturity date	Currency	Interest rate (%)	Group
ICBC	2012-06-29	2017-07-15	RMB	4.41%	40,000
CMBC	2014-09-25	2017-11-19	RMB	4.28%	36,000
CCB	2008-09-28	2017-09-27	RMB	4.66%	26,000
CCB	2006-05-26	2017-05-25	RMB	4.90%	25,000
CMBC	2016-06-17	2017-06-17	RMB	4.28%	16,800
					<u>143,800</u>

(viii) The five of non-current portion of long-term borrowings at 31 December 2016 is analyzed as follows:

	Grant date	Maturity date	Currency	Interest rate (%)	Group
CCB	2008-09-28	2022-09-27	RMB	4.66%	174,000
CMBC	2016-06-17	2021-06-17	RMB	4.28%	66,600
ICBC	2016-04-01	2026-03-29	RMB	4.90%	51,000
CDB	2009-12-10	2022-12-09	RMB	4.90%	34,000
CCB	2006-05-26	2018-05-26	RMB	4.90%	25,000
					<u>350,600</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Long-Term Borrowings, Debentures Payable, Long-Term Payables and Other Liabilities (Continued)

(a) Long-term borrowings (Continued)

- (ix) The exposure of the Group's borrowings to interest rate changes and the contractual reporting dates are as follows:

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
6 months or less	—	—	—	—
6 to 12 months	696,828	856,536	—	—
Total	<u>696,828</u>	<u>856,536</u>	<u>—</u>	<u>—</u>

- (x) As at 31 December 2016, the Group has the following committed undrawn banking facilities:

	Group and Company	
	31 December 2016	31 December 2015
Floating rate expiring within 1 year	1,900,000	1,250,000
Floating rate expiring over 1 year	1,879,800	265,000
	<u>3,779,800</u>	<u>1,515,000</u>

(b) Debentures payable

	31 December 2015	Bond payable due within 1 year	Increase in the current year	Payment/ Amortization	31 December 2016
Debentures payable					
– Par value	700,000	700,000	700,000	(700,000)	1,400,000
– Transaction cost	(5,075)	(1,750)	(2,800)	3,938	(5,687)
	<u>694,925</u>	<u>698,259</u>	<u>697,200</u>	<u>(696,062)</u>	<u>1,394,313</u>

General information of debentures payable are as follows:

	Book value	Issuance date	Maturity	Issuance amount
Corporate Debenture I (note (i))	700,000	2011-11-16	5	700,000
Corporate Debenture II (note (ii))	700,000	2013-05-29	5	700,000
Corporate Debenture III (note (iii))	700,000	2016-10-25	5	700,000

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Long-Term Borrowings, Debentures Payable, Long-Term Payables and Other Liabilities (Continued)

(b) Debentures payable (Continued)

Interests payable of debentures are analyzed as follows:

	31 December 2015	Interest accrued		31 December 2016
		Interest accrued in the current year	Interest paid in the current year	
Corporate Debenture I (note (i))	7,747	38,733	(46,480)	—
Corporate Debenture II (note (ii))	20,351	40,353	(38,150)	22,554
Corporate Debenture III (note (iii))	—	4,021	—	4,021
	<u>28,098</u>	<u>83,107</u>	<u>(84,630)</u>	<u>26,575</u>

- (i) On 16 November 2011, the Company issued debentures at par value of RMB 700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The debenture matures five years from the issue date, and bears fixed interest rate at 6.64% per annum. The principal shall be repaid on maturity. The debenture was due and repaid on 15 November 2016.
- (ii) On 29 May 2013, the Company issued debentures at par value of RMB 700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The debenture matures five years from the issue date, and bears fixed interest rate at 5.45% per annum. The principal will be repaid on maturity.
- (iii) On 25 October 2016, the Company issued corporate debentures at par value of RMB 700 million. The debenture matures five years from the issue date, and bears fixed interest rate at 3.13% per annum. The principal will be repaid on maturity.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Long-Term Borrowings, Debentures Payable, Long-Term Payables and Other Liabilities (Continued)

(c) Long-term payables

	Group and Company					
	31 December 2016			31 December 2015		
Payable for assets acquisition	Payables	Unrecognized financial charges	Total	Payables	Unrecognized financial charges	Total
	<u>507,827</u>	<u>(196,692)</u>	<u>311,135</u>	<u>488,779</u>	<u>(195,786)</u>	<u>292,993</u>

(i) Information of long-term payables is as follows:

	Maturity date	Original balance	Effective interest rate	Total	Current portion	Ending balance
Tianjin Sewage Company ("Sewage Company")	20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>311,135</u>	<u>25,927</u>	<u>285,208</u>

As at 31 December 2016, long-term payable to Sewage Company is the consideration payable in respect of the acquisition of sewage water processing assets from Sewage Company, net of unrecognized financing charges.

Pursuant to Assets Transfer Agreement From Foreign Banks Loans About Haihe River Tianjin Sewage Processing Project and Beicang Sewage Processing Project (the "Transfer Agreement"), Sewage Company sold to the Company the certain sewage processing assets. The down payment is RMB 261 million, and remaining payments will be settled in RMB translated at exchange rates prevailing on each repayment date over the remaining years. The fair value of the initial recognition of the payable balance was at fair value assessed based on discounted future cash payments and discount rate of 5.94%.

(ii) The balance of long-term payable are denominated in the following currencies:

	Group and Company	
	31 December 2016	31 December 2015
JPY	<u>209,411</u>	194,989
USD	<u>101,724</u>	<u>98,004</u>
	<u>311,135</u>	<u>292,993</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Long-Term Borrowings, Debentures Payable, Long-Term Payables and Other Liabilities (Continued)

(c) Long-term payables (Continued)

(iii) The amounts of long-term payables (including interest) are denominated in the following currencies:

	Group and Company	
	31 December 2016	31 December 2015
JPY	373,437	353,791
USD	134,390	134,988
	507,827	488,779

The balance denominated in USD bears an interest rate at 6-month LIBOR plus 0.6%, whilst the balance denominated in JPY bears fixed interest rates at 1% and 1.55% per annum respectively.

(iv) The long-term payables mature as follows. As at 31 December 2016, the current portion of long-term payables of RMB 26 million (31 December 2015: RMB 23 million) was classified as current liabilities.

	Group and Company	
	31 December 2016	31 December 2015
Within 1 year	25,927	23,216
1-2 years	25,070	22,414
2-5 years	70,901	63,177
Over 5 years	189,237	184,186
	311,135	292,993

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) Long-Term Borrowings, Debentures Payable, Long-Term Payables and Other Liabilities (Continued)

(d) Other liabilities

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Non-current:				
– Cooling service fee	42,000	44,000	—	—
– Government loan for water recycling plants construction (note (i))	1,364	4,545	—	—
– Payables to subsidiaries	—	—	210,000	—
– Others	—	93	—	—
	<u>43,364</u>	<u>48,638</u>	<u>210,000</u>	<u>—</u>
Current:				
– Provisions expected to be paid within one year (Note 4(17))	6,463	—	6,463	—
– Current portion of government loan for water recycling plants construction (note (i))	3,182	3,182	—	—
– Payables to subsidiaries	—	—	80,000	—
– Others	—	628	—	—
	<u>9,645</u>	<u>3,810</u>	<u>86,463</u>	<u>—</u>

- (i) A loan was taken from Tianjin Municipal Bureau by Tianjin Recycled Water Co., Ltd., a subsidiary of the Company in 2003 for the purpose of the construction of water recycling plants. The loan is repayable by equal amount instalments over eleven years from 2007. The current portion of the loan is RMB 3 million at the end of 2016 (2015: RMB 3 million), and has been reclassified as other current liabilities. The interest rate of this loan is one-year deposit rate in RMB plus 0.3% per annum.

(17) Provisions

Group & Company	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Maintenance cost of sewage water processing plants	31,926	7,790	(323)	39,393
Less: Provisions expected to be paid within one year	<u>(31,926)</u>	—	25,463	<u>(6,463)</u>
	<u>—</u>			<u>32,930</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(18) Deferred Income

Deferred revenue represents the subsidies received from governmental authorities with respects to Group's certain construction and research and development projects. Details of deferred revenue are as below:

	31 December 2015	Increase in the current year	Recognized in non-operating income	31 December 2016	Related to assets/incomes
Sewage water processing plants					
– Xianyang Road upgrading project	66,168	—	(2,363)	63,805	Assets
– Water pollution govern and control project	4,187	2,702	(230)	6,659	Incomes
– Dongjiao upgrading project	46,430	—	(1,658)	44,772	Assets
– Jingu sewage water processing plant Standard upgrading project	744,683	—	(27,377)	717,306	Assets
– Jingu sewage water processing plant standard upgrading project	—	163,000	—	163,000	Assets
– Beichen sewage water processing plant standard upgrading project	—	90,000	—	90,000	Assets
Water recycling plants					
– Dongjiao water recycling project	23,106	—	(675)	22,431	Assets
– Beichen water recycling project	19,687	—	(525)	19,162	Assets
Others	937	976	(35)	1,878	Incomes
Total - Company	905,198	256,678	(32,863)	1,129,013	
Heating and cooling supply project	91,639	45,950	(4,308)	133,281	Assets
Water recycling plants					
– Xianyang Road water recycling project	14,109	—	(441)	13,668	Assets
– Jingu water recycling project	118,297	42,000	(3,669)	156,628	Assets
Sewage water processing plants					
– Beishiqiao plant upgrading project	12,810	—	(1,018)	11,792	Assets
Others	3,621	29	(1,061)	2,589	Incomes
Total - Group	1,145,674	344,657	(43,360)	1,446,971	

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(19) Deferred Tax Assets and Deferred Tax Liabilities

(a) *Deferred income tax assets*

- (i) Deductible temporary differences and deductible losses that are not recognized as deferred tax assets are analyzed as follows:

	31 December 2016	31 December 2015
Deductible temporary difference - provision for asset impairment (Note 4(13))	126,049	73,992
Maintenance cost of sewage water processing plants (Note 4(17))	39,393	31,926
Deductible losses	57,999	77,351
	<u>223,441</u>	<u>183,269</u>

- (ii) Deductible losses that are not recognized as deferred tax assets will expire in the follows:

Year	31 December 2016	31 December 2015
2016	—	24,476
2017	18,204	18,204
2018	10,372	10,372
2019	18,056	18,056
2020	6,243	6,243
2021	5,124	—
	<u>57,999</u>	<u>77,351</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(19) Deferred Tax Assets and Deferred Tax Liabilities (Continued)

(b) *Deferred income tax liabilities*

	Group			
	31 December 2016		31 December 2015	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>126,108</u>	<u>504,432</u>	<u>105,810</u>	<u>423,240</u>
Including:				
Expected to be recovered within one year (inclusive)	—		—	
Expected to be recovered after one year	<u>126,108</u>		<u>105,810</u>	
	Company			
	31 December 2016		31 December 2015	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>54,224</u>	<u>216,896</u>	<u>46,104</u>	<u>184,416</u>
Including:				
Expected to be recovered within one year (inclusive)	—		—	
Expected to be recovered after one year	<u>54,224</u>		<u>46,104</u>	

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(20) Share Capital

Movement of the Company's authorized, issued and fully paid up capital is set out below. All of the Company's shares are ordinary shares with par value of RMB 1.

	Circulating A shares	Circulating H shares	Total
At 31 December 2015 and 31 December 2016	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>

All the A-shares and H-shares rank pari passu in all respects.

(21) Capital Surplus, Surplus Reserve and Undistributed Profits

(a) Capital surplus

Group	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Share premium	382,311	—	—	382,311
A subsidiary recognized as a stock limited company (Note 4(21) (c))	—	16,804	—	16,804
	<u>382,311</u>	<u>16,804</u>	<u>—</u>	<u>399,115</u>
Group	31 December 2014	Increase in the current year	Decrease in the current year	31 December 2015
Share premium	382,311	—	—	382,311
Company	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Share premium	380,788	—	—	380,788
Company	31 December 2014	Increase in the current year	Decrease in the current year	31 December 2015
Share premium	380,788	—	—	380,788

12. Financial statements prepared in accordance with PRC Accounting
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(21) Capital Surplus, Surplus Reserve and Undistributed Profits (Continued)

(b) Surplus reserve

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Group				
Statutory surplus reserve	414,376	30,549	—	444,925
	31 December 2014	Increase in the current year	Decrease in the current year	31 December 2015
Group				
Statutory surplus reserve	395,063	19,313	—	414,376
	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Company				
Statutory surplus reserve	414,376	30,549	—	444,925
	31 December 2014	Increase in the current year	Decrease in the current year	31 December 2015
Company				
Statutory surplus reserve	395,063	19,313	—	414,376

Pursuant to the PRC Companies Law and the Company's Articles of Association, the Company is required to appropriate 10% of its net profit for the year to the statutory surplus reserve, which can be ceased till the reserve reaches 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the paid in capital after approval from the appropriate authorities.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(21) Capital Surplus, Surplus Reserve and Undistributed Profits (Continued)

(c) Undistributed profits

	2016		Group		2015	
	Amount	Appropriation/ distribution ratio	Amount	Appropriation/ distribution ratio	Amount	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	2,177,200	—	1,965,882	—		
Add: Net profit attributable to owners of the parent for the current year	443,168	—	330,537	—		
Less: Appropriation for statutory surplus reserve	(30,549)	10%	(19,313)	10%		
Dividends distribution to shareholders (note (i))	(99,906)	—	(99,906)	—		
A subsidiary recognized as a stock limited company (note (ii))	(16,804)	—	—	—		
Undistributed profits at the end of the year	<u>2,473,109</u>		<u>2,177,200</u>			

- (i) According to the resolution passed by the general shareholders' meeting dated 24 May 2016, dividends for the year ended 31 December 2015 (a total of 1,427,000,000 shares as at 17 July 2016 as the base) shall be distributed to shareholders in the form of every 10 shares with cash dividends of RMB 0.70 (gross tax), which amounted to RMB 0.1 billion approximately.

On 29 March 2017, the board of directors proposed a cash dividend of RMB 0.95 (gross tax) for every 10 shares to all shareholders on the basis of 1,427 million shares issued. Cash dividends to be distributed amounted to RMB 136 million. The capital reserve of 2016 will not be used to increase share capital. This proposed dividend is yet to be approved at the meeting of the shareholders. These financial statements do not reflect the dividends payable.

- (ii) The Company's subsidiary Kaiying Environmental Engineering Technology Consultant Co., Ltd. reorganized as a stock limited company. Net assets of RMB 37 million as at 31 August 2016 which is audited in accordance with the requirements of CAS, was converted into share capital of RMB 20 million and capital reserve of RMB 17 million, respectively.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2016
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) Minority Interests

Name	Minority interests ratio	Minority interests as at 31 December 2016	Minority interests in 2016	Declared distribution of cash dividends in 2016
Hangzhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")	30.00%	175,370	21,956	—
Qujing Capital Water Co., Ltd. ("Qujing Company")	13.44%	32,751	1,221	—
Others		51,319	1,561	2,410
		<u>259,440</u>	<u>24,738</u>	<u>2,410</u>

The major financial information of the significant non-wholly-owned subsidiaries of the Group is listed below:

Balance Sheet

	31 December 2016					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	205,659	853,169	1,058,828	135,253	339,010	474,263
Qujing Company	108,149	295,004	403,153	83,356	80,602	163,958
	<u>313,808</u>	<u>1,148,173</u>	<u>1,461,981</u>	<u>218,609</u>	<u>419,612</u>	<u>638,221</u>
	31 December 2015					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	128,623	686,510	815,133	183,911	119,844	303,755
Qujing Company	102,396	310,004	412,400	76,471	105,818	182,289
	<u>231,019</u>	<u>996,514</u>	<u>1,227,533</u>	<u>260,382</u>	<u>225,662</u>	<u>486,044</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) Minority Interests

Income Statement

	2016				Total comprehensive income
	Revenue	Total profit	Income tax expenses	Net profit	
Hangzhou Company	222,941	88,857	(15,670)	73,187	73,187
Qijing Company	101,437	14,718	(5,633)	9,085	9,085
	<u>324,378</u>	<u>103,575</u>	<u>(21,303)</u>	<u>82,272</u>	<u>82,272</u>
2015					
	Revenue	Total profit	Income tax expenses	Net profit	total comprehensive income
Hangzhou Company	165,978	47,888	(10,519)	37,369	37,369
Qijing Company	99,182	20,339	(5,513)	14,826	14,826
	<u>265,160</u>	<u>68,227</u>	<u>(16,032)</u>	<u>52,195</u>	<u>52,195</u>

Cash Flow Statement

	2016				Cash at the end of the year
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash at the beginning of the year	
Hangzhou Company	76,536	(126,900)	71,281	80,701	101,618
Qijing Company	33,846	(1,296)	(32,041)	7,413	7,922
	<u>110,382</u>	<u>(128,196)</u>	<u>39,240</u>	<u>88,114</u>	<u>109,540</u>
2015					
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash at the beginning of the year	Cash at the end of the year
Hangzhou Company	97,810	(98,867)	54,042	27,716	80,701
Qijing Company	34,045	(447)	(30,948)	4,763	7,413
	<u>131,855</u>	<u>(99,314)</u>	<u>23,094</u>	<u>32,479</u>	<u>88,114</u>

Information presented above is the amounts before inter-company netting off.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(23) Revenue and Cost of Sales

	Group			
	2016		2015	
	Revenue	Cost of sales	Revenue	Cost of sales
Revenue from principal operations	1,773,814	1,043,787	1,753,667	1,081,275
Revenue from other operations	184,852	106,225	180,539	120,669
	<u>1,958,666</u>	<u>1,150,012</u>	<u>1,934,206</u>	<u>1,201,944</u>

	Company			
	2016		2015	
	Revenue	Cost of sales	Revenue	Cost of sales
Revenue from principal operations	835,987	438,714	868,031	475,612
Revenue from other operations	122,996	67,367	126,062	80,828
	<u>958,983</u>	<u>506,081</u>	<u>994,093</u>	<u>556,440</u>

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	Group			
	2016		2015	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water and construction of related facility	1,362,882	793,482	1,292,019	784,166
Water recycling and connection project	188,616	133,404	185,401	126,934
Heating and cooling supply services	71,707	44,551	69,793	42,571
Sales of tap water	66,851	49,131	63,712	44,715
Sale of environmental protection equipment	15,946	12,063	46,733	42,724
Others	67,812	11,156	96,009	40,165
	<u>1,773,814</u>	<u>1,043,787</u>	<u>1,753,667</u>	<u>1,081,275</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(23) Revenue and Cost of Sales (Continued)

(a) Revenue from principal operations and cost of sales (Continued)

Analysis by locations is as follows:

	Group			
	2016		2015	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Tianjin	1,121,162	614,662	1,204,377	710,930
Hangzhou	222,473	134,888	163,825	100,287
Xi'an	127,791	84,529	94,598	74,083
Qijing	99,202	69,560	96,962	65,358
Others	203,186	140,148	193,905	130,617
	<u>1,773,814</u>	<u>1,043,787</u>	<u>1,753,667</u>	<u>1,081,275</u>

(b) Revenue from other operations and cost of sales

	Group			
	2016		2015	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	138,707	95,597	121,708	98,253
Technical service fee	36,099	4,403	38,577	8,076
Rental	6,953	4,884	11,098	5,705
Others	3,093	1,341	9,156	8,635
	<u>184,852</u>	<u>106,225</u>	<u>180,539</u>	<u>120,669</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(23) Revenue and Cost of Sales (Continued)

(c) As at 31 December 2016, revenue from the top five customers is analyzed as below:

Revenue from the Group's top 5 customers is RMB 1,282 million, which accounts for 65% of the Group's total revenue (2015: RMB 1,221 million and 63%). The details are as follows:

	Revenue	% of the Group's total revenue
TWAB (note (i))	769,319	39%
Hangzhou Sewage Company	222,209	11%
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd.	127,791	7%
Qijing City Water General Company	99,202	5%
Tianjin Municipal and Highway Management Bureau	63,877	3%
	<u>1,282,398</u>	<u>65%</u>

(i) In 2016, the Company's revenue mainly represented revenue from TWAB, which accounted for about 80% of the Company's total revenue. The rest is immaterial.

(24) Taxes and Surcharges

	Group		Company		Tax base
	2016	2015	2016	2015	
Business tax	5,135	16,486	2,300	8,942	5% of the taxable income
City maintenance and construction tax	14,981	9,268	7,716	5,105	7% of the business tax and VAT paid
Educational surcharge	25,554	7,535	14,915	4,375	3% or 2% of the business tax and VAT paid
	<u>45,670</u>	<u>33,289</u>	<u>24,931</u>	<u>18,422</u>	

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(25) Selling Expenses and Genral and Administrative Expenses

	Group			
	2016 General and administrative expenses	Selling expenses(i)	2015 General and administrative expenses	Selling expenses
Employee benefits	77,063	8,828	66,599	2,315
Consulting service fees	7,652	28	3,427	493
Repair and maintenance expenses	4,590	—	4,214	—
Travelling, meeting and business entertainment expenses	4,372	542	4,336	37
Audit fees	4,200	—	4,200	—
Expenses of secretary of the board	3,905	—	3,185	—
Depreciation of fixed assets	3,878	22	4,094	24
General office expenses	2,803	170	2,519	32
Power and gas fees	2,162	—	1,794	—
Other taxes	1,996	—	6,525	—
Amortisation of intangible assets	1,162	—	1,144	—
Others	2,698	374	3,329	265
	<u>116,481</u>	<u>9,964</u>	<u>105,366</u>	<u>3,166</u>

- (i) In 2016, selling expenses of RMB 10 million incurred for the Group, mainly representing the compensation for employees whose responsibilities are development of the market of deodorization equipment.

	Company	
	2016 General and administrative expenses	2015 General and administrative expenses
Employee benefits	49,886	40,509
Audit fees	4,200	4,200
Consulting service fees	4,141	3,007
Expenses of secretary of the board	3,905	3,148
Repair and maintenance expenses	2,914	2,371
Depreciation of fixed assets	1,911	2,116
Utilities	1,858	1,427
Travelling, meeting and business entertainment expenses	1,524	1,350
Other taxes	966	2,270
General office expenses	857	728
Amortisation of intangible assets	843	827
Others	686	651
	<u>73,691</u>	<u>62,604</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(26) The Cost of Sales, Selling Expenses, and General and Administrative Expenses in the Income Statement are Listed as Follows by Nature:

	Group		Company	
	2016	2015	2016	2015
Amortisation of intangible assets	279,022	272,667	126,187	137,396
Utilities	271,632	273,663	125,338	136,332
Employee benefits	248,897	243,403	117,865	99,870
Repair and maintenance expenses	98,268	107,192	43,649	58,331
Sewage mud processing expenses	76,914	62,767	58,409	53,246
Raw materials consumption	63,643	96,984	34,399	43,030
Recycled water pipeline connection cost	55,669	42,938	—	—
Depreciation of fixed assets and investment properties	44,095	44,728	19,685	19,966
Factory environment, detection and fire prevention fee	27,485	25,006	10,377	11,575
Consulting service fees	19,177	9,238	6,946	5,435
Network maintenance expenses	14,116	18,351	8,741	9,340
Travelling, meeting and business entertainment expenses	12,619	10,381	2,860	2,894
Construction cost of environmental equipments	7,706	29,749	2,920	2,568
Toll road management fee	7,120	7,120	7,120	7,120
General office expenses	5,722	5,070	1,578	1,652
Other taxes	4,766	18,542	2,134	10,998
Audit fees	4,200	4,200	4,200	4,200
Expenses of secretary of the board	3,905	3,185	3,905	3,148
Others	31,501	35,292	3,459	11,943
	<u>1,276,457</u>	<u>1,310,476</u>	<u>579,772</u>	<u>619,044</u>

(27) Financial Expenses - Net

	Group		Company	
	2016	2015	2016	2015
Interest expenses	146,959	197,420	106,431	135,621
Less: Amount capitalized on qualifying assets	(735)	—	—	—
Interest expenses	146,224	197,420	106,431	135,621
Less: Interest income	(23,457)	(26,853)	(34,510)	(37,792)
Including: From long-term receivables	(10,860)	(11,089)	(10,860)	(11,089)
From bank deposits	(12,597)	(15,764)	(5,912)	(8,950)
From entrusted loans	—	—	(17,738)	(17,753)
Exchange losses (note (a))	24,582	7,394	24,582	7,394
Others	4,317	4,894	3,963	4,435
	<u>151,666</u>	<u>182,855</u>	<u>100,466</u>	<u>109,658</u>

(a) For the year ended 31 December 2016, the exchange loss on the long-term payables denominated in JPY and US dollar were RMB25 million (2015: RMB7 million of the exchange loss).

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(28) Asset Impairment Losses

	Group		Company	
	2016	2015	2016	2015
Provision for impairment of intangible assets	16,795	18,278	—	—
Provision for impairment of other current assets	—	10,981	3,200	27,947
Provision for bad debts	12,904	2,330	—	—
Provisions for impairment of long-term equity investment	22,358	—	50,281	10,981
	<u>52,057</u>	<u>31,589</u>	<u>53,481</u>	<u>38,928</u>

(29) Non-Operating Income

	Group		Amount recognized in non-recurring profit or loss in 2016
	2016	2015	
Government Grants (note (a))	185,997	149,376	43,360
Gains on disposal of fixed assets	17	38	17
Others	8,298	5,065	8,298
	<u>194,312</u>	<u>154,479</u>	<u>51,675</u>

	Company		Amount recognized in non-recurring profit or loss in 2016
	2016	2015	
Government Grants (note (a))	110,168	110,424	32,863
Gains on disposal of fixed assets	1	—	1
Others	40	129	40
	<u>110,209</u>	<u>110,553</u>	<u>32,904</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(29) Non-Operating Income (Continued)

(a) Details of government grants

	Group		Related to assets/incomes
	2016	2015	
VAT refund	142,637	74,319	Incomes
Grant for sewage water processing plants (Note 4(18))	32,416	31,398	Assets
Grant for water recycling plants (Note 4(18))	5,310	4,556	Assets
Grant for heating and cooling supply project (Note 4(18))	4,308	4,308	Assets
Others (Note 4(18))	1,326	875	Incomes
Demolition allowance	—	33,920	Incomes
	<u>185,997</u>	<u>149,376</u>	
	Company		Related to assets/income
	2016	2015	
VAT refund	77,305	44,681	Incomes
Grant for sewage water processing plants (Note 4(18))	31,398	31,398	Assets
Grant for water recycling plants (Note 4(18))	1,200	1,200	Assets
Others (Note 4(18))	265	136	Incomes
Demolition allowance	—	33,009	Incomes
	<u>110,168</u>	<u>110,424</u>	

(30) Non-Operating Expenses

	Group		Amount recognized in non-recurring profit or loss in 2016
	2016	2015	
Losses on disposal of fixed assets	698	34	698
Demolition expenses	—	33,920	—
Others	562	991	562
	<u>1,260</u>	<u>34,945</u>	<u>1,260</u>
	Company		Amount recognized in non-recurring profit or loss in 2016
	2016	2015	
Losses on disposal of fixed assets	241	—	241
Demolition expenses	—	33,009	—
Others	—	782	—
	<u>241</u>	<u>33,791</u>	<u>241</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(31) Income Tax Expenses

	Group		Company	
	2016	2015	2016	2015
Current income tax calculated based on tax law and related regulations	134,024	126,671	90,424	90,855
Deferred income tax	20,298	19,032	8,120	9,520
	<u>154,322</u>	<u>145,703</u>	<u>98,544</u>	<u>100,375</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profits presented in the consolidated financial statements to the income tax expenses is set below:

	Group	
	2016	2015
Total profit	<u>622,228</u>	<u>490,182</u>
Calculated at applicable income tax rates (25%)	155,557	122,545
Effect of favourable tax rates	(6,588)	(809)
Income not subject to tax	(11,461)	(5,576)
Costs, expenses and losses not deductible for tax purposes	7,646	16,811
Utilization of previously deductible tax losses for which no deferred income tax was recognized	(5,127)	(4,888)
Tax temporary differences for which no deferred income tax asset was recognized	13,014	7,897
Tax deferred from prior year	—	8,162
Tax losses for which no deferred income tax asset was recognized	1,281	1,561
Income tax expenses	<u>154,322</u>	<u>145,703</u>

(32) Earnings Per Share

(a) Basic earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the parent of RMB 443 million (2015: RMB 331 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2015: 1,427 million shares).

	Group	
	2016	2015
Consolidated net profit attributable to ordinary shareholders of the Company	<u>443,168</u>	<u>330,537</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,427,228</u>	<u>1,427,228</u>
Basic earnings per share (RMB Yuan)	0.31	0.23
Including:		
– Basic earnings per share for operations on a going concern	0.31	0.23
– Basic earnings per share for discontinued operations	—	—

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(32) Earnings Per Share (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2016 (2015: nil), diluted earnings per share equal to basic earnings per share.

(33) Notes to the Cash Flow Statements and Supplementary Information

(a) Reconciliation of net profit to cash flows from operating activities

	Group		Company	
	2015	2014	2015	2014
Net profit	467,906	344,479	305,487	193,141
Add:				
Provision for asset impairments	52,057	31,589	53,481	38,928
Depreciation of fixed assets and investment properties	44,095	44,728	19,685	19,966
Amortisation of intangible assets	279,022	272,667	126,187	137,396
Net losses/(gains) from disposal of fixed assets	681	(4)	240	—
Net financial expenses	170,806	204,814	113,275	125,262
Investment losses/(gains)	3,640	5,349	(93,730)	(8,713)
Demolition expenses	—	33,920	—	33,009
Amortisation of deferred income	(42,034)	(75,057)	(32,598)	(65,743)
Increase in deferred tax liabilities	20,298	19,032	8,120	9,520
Decrease/(increase) in inventories	2,660	(12,759)	(636)	639
(Increase)/decrease in operating receivables	(694,356)	1,250,430	(526,057)	1,300,226
Increase/(decrease) in operating payables	98,895	191,491	(24,856)	74,664
	<u>403,670</u>	<u>2,310,679</u>	<u>(51,402)</u>	<u>1,858,295</u>
Net cash flows from operating activities				
Net increase/decrease in cash				
Cash at the end of the year	1,181,120	1,328,575	454,678	596,699
Less: Cash at the beginning of the year	(1,328,575)	(814,892)	(596,699)	(292,731)
Net (decrease)/increase in cash	<u>(147,455)</u>	<u>513,683</u>	<u>(142,021)</u>	<u>303,968</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(33) Notes to the Cash Flow Statements and Supplementary Information (Continued)

(b) Cash listed in the cash flow statement comprises:

	Group		Company	
	2016	2015	2016	2015
Cash				
Including: Cash on hand	173	128	9	13
Cash at bank	1,180,947	1,328,447	454,669	596,686
Cash listed in cash flow statement	<u>1,181,120</u>	<u>1,328,575</u>	<u>454,678</u>	<u>596,699</u>

(c) Cash received relating to other operating activities

	Group		Company	
	2016	2015	2016	2015
Deposit on project bids retrieved	52,587	1,409	50,050	937
Interest income from bank deposits	12,597	15,764	5,912	8,950
Out-of-pocket expenses retrieved	5,262	24	5,181	24
Subsidies received	3,707	5,813	3,678	3,774
Others	8,300	5,041	39	104
	<u>82,453</u>	<u>28,051</u>	<u>64,860</u>	<u>13,789</u>

(d) Cash paid relating to other operating activities

	Group		Company	
	2016	2015	2016	2015
Deposit on project bids paid	163,452	7,869	159,666	6,415
Consulting service fees	11,880	9,205	8,341	7,208
Travelling, meeting and business entertainment expenses	4,914	4,373	1,524	1,350
Repair and maintenance expenses	4,590	4,214	2,914	2,371
Expenses of secretary of the board	3,905	3,185	3,905	3,148
Others	13,936	14,933	12,786	7,957
	<u>202,677</u>	<u>43,779</u>	<u>189,136</u>	<u>28,449</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(33) Notes to the Cash Flow Statements and Supplementary Information (Continued)

(e) Net cash received from disposals of fixed assets

	Group	
	2016	2015
Carrying amount of disposals of fixed assets	770	91
Net (losses)/gains from disposal of fixed assets	(681)	4
Net cash received from disposals of fixed assets	89	95

(f) Other cash paid relating to investing activities

	Group		Company	
	2016	2015	2016	2015
Demolition expenses	25,715	8,205	25,715	7,294

5 EQUITY IN OTHER ENTITIES

See Note 4(9) for details.

6 SEGMENT INFORMATION

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The Company considers the business from both service and geographical perspective. From a service perspective, management assesses the performance of processing of sewage water, recycled water, pipeline connection, heating and cooling service, sales of tap water and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment sold by the Group is mainly the result of scientific research transformation of the technical know-how in the environment protection area. Other services include contract operation services, rental income and provide technical services etc. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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6 SEGMENT INFORMATION (Continued)

(a) Segment information as at and for the year ended 31 December 2016 is as follows:

	Processing of sewage and construction of related facility						Sale of environmental protection equipment	All other segments	Group
	Tianjin	Hangzhou	Others	Recycled water	Heating and cooling supply	Tap water			
Revenue from external customers (Note 4(23))	772,110	222,473	368,299	188,616	71,707	66,851	15,946	252,664	1,958,666
Cost for operations	(415,095)	(134,888)	(243,499)	(133,404)	(44,551)	(49,131)	(12,063)	(117,381)	(1,150,012)
Interest income (Note 4(27))	16,685	529	2,047	3,953	60	18	—	165	23,457
Interest expenses (Note 4(27))	(88,693)	(13,605)	(33,723)	(104)	(3,574)	(4,665)	—	(1,860)	(146,224)
Results before share of profits of an associate	268,155	88,438	91,495	54,323	24,599	10,443	(3,334)	91,749	625,868
Loss from investment in associate (Note 4(9) (b))	—	—	—	—	—	—	—	(3,640)	(3,640)
Depreciation expenses	(123)	—	(99)	(36,994)	(214)	—	(814)	(5,851)	(44,095)
Amortization	(125,344)	(47,190)	(80,942)	(213)	(14,273)	(9,886)	—	(1,174)	(279,022)
Total profit	268,155	88,438	91,495	54,323	24,599	10,443	(3,334)	88,109	622,228
Income tax expenses	(85,871)	(15,670)	(19,057)	(8,602)	(6,186)	(3,713)	—	(15,223)	(154,322)
Net profit	182,284	72,768	72,438	45,721	18,413	6,730	(3,334)	72,886	467,906
Total Assets	4,852,703	1,044,587	2,131,136	1,523,983	599,954	222,883	19,043	246,608	10,640,897
Total liabilities	3,412,214	329,363	538,854	1,022,578	215,836	39,250	6,153	72,832	5,637,080
Long-term equity investment in associate	—	—	—	—	—	—	—	—	—
Non-current assets addition (i)	8,251	209,355	18,832	1,134	35,187	—	—	1,490	274,249

(i) Non-current assets do not comprise financial assets, long-term equity investments, or deferred tax assets.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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6 SEGMENT INFORMATION (Continued)

(b) Segment information as at and for the year ended 31 December 2015 is as follows:

	Processing of sewage and construction of related facility						Sale of environmental protection equipment	All other segments	Group
	Tianjin	Hangzhou	Others	Recycled water	Heating and cooling supply	Tap water			
Revenue from external customers (Note 4(23))	801,005	163,825	327,189	185,401	69,793	63,712	46,733	276,548	1,934,206
Cost for operations	(454,452)	(100,287)	(229,427)	(126,934)	(42,571)	(44,715)	(42,724)	(160,834)	(1,201,944)
Interest income (Note 4(27))	8,947	637	1,992	3,961	84	11	—	11,221	26,853
Interest expenses (Note 4(27))	(117,868)	(16,825)	(48,220)	(246)	(6,471)	(5,710)	—	(2,080)	(197,420)
Results before share of profits of an associate	240,861	46,053	39,620	52,947	23,027	11,009	(1,949)	83,963	495,531
Loss from investment in associate (Note 4(9) (b))	—	—	—	—	—	—	—	(5,349)	(5,349)
Depreciation expenses	(131)	—	(19)	(37,437)	(399)	—	(616)	(6,126)	(44,728)
Amortization	(136,569)	(40,322)	(69,181)	(203)	(13,965)	(9,636)	(16)	(2,775)	(272,667)
Total profit	240,861	46,053	39,620	52,947	23,027	11,009	(1,949)	78,614	490,182
Income tax expenses	(88,159)	(10,519)	(10,119)	(15,312)	(5,857)	(3,541)	296	(12,492)	(145,703)
Net profit	152,702	35,534	29,501	37,635	17,170	7,468	(1,653)	66,122	344,479
Total assets	4,484,801	805,611	2,002,545	1,422,690	469,850	227,198	48,734	587,873	10,049,302
Total liabilities	2,877,487	210,755	690,793	1,134,419	206,453	54,493	22,825	233,324	5,430,549
Long-term equity investment in associate	—	—	—	—	—	—	—	25,998	25,998
Non-current assets addition (i)	188	84,920	150,106	2,831	92	—	—	2,732	240,869

(i) Non-current assets do not comprise financial assets, long-term equity investments, or deferred income tax assets.

The Group's revenue from external customers comes from China.

The Group's non-current assets are located within China.

The income from processing of sewage water and construction of related facility services segment of RMB 769 million is derived from a single customer, accounting for 39% of the Group's total revenue (2015: RMB 789 million, 41%).

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7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Information of the Parent of the Company

(a) General information of the parent company

	Type	Place of registration	Legal representative	Nature of business and principal activities
Municipal Investment	Limited company	Tianjin, China	Yu Zhongpeng	Development and management of municipal infrastructures

The Company's ultimate controlling party is company City Infrastructure Construction and Investment.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Municipal Investment	1,820,000	—	—	1,820,000

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2016		31 December 2015	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Municipal Investment	50.14%	50.14%	50.14%	50.14%

(2) Information of Subsidiaries

The general information and other related information of the subsidiaries is set out in Note 4(9) (a).

(3) Information of Associates

The general information and other related information of the associates is set out in Note 4(9) (b).

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

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7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(4) Information of Other Related Parties

	Relationship with the Group
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Metro Resources Investment Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Haihe Construction Developing Investment Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Subsidiary of associate

(5) Related Party Transactions

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions between the Group and its related parties during the year:

(a) Purchase of goods, rendering of services

Purchase of goods

Related party name	Nature of transaction	2016		2015	
		Amount	% of the total amount of similar transactions	Amount	% of the total amount of similar transactions
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Purchase of equipment	1,179	0%	21,705	99.38%

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related Party Transactions (Continued)

(a) Purchase of goods, rendering of services (Continued)

Rendering of services

Related party name	Nature of transaction	2016		2015	
		Amount	% of the total amount of similar transactions	Amount	% of the total amount of similar transactions
City Infrastructure Construction and Investment	Contract operation income	57,113	41.18%	59,515	48.90%
City Infrastructure Construction and Investment	Agent construction income	396	0.03%	3,000	0.23%
Tianjin Lecheng Properties Co., Ltd.	Income from heating and cooling supply	38,996	54.38%	37,801	54.16%
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	2,317	3.23%	4,867	6.97%
Tianjin Haihe Construction Developing Investment Co., Ltd.	Income from construction of sewage plants	332	0.02%	1,514	0.12%
		<u>99,154</u>		<u>106,697</u>	

Rental income from related parties is negotiated by counter parties and referred to the market price. Pricing on heating supply service with related parties is based on the reference price stipulated by government.

(b) Guarantee:

Guarantor	Guarantee	Amount	Starting date	Due date	Fully performed or not
City Infrastructure Construction and Investment	Xi'an Capital Water Co., Ltd.	200,000	28 September 2008	27 September 2022	No

(c) Key management compensation

	2016	2015
Key management compensation	<u>13,373</u>	<u>11,884</u>

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7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Receivables From and Payables to Related Parties

Receivables from related parties

Project name	Related party name	31 December 2016	31 December 2015
Trade receivable	Tianjin Lecheng Properties Co., Ltd.	35,139	12,540
Trade receivable	City Infrastructure Construction and Investment	29,337	28,489
Trade receivable	Tianjin Metro Resources Investment Co., Ltd.	6,495	7,349
Trade receivable	Tianjin City Resource Operation Co., Ltd.	401	401
Trade receivable	Tianjin Haihe Construction Developing Investment Co., Ltd.	—	303
		71,372	49,082

Payables to related parties

Project name	Related party name	31 December 2016	31 December 2015
Other payables	Tianjin Machinery & Electric Equipment Import & Export Co., Ltd	1,179	11,715

The receivables from related parties arise mainly from daily transactions and are due within one year after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties.

The payables to related parties arise mainly from purchase transactions and are due within one year after the date of purchase. The payables bear no interest.

(7) Commitments

The Group's commitments with related parties at the balance sheet date which have been signed but not necessarily shown on balance sheet are as follows:

Guarantee received	31 December 2016	31 December 2015
City Infrastructure Construction and Investment	200,000	225,000

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(8) Transactions/Balances with Other State Owned Enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as “state-owned entities”).

During the year, the Group’s significant transactions with these state controlled entities include treatment of sewage and construction and management of related facility, supply of tap water and recycled water, and supply of heating and cooling services. At the end of the year, the majority of the Group’s cash and cash equivalents and borrowings are with state controlled banks.

8 CAPITAL COMMITMENTS

The Group’s capital commitments at the balance sheet date are as follows:

	Contracted but not provided for		Authorized but not contracted for	
	31 December	31 December	31 December	31 December
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
Sewage water processing plant projects:				
– Yingshang City South sewage water processing project	71	—	101	—
– Changsha Tianchuang Ningxiang project	1	—	199	—
– Hangzhou plant upgrading project	—	170	26	165
– Karamay Project	—	—	318	—
– Dalian Chunliuhe Project	—	—	221	—
– Dengjiacun plant and Beishiqiao plant upgrading project	—	—	4	10
Energy station projects:				
– Heiniu Urban Roads energy station project	62	—	156	—
– Cultural Center energy station project	4	—	101	—
	<u>138</u>	<u>170</u>	<u>1,126</u>	<u>175</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

9 IMPACT OF EVENTS AFTER THE BALANCE SHEET DATE

(1) As at 30 December 2016, authorized by the second extraordinary general shareholders' meeting, the Company will issue A-shares via non-public offering of shares on The Shanghai Stock Exchange. The funds raised is mainly for the upgrading projects of Jingu and Beichen sewage water processing plants, Heiniucheng Road and Binhai cultural center heating and cooling supply projects, supplementing floating capital and repaying the loans, etc. Until reporting date, the non-public offering of shares has not accomplished.

(2) **Description of profit distribution**

	Amount
Undistributed profits (note (a))	<u>135,587</u>

(a) In accordance with the resolution at the Board of Directors' meeting dated on 29 March 2017, the Board of Directors proposed a dividend in the amount of RMB 136 million to the shareholders, which is not recorded as a liability in the financial statements for the current year. (Note 4 (21) (c))

(3) As at 14 February 2017, the Company received notice of the bid issued by the Dalian City Construction Bureau, which granted the Company the access to first-phase construction of Dalian Chunliuhe sewage treatment plant BOT upgrading project. As of the date of this report, the two parties has not yet signed a formal contract.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

10 FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) **Market Risk:**

(i) *Foreign exchange risk:*

The Group has no significant foreign exchange risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign exchange risk of the Group arises from fluctuation of USD and JPY pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from Sewage Company (Note 4(16) (c) (ii)).

At 31 December 2016, if RMB had strengthened/weakened by 5% against the USD with all other variables held constant, post-tax profit for the year would have been RMB 4 million (2015: RMB 4 million) lower/higher. Similarly, if RMB had strengthened/weakened by 5% against the JPY with all other variables held constant, post-tax profit for the year would have been RMB 8 million (2015: RMB 7 million) lower/higher.

(ii) *Interest rate risk:*

The Group's interest rate risk arises mainly from interest-bearing liabilities including borrowings, long-term payables and debentures payable.

The Group has significant borrowings, long-term payables and debentures payable. Those taken at variable rates expose the Group to cash flow interest-rate risk, whilst those taken at fixed rates expose the Group to fair value interest-rate risk.

The tables below set out the Group's and the Company's exposure to interest rate risks. Included in the tables are the liabilities at carrying amounts, categorized by the maturity dates.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

10 FINANCIAL RISKS

(a) Market Risk: (Continued)

(ii) Interest rate risk: (Continued)

	Fixed	Group Floating	Total	Fixed	Company Floating	Total
At 31 December 2016						
Other non-current liabilities due within one year:						
Current portion of long-term borrowings	—	186,400	186,400	—	—	—
Current portion of long-term payables	16,292	9,635	25,927	16,292	9,635	25,927
Long-term borrowings	—	510,428	510,428	—	—	—
Long-term payables	193,119	92,089	285,208	193,119	92,089	285,208
Debentures payable	1,394,313	—	1,394,313	1,394,313	—	1,394,313
Total	1,603,724	798,552	2,402,276	1,603,724	101,724	1,705,448
	Fixed	Group Floating	Total	Fixed	Company Floating	Total
At 31 December 2015						
Other non-current liabilities due within one year:						
Current portion of long-term borrowings	—	282,350	282,350	—	—	—
Current portion of debentures payable	698,250	—	698,250	698,250	—	698,250
Current portion of long-term payables	14,854	8,362	23,216	14,854	8,362	23,216
Long-term borrowings	—	574,186	574,186	—	—	—
Long-term payables	180,134	89,643	269,777	180,134	89,643	269,777
Debentures payable	694,925	—	694,925	694,925	—	694,925
Total	1,588,163	954,541	2,542,704	1,588,163	98,005	1,686,168

At 31 December 2016, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by RMB 6 million (2015: RMB 7 million).

The Group analyses its interest rate exposure by considering refinancing, renewal of existing positions and alternative financing resolution.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

10 FINANCIAL RISKS (Continued)

(b) Credit Risk:

Credit risk arises from cash at bank and credit exposures to customers.

The Group manages credit risk on cash at bank by placing the majority of its cash at state owned/listed banks in the PRC. The Group has not had any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

All of the major customers of the Group are PRC government departments or state-owned companies. Thus, the management considers that the credit risk of trade receivables is limited.

The maximum credit risk of the Company includes the carrying amount of its financial assets on books and financial guarantees issued for its subsidiaries. As at 31 December 2016, the Company had given guarantees of approximately RMB 1,210 million (2015: RMB 820 million) to banks of certain subsidiaries in respect of their banking facilities, of which RMB 447 million of the facilities had been drawn by the subsidiaries. The Directors consider that the subsidiaries will be able to settle their obligations.

(c) Liquidity Risk:

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and external regulatory or legal requirements.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

10 FINANCIAL RISKS (Continued)

(c) Liquidity Risk: (Continued)

The Group's financial liabilities are analyzed at the balance sheet date to the contractual maturity date, using the contracted undiscounted cash flows, as follows:

	Within 1 year	1-2 years	2-5 years	Over 5 years	Total	Carrying amount
At 31 December 2016						
Long-term borrowings	214,930	152,081	321,351	107,561	795,923	696,828
Long-term payables	28,321	29,017	92,143	358,346	507,827	311,135
Trade payables	107,239	—	—	—	107,239	107,239
Other payables	408,111	—	—	—	408,111	408,111
Debentures payable	60,060	60,060	737,806	710,955	1,568,881	1,394,313
Dividends payable	1,438	—	—	—	1,438	1,438
Other liabilities	3,332	1,409	—	—	4,741	4,546
	<u>823,431</u>	<u>242,567</u>	<u>1,151,300</u>	<u>1,176,862</u>	<u>3,394,160</u>	<u>2,923,610</u>
	Within 1 year	1-2 years	2-5 years	Over 5 years	Total	Carrying amount
At 31 December 2015						
Long-term borrowings	321,396	260,559	280,867	95,950	958,772	856,536
Long-term payables	23,216	22,414	63,177	183,656	292,463	292,993
Trade payables	82,599	—	—	—	82,599	82,599
Other payables	475,812	—	—	—	475,812	475,812
Debentures payable	780,757	38,150	715,896	—	1,534,803	1,393,175
Dividends payable	32,426	—	—	—	32,426	32,426
Other liabilities	3,437	4,695	—	—	8,132	7,727
	<u>1,719,643</u>	<u>325,818</u>	<u>1,059,940</u>	<u>279,606</u>	<u>3,385,007</u>	<u>3,141,268</u>

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

11 FAIR VALUE ESTIMATION

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data

There is no assets and liabilities of the Group measured at fair value.

(a) Assets And Liabilities Not Measured At Fair Value But Disclosed

Financial assets and liabilities of the Group measured at amortized cost mainly include receivables, long-term receivables, payables, long-term borrowings, debenture payable and long-term payables.

The carrying amount of the financial assets and liabilities of the Group not measured at fair value is a reasonable approximation of their fair value.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

12 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 the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings, debentures payable, long-term payables and government loan of the Group) less cash. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The Group's strategy is to maintain a gearing ratio of about 20% - 40%. The gearing ratio of the Group is as follows:

	31 December 2016	31 December 2015
Total borrowings	2,406,822	2,550,431
Long-term borrowings	696,828	856,536
Debentures payable	1,394,313	1,393,175
Long-term payables	311,135	292,993
Other non-current assets - Government loan and others	4,546	7,727
Less: Cash	<u>(1,181,120)</u>	<u>(1,328,575)</u>
Net debt	1,225,702	1,221,856
Total equity	<u>5,003,817</u>	<u>4,618,753</u>
Total capital	<u><u>6,229,519</u></u>	<u><u>5,840,609</u></u>
Gearing ratio	<u>20%</u>	<u>21%</u>

As at 31 December 2016, there is no significant change to the gearing ratio of the Group.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Supplement of the Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	2016	2015
(Profits)/losses on disposal of non-current assets	(681)	4
Government Grants	43,360	75,057
Demolition loss	—	(33,920)
Other non-operating income and expenses — net	7,736	4,074
	<u>50,415</u>	<u>45,215</u>
Effect of income tax	(12,604)	(11,304)
Effect of minority interests (after tax)	(1,476)	(611)
Total	<u><u>36,335</u></u>	<u><u>33,300</u></u>

Basis for preparation of statement of non-recurring profit or loss

Under the requirements in *Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public – Non-recurring Profit or Loss [2008]* from China Security Regulatory Commission (“CSRC”), non-recurring profit or loss refers to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

2 RECONCILIATION STATEMENT OF INLAND AND ABROAD FINANCIAL STATEMENT

There is no difference on inland and abroad financial statement of the Group.

3 RATE OF RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average income rate of net assets (%)		Basic/Diluted earnings per share	
	2016	2015	2016	2015
Net profit attributable to ordinary shareholders of the Company	9.71	7.73	0.31	0.23
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	8.91	6.95	0.29	0.21



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tianjin Capital Environmental Protection Group Company Limited
(incorporated in People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tianjin Capital Environmental Protection Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 215 to 289, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. 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 HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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13. Independent Auditor's Report

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 matter identified in our audit is recoverability of overdue trade receivables.

Key Audit Matter

Recoverability of overdue trade receivables

Refer to note 15 to the consolidated financial statements

As at 31 December 2016, RMB 1,485,435 thousand out of the total trade receivables of RMB 1,815,420 thousand was overdue, and RMB 466,352 thousand was overdue for more than one year. The trade receivables overdue for more than one year accounts for 4% of the total assets.

Management needs to assess the recoverability of such overdue trade receivables. In making such assessment, management needs to consider prior year experience and exercise judgement in developing its expectation of the credibility of debtors.

We focussed on this area due to the significance of the overdue balance, and the judgement in assessment of the recoverability of such trade receivables.

How our audit addressed the Key Audit Matter

We evaluated and validated the Group's control procedures over assessment of the recoverability of trade receivables.

We sent confirmations to debtors with significant trade receivables balances as at 31 December 2016 and reconciled the confirmed amounts with those recorded by the Group. We checked the accuracy of the aging profile of trade receivables on a sample basis, focusing on outstanding debts overdue for more than one year.

We interviewed the management to get knowledge of major debtors with overdue balances and the explanations of management in respect of recoverability of them.

We challenged management as to the recoverability of such amounts, and corroborated the explanations through examining the underlying relevant supporting documents such as historical payment record, post year end settlements, settlement plan documents and other correspondence documents. We also conducted interview with the major debtors and independently checked the background information of the major customers.

We found that management's judgements were supported by the available evidence in respect of the relevant receivables.

OTHER INFORMATION

The directors of the Company are responsible for the other information. 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 HKFRSs issued by the HKICPA 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, 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.

13. Independent Auditor's Report

- 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.

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 Cheng Kwong On.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2017

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Balance Sheet

As at 31 December 2016

(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2016	2015
ASSETS			
Non-current assets			
Land use rights	8	14,986	15,426
Property, plant and equipment	6	417,882	454,453
Intangible assets	7	6,219,001	6,244,750
Investment properties	9	97,590	101,263
Investments accounted for using the equity method	10b	—	25,998
Available-for-sale financial assets	11	2,000	2,000
Long-term receivables	12	309,148	319,463
Other non-current assets	13	187,744	8,051
		7,248,351	7,171,404
Current assets			
Inventories	14	24,491	27,151
Trade receivables	15	1,815,820	1,239,446
Prepayments	16	153,198	139,727
Other receivables	17	150,872	74,531
Other current assets	13	49,107	47,168
Restricted cash	18	17,938	21,300
Cash and cash equivalents	18	1,181,120	1,328,575
		3,392,546	2,877,898
Total assets		10,640,897	10,049,302

14. Financial Statements prepared in accordance with Hong Kong
Financial Reporting Standards
Consolidated Balance Sheet

As at 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2016	2015
EQUITY			
Equity attributable to owners of the Company			
Share capital	19	1,427,228	1,427,228
Other reserves	20	844,040	796,687
Retained earnings	21	2,473,109	2,177,200
		<u>4,744,377</u>	<u>4,401,115</u>
Non-controlling interests		<u>259,440</u>	<u>217,638</u>
Total equity		<u>5,003,817</u>	<u>4,618,753</u>
LIABILITIES			
Non-current liabilities			
Borrowings	22	2,191,313	1,543,433
Deferred revenue	24	1,446,971	1,145,674
Deferred income tax liabilities	25	126,108	105,810
Other non-current liabilities	23	42,000	44,093
Provisions for other liabilities and charges	27	32,930	—
		<u>3,839,322</u>	<u>2,839,010</u>
Current liabilities			
Trade payables	26	107,239	82,599
Advances from customers	26	955,507	874,880
Wages payables		34,411	21,809
Income tax and other taxes payables	26	69,080	96,387
Dividend payable		1,438	32,426
Other payables and others	26	414,574	476,440
Borrowings	22	215,509	1,006,998
		<u>1,797,758</u>	<u>2,591,539</u>
Total liabilities		<u>5,637,080</u>	<u>5,430,549</u>
Total equity and liabilities		<u>10,640,897</u>	<u>10,049,302</u>

The notes on pages 220 to 289 are integral part of these consolidated financial statements.

The financial statements on page 215 to 219 were approved by the Board of Directors on 29 March 2017 and were signed on its behalf:

Liu Yujun

Peng Yilin

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Income Statement

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December 2016	2015
Continuing operations			
Revenue	5(a)	1,773,814	1,753,667
Tax expense and surcharge	28	(45,670)	(33,289)
Cost of sales	29	<u>(1,060,624)</u>	<u>(1,112,864)</u>
Gross profit		667,520	607,514
Selling expenses	29	(9,964)	(3,166)
Administrative expenses	29	(129,343)	(105,366)
Other income	5(b)	78,627	59,870
Other gains - net	33	<u>170,694</u>	<u>119,534</u>
Operating profit		777,534	678,386
Finance income		23,457	26,853
Finance expenses		<u>(175,123)</u>	<u>(209,708)</u>
Finance expenses - net	31	(151,666)	(182,855)
Share of loss of investment accounted for using the equity method	10b	<u>(3,640)</u>	<u>(5,349)</u>
Profit before income tax		622,228	490,182
Income tax expense	32	<u>(154,322)</u>	<u>(145,703)</u>
Profit/total comprehensive income for the year		<u>467,906</u>	<u>344,479</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		443,168	330,537
Non-controlling interests		<u>24,738</u>	<u>13,942</u>
		<u>467,906</u>	<u>344,479</u>
Earnings per share for profit attributable to the owners of the Company (in RMB Yuan)			
– basic	34	<u>0.31</u>	<u>0.23</u>
– diluted	34	<u>0.31</u>	<u>0.23</u>

The notes on pages 220 to 289 are integral part of these consolidated financial statements.

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Note	Attributable to owners of the Company			Sub-total	Non-controlling interests	Total
		Share capital	Other reserves	Retained earnings			
Balance at 1 January 2015		1,427,228	777,374	1,965,882	4,170,484	167,496	4,337,980
Comprehensive income							
– Profit for the year		—	—	330,537	330,537	13,942	344,479
Transactions with owners							
– Contribution from Non-controlling Interests		—	—	—	—	37,000	37,000
– Profit appropriation to statutory reserves	20	—	19,313	(19,313)	—	—	—
– Dividends relating to 2014		—	—	(99,906)	(99,906)	(800)	(100,706)
Total transactions with owners		—	19,313	(119,219)	(99,906)	36,200	(63,706)
Balance at 31 December 2015		1,427,228	796,687	2,177,200	4,401,115	217,638	4,618,753
Comprehensive income							
– Profit for the year		—	—	443,168	443,168	24,738	467,906
Transactions with owners							
– Capital contribution from non-controlling interests		—	—	—	—	19,474	19,474
– Profit appropriation to statutory reserves		—	30,549	(30,549)	—	—	—
– Reorganization of a subsidiary	20	—	16,804	(16,804)	—	—	—
– Dividends relating to 2015		—	—	(99,906)	(99,906)	(2,410)	(102,316)
Total transactions with owners		—	47,353	(147,259)	(99,906)	17,064	(82,842)
Balance at 31 December 2016		1,427,228	844,040	2,473,109	4,744,377	259,440	5,003,817

The notes on pages 220 to 289 are integral part of these consolidated financial statements.

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December	
		2016	2015
Cash flows from operating activities			
Cash generated from operations	36	484,739	2,441,339
Income tax paid		(93,666)	(146,424)
Bank deposit interest received	31	12,597	15,764
		<u>403,670</u>	<u>2,310,679</u>
Net cash generated from operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(461,166)	(468,645)
Decrease/(increase) in restricted cash		3,362	(16,100)
Payment on relocation costs		(25,715)	(8,205)
Government grant received		340,950	—
Proceeds from disposal of property, plant and equipment	36	89	95
		<u>(142,480)</u>	<u>(492,855)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Capital contributions by non-controlling interests		19,474	37,000
Proceeds from borrowings		902,943	145,000
Repayments of borrowings		(1,067,925)	(1,187,542)
Interest paid		(129,833)	(169,982)
Dividends paid to Company's shareholders		(130,894)	(127,817)
Dividends paid to non-controlling interests		(2,410)	(800)
		<u>(408,645)</u>	<u>(1,304,141)</u>
Net cash used in financing activities			
Net (decrease)/increase in cash and cash equivalents		(147,455)	513,683
Cash and cash equivalents at beginning of year		1,328,575	814,892
Cash and cash equivalents at end of year	18	<u><u>1,181,120</u></u>	<u><u>1,328,575</u></u>

The notes on pages 220 to 289 are integral part of these consolidated financial statements.

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES

Tianjin Capital Environmental Protection Group Company Limited (the ‘Company’) was established on 8 June 1993 in Tianjin, the People’s Republic of China (the ‘PRC’) as a joint stock limited liability company. The holding company and the ultimate holding company of the Company are Tianjin Municipal Investment Company Limited (‘Municipal Investment’) and Tianjin City Infrastructure Construction and Investment Group Company Limited (‘City Infrastructure Construction and Investment’) respectively. The address of its registered office is No.45 Guizhou Road, Heping District, Tianjin. The Company’s H-shares are listed on The Stock Exchange of Hong Kong Limited and the A-shares are listed on The Shanghai Stock Exchange.

The principal activities of the Company and its subsidiaries (collectively the ‘Group’) include processing of sewage water, construction and management of related facility, supply of tap water and recycled water, supply of heating and cooling, and construction and management of related facility as described below:

(a) Processing of sewage water

Pursuant to relevant agreements (‘Service concession right agreements’), the Group currently provides sewage processing services via the following plants:

Plant	Location	Agreement date	Customer
Guiyang	Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying	Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi	Hubei	15 July 2005	Chibi Construction Bureau
Fuyang	Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qujing	Yunnan	25 December 2005	Qujing City Water General Company
Honghu	Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou	Zhejiang	20 November 2006	Hangzhou Sewage Company
Jinghai	Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng	Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an	Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Anguo	Hebei	14 October 2008	An Guo Municipal Government
Xianning	Hubei	16 October 2008	Xianning Construction Committee
Yingdong	Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Qujing	Yunnan	16 August 2011	QuJing Housing and Urban Construction Bureau
Chaohu	Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau
Jingu	Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission (‘TUCC’) and Tianjin Water Authority Bureau (‘TWAB’)
Xianyanglu	Tianjin	18 February 2014	TUCC and TWAB
Dongjiao	Tianjin	18 February 2014	TUCC and TWAB
Beicang	Tianjin	18 February 2014	TUCC and TWAB
Yingshang	Anhui	16 June 2016	Yingshang Housing and Urban Construction Bureau

Based on the sewage water processing agreements and the supplemental agreements, initial prices for sewage water processing are predetermined, thereafter processing prices may be revised taking into account various factors including renovation of equipment, additional investment, power and energy and labour force, and significant changes in government policy.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(b) Construction and management of sewage water facility

The Group provides design, construction and operations of sewage processing facility and services relating to financing, construction and transfer of sewage processing facility project.

(c) Supply of tap water

Pursuant to the relevant agreements, the Group provides tap water supply service initially at pre-determined price and the prices as pre-determined may be revised subsequently taking into account various cost factors.

(d) Recycled water and pipeline connection

The Group's recycled water business includes developing, constructing and operating of recycled water projects, production and sale of recycled water, and provision of related research and development and technical consultation services.

(e) Heating and cooling supply services

The heating and cooling supply services include design, construction, operations and transfer of centralised heating and cooling infrastructures; and provision of heating and cooling supply services.

The Group has signed several service concession agreements with Tianjin Urban-rural Construction Commission of providing heating and cooling supply services to third parties which were located in Tianjin City Cultural Center, Heiniucheng Road and Houtai scenic area.

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated 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

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11
- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38
- Annual improvements to HKFRSs 2012 – 2014 cycle, and
- Disclosure initiative – Amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

14. Financial Statements prepared in accordance with Hong Kong
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(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 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. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- revenue from sales of pipeline connection for recycled water - the application of HKFRS 15 require that revenue and cost are recognized by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs of each contract.

At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018.

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(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(b) New standards and interpretations not yet adopted (Continued)

HKFRS 16, 'Leases'

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

The accounting for lessors will not significantly change.

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

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

14. Financial Statements prepared in accordance with Hong Kong
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(All amounts in RMB thousand unless otherwise stated)

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

The Group applies the acquisition method to account for business combinations. 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 measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree 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 HKFRS.

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 profit or loss.

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 accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

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 income statement.

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.

(b) Changes in ownership interests in subsidiaries without changes 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.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. 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 profit or loss.

14. Financial Statements prepared in accordance with Hong Kong
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(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.2 *Separate financial statements*

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 a dividend 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.

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 investment in associates includes 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 profit or loss where appropriate.

The Group's share of post-acquisition profits or losses is recognised in the consolidated income statement, 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 profit/(loss) of investments accounted for using equity method' in the consolidated income statement.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates (Continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's 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.

Gain or losses on dilution of equity interest in associates are recognised in the consolidated income statement.

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 the management operation committee 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 are presented in Renminbi ('RMB'), which is the Company's functional and Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or expense'. All other foreign exchange gains and losses are included in the consolidated income statement with in 'Other gains – net'.

14. Financial Statements prepared in accordance with Hong Kong
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(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of that consolidated balance sheet;
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average 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 rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment comprise buildings and structures, machinery and equipment, motor vehicles and others, and construction in progress.

All property, plant and equipment is stated at historical cost less depreciation. 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 income statement during the financial period in which they are incurred.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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

	Estimated useful lives	Estimated rate of residual value	Annual rate of depreciation
Buildings and structures	10-50 years	0%-5%	1.9%-10%
Machinery and equipment	10-20 years	0%-5%	4.8%-10%
Motor vehicles and others	5-10 years	0%-5%	9.5%-20%

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 gains – net' in the consolidated income statement.

Construction-in-progress ('CIP') is measured at actual cost. Actual cost comprises construction costs, installation costs, other costs necessary to bring the property, plant and equipment ready for their intended use and borrowing costs that are eligible for capitalisation. Depreciation begins from the following month when the assets are ready for their intended use. When the recoverable amount of CIP is lower than its carrying value, the carrying value shall be reduced to its recoverable amount.

2.7 Investment properties

Investment property, principally comprising buildings, is held for long-term lease yields and that is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

Investment properties are stated at cost less accumulated depreciation and impairment. Depreciation of investment properties are calculated to write-off that cost, less estimated net residual value and accumulated impairment losses, if any, on a straight-line basis over estimated useful lives ranging from 40 to 50 years.

If an item of property, plant and equipment becomes an investment property because its use has changed (other than that of temporary nature), it is reclassified as investment property at net book value and vice versa.

14. Financial Statements prepared in accordance with Hong Kong
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Notes to the Consolidated Financial Statements

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(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

(a) *Service concession rights*

As described in Note 1(a) and (e), the Group engages with government bodies and their subordinate enterprises and participates in the development, financing, operation and maintenance of infrastructure for public services (“Concession services”) over a specified period of time (“Concession services period”). The Group has access to operate the infrastructure to provide the Concession services in accordance with the terms specified in the arrangement.

The arrangement is governed by the relevant Concession Services Agreements which set out performance standards and mechanisms for adjusting prices.

The concession services arrangement is within the scope of HK (IFRIC) – Interpretation 12, and the Group recognises the related rights in the services 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 public 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. Concession right as intangible assets is recognised for the right under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 25 to 30 years.

(b) *Technical know-how and software*

Separately acquired technical know-how and software is shown at historical cost. Technical know-how and software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how and software over their estimated useful lives.

2.9 Land use rights

Land use rights acquired are classified as prepaid operating lease payments, recorded at cost and presented net of accumulated amortisation and impairment provision. The prepaid lease payments are amortised on a straight-line basis over the lease period from 25 to 50 years.

For the year ended 31 December 2016
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: 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.

(a) 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 the amounts that are settled or expected to be settled more 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 receivables', 'other receivables' and 'cash and cash equivalents' in the consolidated balance sheet (Note 2.15 and 2.16).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

14. Financial Statements prepared in accordance with Hong Kong
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(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, in the event of default, insolvency or bankruptcy of the company or the counterparty.

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(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets

(a) *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 income statement. If a loan or held-to-maturity investment 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 income statement.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets (Continued)

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.14 Inventories

Inventories include raw materials, finished goods, low value consumables and construction contract costs, and are stated at the lower of cost and net realisable value.

The amount of construction contract costs incurred, plus profits and less losses recognised and progress billings is determined on individual contract basis. Where positive, this amount is recognised in assets as work in progress. Where negative, it is recognised in liabilities.

Except for inventories of construction contract, costs of raw materials, finished goods and low value consumables are determined using the weighted-average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Provision for decline in the value of inventories is determined at the excess amount of the carrying value of the inventories over their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Trade and other receivables

Trade receivables are amounts due from customers for tap water 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 allowance for impairment. See Note 2.11.2 for further information about the Group's accounting for trade receivables and Note 2.13 a description of the Group's impairment policies.

2.16 Cash and cash equivalents

In the consolidation statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.17 Share capital

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

2.18 Trade payables

Trade payables are obligations to pay for goods 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 are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 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 income statement 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.

2.20 Borrowing costs

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 profit or loss in the period in which they are incurred.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Government grants

Government grants represent monetary assets granted from government bodies for free, including tax refunds and financial subsidies.

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 attached conditions.

Government grants relating to assets are grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants relating to costs are other government grants other than those relating to assets.

Government grants relating to assets are included in deferred revenue as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

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

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, 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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the Company's subsidiaries and associates 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated 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 liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(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 tax 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee benefits

The Group operates various post-employment schemes, including employee compensation and defined contribution pension plans.

(a) Employee compensation

Employee benefits are payment or compensation in any form paid to employee to obtain services or terminate employment relationship, mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds and employee education funds.

During the period which employee services are rendered, employee compensation shall be recognised as a liability and shall be recognised in current profits and losses or costs of related assets. Non-monetary benefits are measured at fair value.

(b) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Provisions

Provisions for environmental restoration, restructuring costs and legal claims 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. Restructuring provisions comprise lease termination penalties and employee termination payments. 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.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied or services provided, 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) *Sewage water processing and heating and cooling supply services*

Revenues from sewage water processing and heating and cooling supply services are recognised when services are rendered.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

(b) *Construction contract*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the percentage of completion of the contract activity at the consolidated balance sheet date. 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. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(c) *Sales of tap water and recycled water*

Revenue from the sale of tap water and recycled water is recognised on the transfer of risks and rewards of ownership when the tap water and recycled water are delivered to customers.

(d) *Sales of pipeline connection for recycled water*

Revenue from the sales of pipeline connection for recycled water is recognised when the connection is finished and recycled water is capable of being delivered to customers.

(e) *Sales of environmental protection equipment*

If the stage of completion can be measured reliably, revenue and cost are recognized by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs of each contract. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured. The environmental protection equipment is mainly the achievement of technology research.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

(f) *Contract operation income*

Revenue from contract operation income is recognised under the accrual basis according to the service agreement.

(g) *Technical services income*

The Group sells technical services to other companies. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(h) *Rental income*

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the period of the lease.

2.26 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. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.27 Dividend income

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

2.28 Dividend distribution

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

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3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) Foreign exchange risk

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign currency exposure of the Group arises from fluctuation of US dollar ("USD") and Japanese Yen ("JPY") pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from Tianjin Sewage Company ("Sewage Company") (Note 22(c)).

At 31 December 2016, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, post-tax profit for the year would have been RMB4 million (2015: RMB4 million) lower/higher. Similarly, if RMB had weakened/strengthened by 5% against JPY with all other variables held constant, post-tax profit for the year would have been RMB8 million (2015: RMB7 million) lower/higher.

(ii) Interest rate risk

The Group's interest rate risk arises mainly from borrowings and long-term payables.

Borrowings and long-term payables obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

The tables below set out the Group's exposure to interest rate risks. Included in the tables are the liabilities at carrying amounts, categorised by the maturity dates.

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

	Fixed	Floating	Total
At 31 December 2016			
<i>Other current liabilities</i>			
– Current portion of long-term bank borrowings	—	186,400	186,400
– Current portion of long-term payables	16,292	9,635	25,927
Long-term borrowings	—	510,428	510,428
Long-term payables	193,119	92,089	285,208
Long-term bonds	1,394,313	—	1,394,313
<i>Total</i>	<u>1,603,724</u>	<u>798,552</u>	<u>2,402,276</u>
At 31 December 2015			
<i>Other current liabilities</i>			
– Current portion of long-term bank borrowings	—	282,350	282,350
– Current portion of long-term bonds	698,250	—	698,250
– Current portion of long-term payables	14,854	8,362	23,216
Long-term borrowings	—	574,186	574,186
Long-term payables	180,134	89,643	269,777
Long-term bonds	694,925	—	694,925
<i>Total</i>	<u>1,588,163</u>	<u>954,541</u>	<u>2,542,704</u>

At 31 December 2016, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by RMB6 million (2015: RMB7 million).

The Group analyses its interest rate exposure monthly by considering refinancing, renewal of existing positions and alternative financing.

(b) Credit risk

Credit risk arises from deposits with banks and credit exposures to customers.

The Group manages credit risk on bank deposits by placing the majority of its cash and cash equivalents with state owned/listed banks in the PRC. The Group does not have any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

The credit risk on trade receivables is concentrated on a few customers, all of which are the bodies with PRC government background. Therefore, directors are of the view that the credit risk is limited.

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities (Note 21). Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal consolidated balance sheet ratio targets and, if applicable external regulatory or legal requirements-for example, currency restrictions.

The Group's financial liabilities (inclusive of interests) are analysed into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date, using the contracted undiscounted cash flows, as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Carrying value
At 31 December 2016						
<i>Long-term bank borrowings</i>	214,930	152,081	321,351	107,561	795,923	696,828
<i>Long-term payables</i>	28,321	29,017	92,143	358,346	507,827	311,135
<i>Other current and non-current liabilities</i>	3,332	1,409	—	—	4,741	4,546
<i>Trade and other payables</i>	515,350	—	—	—	515,350	515,350
<i>Long-term bonds</i>	60,060	60,060	737,806	710,955	1,568,881	1,394,313
<i>Dividend payable</i>	1,438	—	—	—	1,438	1,438
	<u>823,431</u>	<u>242,567</u>	<u>1,151,300</u>	<u>1,176,862</u>	<u>3,394,160</u>	<u>2,923,610</u>
At 31 December 2015						
<i>Long-term bank borrowings</i>	321,396	260,559	280,867	95,950	958,772	856,536
<i>Long-term payables</i>	23,216	22,414	63,177	183,656	292,463	292,993
<i>Other current and non-current liabilities</i>	3,437	4,695	—	—	8,132	7,727
<i>Trade and other payables</i>	558,411	—	—	—	558,411	558,411
<i>Long-term bonds</i>	780,757	38,150	715,896	—	1,534,803	1,393,175
<i>Dividend payable</i>	32,426	—	—	—	32,426	32,426
	<u>1,719,643</u>	<u>325,818</u>	<u>1,059,940</u>	<u>279,606</u>	<u>3,385,007</u>	<u>3,141,268</u>

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital 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 the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

For the year ended 31 December 2016, the Group's strategy is to maintain a gearing ratio of 20% - 40%. The gearing ratio of the Group is as follows:

	As at 31 December	
	2016	2015
Total borrowings	2,406,822	2,550,431
Less: Cash and cash equivalents (Note 18)	(1,181,120)	(1,328,575)
Net debt	1,225,702	1,221,856
Total equity	5,003,817	4,618,753
Total capital	6,229,519	5,840,609
Gearing ratio	20%	21%

As at 31 December 2016, the gearing ratio of the Group almost remained unchanged compared to last year.

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

Financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

The Group has no assets or liabilities measured at fair value as at 31 December 2016.

The carrying values of financial assets and financial liabilities approximate their fair values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

(a) Estimated provision for doubtful debts

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade and other receivables. Provisions are applied to these receivables where events or changes in circumstance indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the year in which such estimate has been made.

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Income taxes

The Group is subject to income taxes in numerous regions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these regions. The Group recognises income taxes in each region based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Estimated provision for non-financial assets

The Group assesses the impairment of non-financial assets based on the recoverabilities of them. An impairment is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. These assessments require the use of estimates. The carrying amount and the impairment provision will change, when the accounting estimate changes.

5 SEGMENT INFORMATION

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

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

	2016	2015
Revenue	1,773,814	1,753,667
Other income - net	78,627	59,870
Total	<u>1,852,441</u>	<u>1,813,537</u>

(b) Analysis of other income - net

	2016		2015	
	Income	Cost	Income	Cost
Contract operation service	138,707	(95,597)	121,708	(98,253)
Technical services	36,099	(4,403)	38,577	(8,076)
Rental	6,953	(4,884)	11,098	(5,705)
Other	3,093	(1,341)	9,156	(8,635)
	<u>184,852</u>	<u>(106,225)</u>	<u>180,539</u>	<u>(120,669)</u>

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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis

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

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

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

The managers operating meeting assesses the performance of the operating segments based on a measure of net profit after tax, which is measured in the approach consistent with that in the financial statements.

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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2016 and 2015 respectively is as follows:

(i) For the year ended 31 December 2016

	Sewage processing and facility construction services			Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	772,110	222,473	368,299	188,616	71,707	66,851	15,946	146,439	1,852,441
Segment expense	(503,955)	(134,035)	(276,804)	(134,293)	(47,108)	(56,408)	(19,280)	(54,690)	(1,226,573)
Results before share of profits of an associate	268,155	88,438	91,495	54,323	24,599	10,443	(3,334)	91,749	625,868
Share of investment accounted for using the equity method (Note 10(b))									(3,640)
Profit before tax									622,228
Income tax expense									(154,322)
Profit for the year									467,906
Segment assets	4,852,703	1,044,587	2,131,136	1,523,983	599,954	222,883	19,043	246,608	10,640,897
Investment accounted for using the equity method (Note 10(b))	—	—	—	—	—	—	—	—	—
Total assets	4,852,703	1,044,587	2,131,136	1,523,983	599,954	222,883	19,043	246,608	10,640,897
Total liabilities	3,412,214	329,363	538,854	1,022,578	215,836	39,250	6,153	72,832	5,637,080
Other information									
– Interest income (Note 31)	16,685	529	2,047	3,953	60	18	—	165	23,457
– Interest expenses (Note 31)	(88,693)	(13,605)	(33,723)	(104)	(3,574)	(4,665)	—	(1,860)	(146,224)
– Depreciation	(123)	—	(99)	(36,994)	(214)	—	(814)	(5,851)	(44,095)
– Amortization	(125,344)	(47,190)	(80,942)	(213)	(14,273)	(9,886)	—	(1,174)	(279,022)
– Capital expenditures	(8,251)	(209,355)	(18,832)	(1,134)	(35,187)	—	—	(1,490)	(274,249)

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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

(ii) For the year ended 31 December 2015

	Sewage processing and facility construction services			Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	801,005	163,825	327,189	185,401	69,793	63,712	46,733	155,879	1,813,537
Segment expense	(560,144)	(117,772)	(287,569)	(132,454)	(46,766)	(52,703)	(48,682)	(71,916)	(1,318,006)
Results before share of profits of an associate	240,861	46,053	39,620	52,947	23,027	11,009	(1,949)	83,963	495,531
Share of investment accounted for using the equity method (Note 10(b))									(5,349)
Profit before tax									490,182
Income tax expense									(145,703)
Profit for the year									<u>344,479</u>
Segment assets	<u>4,484,801</u>	<u>805,611</u>	<u>2,002,545</u>	<u>1,422,690</u>	<u>469,850</u>	<u>227,198</u>	<u>48,734</u>	<u>561,875</u>	<u>10,023,304</u>
Investment accounted for using the equity method (Note 10(b))	—	—	—	—	—	—	—	25,998	25,998
Total assets	<u>4,484,801</u>	<u>805,611</u>	<u>2,002,545</u>	<u>1,422,690</u>	<u>469,850</u>	<u>227,198</u>	<u>48,734</u>	<u>587,873</u>	<u>10,049,302</u>
Total liabilities	<u>2,877,487</u>	<u>210,755</u>	<u>690,793</u>	<u>1,134,419</u>	<u>206,453</u>	<u>54,493</u>	<u>22,825</u>	<u>233,324</u>	<u>5,430,549</u>
Other information									
– Interest income (Note 31)	8,947	637	1,992	3,961	84	11	—	11,221	26,853
– Interest expenses (Note 31)	(117,868)	(16,825)	(48,220)	(246)	(6,471)	(5,710)	—	(2,080)	(197,420)
– Depreciation	(131)	—	(19)	(37,437)	(399)	—	(616)	(6,126)	(44,728)
– Amortization	(136,569)	(40,322)	(69,181)	(203)	(13,965)	(9,636)	(16)	(2,775)	(272,667)
– Capital expenditures	(188)	(84,920)	(150,106)	(2,831)	(92)	—	—	(2,732)	(240,869)

(iii) The Group's revenue from external customers comes from China.

The non-current assets are located within China.

The revenue from sewage processing and facility construction services segment of RMB 769 million and RMB 222 million is derived from two customers respectively, accounting for 39 % and 11% of the Group's total revenue (2015:RMB798 million and RMB175 million, 41% and 9%).

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6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and constructions (note (i))	Machinery and equipment	Motor vehicles and others	Construction in progress (note (iii))	Total
<i>Cost</i>					
At 1 January 2015	289,632	308,768	64,967	4,133	667,500
Additions	—	4,228	1,633	233,880	239,741
Transfers	—	7,040	—	(7,040)	—
Transfer to intangible assets (Note 7)	—	—	—	(228,030)	(228,030)
Adjustments to original costs	(8,773)	—	—	—	(8,773)
Disposals	—	(27)	(1,009)	—	(1,036)
At 31 December 2015	280,859	320,009	65,591	2,943	669,402
Additions	—	1,377	1,560	271,256	274,193
Transfers	—	—	231	(231)	—
Transfer to intangible assets (Note 7)	—	—	—	(269,572)	(269,572)
Adjustments to original costs	—	—	—	—	—
Disposals	—	(2,275)	(877)	—	(3,152)
At 31 December 2016	280,859	319,111	66,505	4,396	670,871
<i>Accumulated depreciation</i>					
At 1 January 2015	(40,991)	(85,619)	(48,229)	—	(174,839)
Charges for the year (Note (i))	(12,506)	(25,389)	(3,160)	—	(41,055)
Disposals	—	27	918	—	945
At 31 December 2015	(53,497)	(110,981)	(50,471)	—	(214,949)
Charges for the year (Note (i))	(18,647)	(19,651)	(2,124)	—	(40,422)
Disposals	—	1,608	774	—	2,382
At 31 December 2016	(72,144)	(129,024)	(51,821)	—	(252,989)
<i>Net book value</i>					
At 31 December 2016	208,715	190,087	14,684	4,396	417,882
At 31 December 2015	227,362	209,028	15,120	2,943	454,453

- (i) The Group's depreciation expense of property, plant and equipment of RMB36 million (2015: RMB37 million) has been charged in 'cost of sales' and RMB4 million (2015: RMB4 million) in 'administrative expenses' and 'selling expenses'.
- (ii) As at 31 December 2016, the certificate of legal title to the building and land use rights included in property, plant and equipment, investment properties and land use rights with carrying amount of RMB123 million (cost of RMB175 million) (31 December 2015: carrying amount of RMB127 million and cost of RMB175 million) has yet to be obtained. As these assets are supported by legal sale and purchase agreements, the management of the Company is of the view that the legal titles will be received in due course without additional significant cost to the Group.

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6 PROPERTY, PLANT AND EQUIPMENT AND (Continued)

(iii) Construction in progress

a Movement of significant projects of construction in progress

Name	Budgeted amount	31 December 2015	Increase in current year	Transfer to property, plant and equipment	Transfer to intangible assets	31 December 2016	Proportion of expenditures incurred to budgeted amount	Construction Progress	Source of funds
Tianjin Jingu sewage water plants upgrading project	835,590	—	5,017	—	(5,017)	—	1%	1%	Self-raised
Tianjin Beichen sewage water plants upgrading project	462,880	—	2,956	—	(2,956)	—	1%	1%	Self-raised
Hangzhou – Qige sewage water plants upgrading project	310,000	—	209,355	—	(209,355)	—	91%	100%	Self-raised/ Special loans
Xi'an – Dengjiacun and Beishiqiao sewage water plants upgrading project	181,620	—	7,758	—	(7,758)	—	98%	100%	Self-raised
Tianjin – Jiayuan Heiniucheng Road energy station project	247,270	—	29,054	—	(29,054)	—	12%	12%	Self-raised
Other projects		2,943	17,116	(231)	(15,432)	4,396			
Total		<u>2,943</u>	<u>271,256</u>	<u>(231)</u>	<u>(269,572)</u>	<u>4,396</u>			

(i) In 2016, borrowing costs of RMB1 million was capitalised in the construction in progress (2015: Nil).

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7 INTANGIBLE ASSETS

	Concession rights	Technical know-how and software	Total
Cost			
At 1 January 2015	7,204,909	11,321	7,216,230
Transfer from construction in progress (Note 6)	228,030	—	228,030
Additions	987	141	1,128
At 31 December 2015	7,433,926	11,462	7,445,388
Transfer from construction in progress (Note 6)	269,572	—	269,572
Additions	—	56	56
At 31 December 2016	7,703,498	11,518	7,715,016
Amortisation			
At 1 January 2015	(888,398)	(4,725)	(893,123)
Charges for the year	(271,629)	(598)	(272,227)
At 31 December 2015	(1,160,027)	(5,323)	(1,165,350)
Charges for the year	(277,943)	(639)	(278,582)
At 31 December 2016	(1,437,970)	(5,962)	(1,443,932)
Impairment			
At 31 December 2015	(35,288)	—	(35,288)
Charges for the year	(16,795)	—	(16,795)
At 31 December 2016	(52,083)	—	(52,083)
Net book value			
At 31 December 2016	6,213,445	5,556	6,219,001
At 31 December 2015	6,238,611	6,139	6,244,750

- (i) On 31 December 2016, certain concession right with a carrying amount of approximately RMB191 million (a cost of RMB302 million) (31 December 2015: carrying amount of RMB201 million with cost of RMB302 million) has been used as collateral for the loan of RMB50 million (31 December 2015: RMB75 million) (Note 22(a) (i)).
- (ii) The remaining amortisation period of concession rights ranges from 12 to 30 years.
- (iii) Amortisation of RMB278 million (2015: RMB271.6 million) has been charged to the 'cost of sales' and RMB1 million (2015: RMB0.6 million) has been charged to 'administrative expenses'.

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8 LAND USE RIGHTS

All the Group's land use rights are located in the PRC and are held on a medium term leases of 25 to 50 years. The Group's interests in land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

Cost

At 1 January 2015, 31 December 2015 and 31 December 2016	17,841
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Amortisation

At 1 January 2015	(1,975)
Charges for the year	(440)

At 31 December 2015	(2,415)
Charges for the year	(440)

At 31 December 2016	(2,855)
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Net book value

At 31 December 2016	14,986
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At 31 December 2015	15,426
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9 INVESTMENT PROPERTIES

Cost

At 31 December 2015 and 31 December 2016	137,374
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Depreciation

At 1 January 2015	(32,438)
Charges for the year	(3,673)

At 31 December 2015	(36,111)
Charges for the year	(3,673)

At 31 December 2016	(39,784)
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Net book value

At 31 December 2016	97,590
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At 31 December 2015	101,263
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As at 31 December 2016, the Group's investment properties include two office buildings with net book value of RMB98 million (31 December 2015: RMB101 million) located in Tianjin, the PRC, owned by the Group and used for long-term lease. The fair value of the office building used for long-term lease at 31 December 2016 was approximately RMB330 million (31 December 2015: RMB210 million).

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10A SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2016:

Name	Place of registration and operation	Nature of business and business scope	Registered capital	Directly equity interest held by the Group(%)	Equity interest held by the Group(%)	Equity interest held by the non-controlling interest(%)
Qijing Capital Water Co., Ltd.	Qijing, PRC	Sewage processing, tap water supply	178,983	87	87	13
Guizhou Capital Water Co., Ltd.	Guizhou, PRC	Sewage processing	120,000	95	95	5
Baoying Capital Water Co., Ltd.	Baoying, PRC	Sewage processing	53,000	70	70	30
Hang Zhou Tianchuang Capital Water Co., Ltd.	Hangzhou, PRC	Sewage processing	377,445	70	70	30
Tianjin Capital New Materials Co., Ltd.	Tianjin, PRC	Production and sales of new types of construction	37,500	71	71	29
Fuyang Capital Water Co., Ltd.	Fuyang, PRC	Sewage processing	107,100	100	100	—
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Hong Kong, PRC	Sewage processing	62,987	100	100	—
Wendeng Capital Water Co., Ltd.	Wendeng, PRC	Sewage processing	61,400	100	100	—
Tianjin Jinghai Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	12,000	100	100	—
Tianjin Water Recycling Co., Ltd.	Tianjin, PRC	Production and sales of recycled water and technical consulting for water recycling business	100,000	100	100	—
Xi'an Capital Water Co., Ltd.	Xi'an, PRC	Sewage processing	334,000	100	100	—
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd. ("Kaiying")	Tianjin, PRC	Environmental engineering, protection and technical consultation material	20,000	80	100	—
Anguo Capital Water Co., Ltd.	Anguo, PRC	Sewage and tap water	41,000	100	100	—
Wuhan Tianchuang Environmental Protection Co., Ltd.	Wuhan, PRC	Sewage and tap water processing	103,240	100	100	—
Tianjin Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	10,000	100	100	—
Tianjin Zichuang Project Investment Co., Ltd.	Tianjin, PRC	Construction project investment	23,400	100	100	—
Tianjin Jinning Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	15,000	100	100	—
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service	191,951	100	100	—
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service	33,000	—	100	—
Tianjin Jiayuantian Innovative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service	64,000	—	100	—
		property management				

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10A SUBSIDIARIES (Continued)

Name	Place of registration and operation	Nature of business and business scope	Registered capital	Directly equity interest held by the Group(%)	Equity interest held by the Group(%)	Equity interest held by the non-controlling interest(%)
Tianjin Jiayuanbin Innovative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service property management	34,600	—	100	—
Yingshang Capital Water Co., Ltd.	Yingshang, PRC	Sewage processing	53,000	100	100	—
Shandong Capital Environmental Protection Technology Consultant Co., Ltd.	Shandong, PRC	Sewage processing engineering	82,000	100	100	—
Changsha Tianchuang Capital Environmental Protection Co., Ltd.	Changsha, PRC	Sewage processing	40,250	81	81	19
Karamay Tianchuang Capital Water Co., Ltd.	Karamay, PRC	Sewage processing	120,000	90	90	10
Honghu Capital Water Co., Ltd.	Honghu, PRC	Sewage processing	20,000	—	90	10
Sino Legend Industries Limited	Hong Kong	Investment in business	52,433	—	98	2

(i) The kind of legal entity of all of the subsidiaries, except for Kaiying, is limited liability company. Kaiying has reformed as stock limited company since 31 October 2016.

(i) **Material non-controlling interests**

The total non-controlling interests as at 31 December 2016 are RMB259 million (2015: RMB218 million), of which RMB175 million (2015: RMB153 million) is for Hang Zhou Tianchuang Capital Water Co., Ltd. and RMB33 million (2015: RMB32 million) is attributed to Qujing Capital Water Co., Ltd. The non-controlling interests in respect of others are not material.

Summarised financial information on subsidiaries with material non-controlling interests is set out as below:

Summarised balance sheet

	Hang Zhou Tianchuang Capital Water Co., Ltd.		Qujing Capital Water Co., Ltd.	
	2016	2015	2016	2015
Current assets	205,659	128,623	108,149	102,396
Current liabilities	(135,253)	(183,911)	(83,356)	(76,471)
Total current net assets	70,406	(55,288)	24,793	25,925
Non-current assets	853,169	686,510	295,004	310,004
Non-current liabilities	(339,010)	(119,844)	(80,602)	(105,818)
Total non-current net assets	514,159	566,666	214,402	204,186
Net assets	584,565	511,378	239,195	230,111

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10A SUBSIDIARIES (Continued)

(i) Material non-controlling interests (Continued)

Summarised income statement

	Hang Zhou Tianchuang Capital Water Co., Ltd.		Qujing Capital Water Co., Ltd.	
	2016	2015	2016	2015
Revenue	222,941	165,978	101,437	99,182
Profit before income tax	88,857	47,888	14,718	20,339
Income tax expense	(15,670)	(10,519)	(5,633)	(5,513)
Net profit	73,187	37,369	9,085	14,826
Total comprehensive income	73,187	37,369	9,085	14,826
Total comprehensive income allocated to Non-controlling Interests	21,956	11,211	1,221	1,993
Dividends paid to Non-Controlling Interests	—	—	—	—

Summarised cash flows

	Hang Zhou Tianchuang Capital Water Co., Ltd.		Qujing Capital Water Co., Ltd.	
	2016	2015	2016	2015
Cash flows from operating activities				
Cash generated from operations	208,386	118,510	99,753	44,190
Interest paid	(101,078)	(11,907)	(50,681)	(5,560)
Income tax paid	(30,772)	(8,793)	(15,226)	(4,585)
Net cash generated from operating activities	76,536	97,810	33,846	34,045
Net cash used in investing activities	(126,900)	(98,867)	(1,296)	(447)
Net cash generated from/(used in) financing activities	71,281	54,042	(32,041)	(30,948)
Net increase in cash and cash equivalents	20,917	52,985	509	2,650
Cash and cash equivalents at beginning of year	80,701	27,716	7,413	4,763
Cash and cash equivalents at end of year	101,618	80,701	7,922	7,413

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10B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2016	2015
Beginning of year	25,998	31,347
Share of loss	(3,640)	(5,349)
Impairment	(22,358)	—
End of year	—	25,998

- (a) Set out below is the associate of the Group as at 31 December 2016, which, in the opinion of the directors, is immaterial to the Group. The Group's shares of the results of its associate and its assets and liabilities, are as follows:

	Registered capital	% of ownership interest	Assets	Liabilities	Net assets	Revenue	Share of loss
2016							
Tianjin International Machinery Co., Ltd.	120,000	27.50	707,960	559,060	148,900	2,564,690	(3,640)
2015							
Tianjin International Machinery Co., Ltd.	120,000	27.50	784,427	624,107	160,320	2,272,821	(5,349)

- (b) Tianjin International Machinery Co., Ltd. ('International Machinery') is a Sino-foreign joint venture company registered in the Tianjin Economic-technological Development Area. The principal activities of International Machinery include research and development, production and sale of valve and actuating devices; heater exchanger and the whole set of it; environment protection equipment; engineering technical consultation; trading; manufacturing and sale of general equipment.
- (c) Summarised financial information for International Machinery

	31 December 2016	31 December 2015
Net book value of investments	—	25,998
Attributable comprehensive income for the year:		
– Net loss	(3,640)	(5,349)
– Other comprehensive income	—	—
Total comprehensive income	(3,640)	(5,349)

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2016	31 December 2015
Unquoted equity investment	2,000	2,000

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12 LONG-TERM RECEIVABLES

	31 December 2016	31 December 2015
Receivables from toll concession right	<u>309,148</u>	<u>319,463</u>

Receivables from toll road concession represent amortised cost using effective interest rate method, calculated with reference to a fixed cash flow generated from future traffic flow over the concession period till 2030.

13 OTHER CURRENT ASSETS AND OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Other current assets:		
Concession right of a subsidiary (note(i))	47,143	47,143
Others	<u>1,964</u>	<u>25</u>
	<u>49,107</u>	<u>47,168</u>
Other non-current assets:		
Acquisition of Karamay Sewage Treatment Plant Concession rights (note(ii))	180,145	—
Others	<u>7,599</u>	<u>8,051</u>
	<u>187,744</u>	<u>8,051</u>

(i) The concession right is attributed to Anguo Capital Water Co., Ltd.

(ii) As at 4 November 2016, Karamay City Construction Bureau signed the service concession right agreement with the Company and granted concession right to the second sewage water processing plant of Karamay Tianchuang Capital Water Co.,Ltd, which is the subsidiary of the Company. The concession right lasts for 27 years and takes effect on 1 January 2017.

14 INVENTORIES

	31 December 2016	31 December 2015
Construction contract costs	10,423	15,052
Raw materials	10,114	9,237
Finished goods	3,766	2,340
Spare parts and low value consumables	<u>188</u>	<u>522</u>
	<u>24,491</u>	<u>27,151</u>

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15 TRADE RECEIVABLES

	31 December 2016	31 December 2015
Receivables from third parties	1,766,852	1,200,167
Receivables from related parties	71,371	48,778
	<u>1,838,223</u>	<u>1,248,945</u>
Less: allowance for impairment of trade receivables (note(b))	<u>(22,403)</u>	<u>(9,499)</u>
	<u><u>1,815,820</u></u>	<u><u>1,239,446</u></u>

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

	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,275,071	69	1,108,109	89
1 to 2 years	533,389	29	124,862	10
2 to 3 years	29,763	2	15,974	1
Total	<u>1,838,223</u>	<u>100</u>	<u>1,248,945</u>	<u>100</u>

As of 31 December 2016, trade receivables of RMB1,485 million (31 December 2015: RMB1,097 million) were past due but not impaired. These relate to several independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The past-due aging analysis of these trade receivables is as follows:

	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Over due within 1 year	1,019,083	69	976,510	89
Over due 1 to 2 years	458,992	31	113,757	11
Over due 2 to 3 years	7,360	0	6,475	0
Total	<u>1,485,435</u>	<u>100</u>	<u>1,096,742</u>	<u>100</u>

On 31 December 2016, the total amount of trade receivables due from Qijing City Water General Company in respect of sewage processing fee and tap water fee was RMB115 million. The management estimated and provided RMB17 million (31 December 2015: RMB9 million) bad debt provision for those foreseeable uncollectible receivables with aging over 2 years. On 31 December 2016, the total amount of trade receivables due from Kaiying's customers in respect of sales of environmental protection equipment and contract operation was RMB5 million. The management estimated and provided RMB5 million (31 December 2015: nil) bad debt provision for those foreseeable uncollectible receivables with aging over 3 years.

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15 TRADE RECEIVABLES (CONTINUED)

(a) The aging of trade receivables is analysed below: (continued)

	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
2 to 3 years	16,992	76	9,499	100
Over 3 years	5,411	24	—	—
Total	<u>22,403</u>	<u>100</u>	<u>9,499</u>	<u>100</u>

(b) Movements on the Group's allowance for impairment of trade receivables are as follows:

	2016	2015
At 1 January	(9,499)	(7,169)
Additions	<u>(12,904)</u>	<u>(2,330)</u>
At 31 December	<u>(22,403)</u>	<u>(9,499)</u>

The accrual and release of provision for impaired trade receivables have been included in 'administrative expenses' in the consolidated income statement.

(c) The carrying amounts of the Group's trade receivables are all denominated in RMB.

16 PREPAYMENTS

The aging of prepayments is analysed below:

	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	73,690	48	74,919	54
1 to 2 years	51,623	34	46,007	33
Over 2 years	27,885	18	18,801	13
	<u>153,198</u>	<u>100</u>	<u>139,727</u>	<u>100</u>

As at 31 December 2016, the prepayments with aging over one year amounting to RMB80 million (2015:RMB65 million) were mainly prepayments to suppliers for recycled water pipeline connection business. The balances had yet to be settled as those projects have not been completed.

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17 OTHER RECEIVABLES

	31 December 2016	31 December 2015
VAT refund receivables	27,810	57,071
Deposits	120,149	9,301
Others	2,913	8,159
	<u>150,872</u>	<u>74,531</u>

The aging of the Group's other receivables is analysed below:

	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	145,235	96	69,833	94
1 to 2 years	1,586	1	1,445	2
2 to 3 years	1,445	1	1,179	1
Over 3 years	2,606	2	2,074	3
	<u>150,872</u>	<u>100</u>	<u>74,531</u>	<u>100</u>

18 CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on hand	173	128
Cash at bank	1,198,885	1,349,747
	<u>1,199,058</u>	<u>1,349,875</u>
Less: Restricted cash (note (a))	(17,938)	(21,300)
Cash and cash equivalents	<u>1,181,120</u>	<u>1,328,575</u>

(a) As at 31 December 2016, RMB18 million (2015: RMB21 million) are restricted guarantee deposits.

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19 SHARE CAPITAL

Movement of the Company's authorised, issued and fully paid up capital is set out below. All of the Company's shares are ordinary shares with par value of RMB1.

	Circulating A-shares (thousands)	Circulating H-shares (thousands)	Total number of shares (thousands)	Share Capital
At 31 December 2015 and 2016	1,087,228	340,000	1,427,228	1,427,228

A-shares represent shares listed on The Shanghai Stock Exchange and H-shares represent shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. All the A-shares and H-shares rank pari passu in all respects.

20 OTHER RESERVES

	Capital reserve (note(i))	Statutory reserve	Total
Balance at 1 January 2015	382,311	395,063	777,374
Profit appropriation to statutory reserves (note(ii))	—	19,313	19,313
Balance at 31 December 2015	382,311	414,376	796,687
Profit appropriation to statutory reserve (note(ii))	—	30,549	30,549
A subsidiaries reorganized as a stock limited company (note(iii))	16,804	—	16,804
Balance at 31 December 2016	399,115	444,925	844,040

- (i) Capital reserve comprises share premium arising from the issuance of shares and the adjustment arising from transaction with non-controlling interest of the subsidiaries.
- (ii) In accordance with PRC laws and regulations, Companies established in the PRC are required to transfer at least 10% of their net profit for the year, as determined under the PRC for the year, as determined under the PRC accounting standards, to relevant reserves until the reserve reaches 50% of the registered capital. Such reserves can be used to offset accumulated losses, capitalisation into capital and expansion of production.
- (iii) Kaiying, one of the subsidiaries of the Group reformed as a stock limited company. Net assets of RMB37 million as at 31 August 2016, was converted into share capital of RMB20 million and capital reserve of RMB17 million, respectively.

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21 RETAINED EARNINGS

	31 December 2016	31 December 2015
Balance at the beginning of the year	2,177,200	1,965,882
Profit for the year	443,168	330,537
Profit appropriation to statutory reserve (Note 20)	(30,549)	(19,313)
A Subsidiary reorganized as a stock limited company	(16,804)	—
Dividends declared	(99,906)	(99,906)
	<u>2,473,109</u>	<u>2,177,200</u>

22 BORROWINGS

	31 December 2016	31 December 2015
<i>Non-current:</i>		
Long-term bank borrowings (note(a))	696,828	856,536
Less: Current portion (note(a))	(186,400)	(282,350)
	<u>510,428</u>	<u>574,186</u>
Long-term bonds (note(b))	1,394,313	1,393,175
Less: Current portion (note(b))	—	(698,250)
	<u>1,394,313</u>	<u>694,925</u>
Long-term payables (note(c))	311,135	292,993
Less: Current portion (note(c))	(25,927)	(23,216)
	<u>285,208</u>	<u>269,777</u>
Other liabilities (note(d))	1,364	4,545
<i>Total non-current borrowings</i>	<u>2,191,313</u>	<u>1,543,433</u>
<i>Current:</i>		
Current portion of long-term bank borrowings (note(a))	186,400	282,350
Current portion of long-term bonds (note(b))	—	698,250
Current portion of long-term payables (note(c))	25,927	23,216
	<u>212,327</u>	<u>1,003,816</u>
Current portion of other liabilities (note(d))	3,182	3,182
<i>Total current borrowings</i>	<u>215,509</u>	<u>1,006,998</u>

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22 BORROWINGS (Continued)

(a) Long-term bank borrowings

The long-term bank borrowings are summarised as below:

	31 December 2016	31 December 2015
Borrowings from:		
China Construction Bank	250,000	300,000
China Minsheng Bank	144,900	99,000
Industrial and Commercial Bank of China	134,078	237,236
China Development Bank	78,600	109,900
Industrial Bank	40,250	45,000
Agriculture Bank of China	39,000	50,400
Bank of China	10,000	15,000
	<u>696,828</u>	<u>856,536</u>

Summary of terms of bank borrowings:

	31 December 2016	31 December 2015
Pledged (note(i))	50,000	75,000
Guarantee (note(ii))	200,000	225,000
Unsecured	<u>446,828</u>	<u>556,536</u>
	<u>696,828</u>	<u>856,536</u>

- (i) As at 31 December 2016, bank borrowing of RMB50 million (31 December 2015: RMB75 million) is secured by the Group's concession services right (Note 7).
- (ii) As at 31 December 2016, bank borrowing of RMB200 million (31 December 2015: RMB225 million) is guaranteed by City Infrastructure Construction and Investment (Note 38(5) (b)).
- (iii) The interest rates of the long-term bank borrowings range from 4.275% to 5.460% as at 31 December 2016 (31 December 2015: 4.410% to 6.150%).
- (iv) The carrying amounts of the Group's borrowings are denominated in RMB.

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22 **BORROWINGS** (Continued)

(a) **Long-term bank borrowings** (Continued)

(v) At 31 December 2016, the Group's borrowings were repayable as follows:

	31 December 2016	31 December 2015
Within 1 year	186,400	282,350
1 to 2 years	131,053	235,650
2 to 5 years	287,975	245,536
Over 5 years	91,400	93,000
	<u>696,828</u>	<u>856,536</u>

(vi) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the year are as follows:

	31 December 2016	31 December 2015
6 months or less	—	—
6- 12 months	696,828	856,536
	<u>696,828</u>	<u>856,536</u>

(vii) The carrying amounts of long-term bank borrowings approximate their fair values as at 31 December 2016 because they bear interest at prevailing market rates throughout their maturity period.

(b) **Long-term bonds**

	31 December 2015	Due within 1 year	Additions	Repayment/ Amortization	31 December 2016
Par value	700,000	700,000	700,000	(700,000)	1,400,000
Transaction cost	(5,075)	(1,750)	(2,800)	3,938	(5,687)
	<u>694,925</u>	<u>698,250</u>	<u>697,200</u>	<u>(696,062)</u>	<u>1,394,313</u>

Long-term bonds are analysed as follows:

	Par value	Issue date	Duration	Issue amount
Corporate bond I(i)	700,000	16 November 2011	5 years	700,000
Corporate bond II(ii)	700,000	29 May 2013	5 years	700,000
Corporate bond III(iii)	700,000	25 October 2016	5 years	700,000

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22 BORROWINGS (Continued)

(b) Long-term bonds (Continued)

Interest accrued/paid for the bonds is analysed as follows:

	31 December 2015	Interest accrued/paid		31 December 2016
		Interest accrued in current year	Interest paid in current year	
Corporate bond I(i)	7,747	38,733	(46,480)	—
Corporate bond II(ii)	20,351	40,353	(38,150)	22,554
Corporate bond III(iii)	—	4,021	—	4,021
	<u>28,098</u>	<u>83,107</u>	<u>(84,630)</u>	<u>26,575</u>

- (i) On 16 November 2011, the Company issued a long-term bond at par value of RMB700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The fixed interest rate of 6.64% has been accrued and settled per annum. The bond was due and repaid on 16 November 2016.
- (ii) On 29 May 2013, the Company issued a long-term bond at par value of RMB700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The fixed interest rate of 5.45% has been accrued and settled per annum. The bond will be due for repayment on 29 May 2018. The principal will be repaid on maturity.
- (iii) On 25 October 2016, the Company issued a long-term bond at par value of RMB700 million on The Shanghai Stock Exchange. The fixed interest rate of 3.13% has been accrued and settled per annum. The bond will be due for repayment on 25 October 2021. The principal will be repaid on maturity.

(c) Long-term payables

	31 December 2016			31 December 2015		
	Payable	Unrecognised financing charges	Total	Payable	Unrecognised financing charges	Total
Payable to Sewage Company for assets acquisition	<u>507,827</u>	<u>(196,692)</u>	<u>311,135</u>	<u>488,779</u>	<u>(195,786)</u>	<u>292,993</u>

- (i) Summary of terms of long-term payables above:

	Maturity date	Original balance	Effective interest rate	Ending balance	Current portion
Sewage Company	20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>285,208</u>	<u>25,927</u>

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22 **BORROWINGS** (Continued)

(c) **Long-term payables** (Continued)

(i) Summary of terms of long-term payables above: (Continued)

The balance of the long-term payables to Sewage Company is the consideration payable in respect of the acquisition of sewage processing assets from Sewage Company, net of unrecognised financing charges.

Pursuant to the 'Assets transfer agreement from foreign banks loans about Haihe River Tianjin sewage processing project and Beicang sewage processing project', Sewage Company sold to the Company certain sewage processing assets. The first instalment of RMB261 million settled in cash and the remaining amount is to be settled on a quarterly basis in RMB translating at exchange rates prevailing on each repayment date over the remaining years. The fair value of the initial recognition of the payable balance was at fair value assessed based on discounted future cash payments and the discount rate of 5.94%.

The balance denominated in US dollar bears an interest rate at 6 month LIBOR plus 0.6%, the balance denominated in JPY bears fixed interest rates of 1% and 1.55% per annum respectively.

The amounts of long-term payables (including interest) are denominated in the following currencies:

	31 December 2016	31 December 2015
JPY	373,437	353,791
US dollar	134,390	134,988
	<u>507,827</u>	<u>488,779</u>

(ii) The long-term payables mature as follows, and as at 31 December 2016, the current portion of long-term payables of RMB26 million was classified as current liabilities (31 December 2015: RMB23 million).

	31 December 2016	31 December 2015
Within 1 year	25,927	23,216
1 to 2 years	25,070	22,414
2 to 5 years	70,901	63,177
Over 5 years	189,237	184,186
	<u>311,135</u>	<u>292,993</u>

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22 BORROWINGS (Continued)

(d) Other liabilities

	31 December 2016	31 December 2015
<i>Non-current:</i>		
– Government loan for water recycling plants construction (note(i))	<u>1,364</u>	<u>4,545</u>
<i>Current:</i>		
– Current portion of government loan for water recycling plants construction (note(i))	<u>3,182</u>	<u>3,182</u>

- (i) A loan was obtained from Tianjin Municipal Bureau by Tianjin Water Recycling Co., Ltd, a subsidiary of the Company, in 2003 for the purpose of the construction of water recycling plants. The current portion of the long-term loan was RMB3 million as at 31 December 2016(31 December 2015: RMB3 million). The loan is repayable by equal amount instalments over eleven years from 2007. The interest rate is based on the rate for deposits in RMB for period of one year on the quotation date plus 0.3% premium.

(e) As at the balance sheet dates the Group had the following committed undrawn borrowing facilities:

	31 December 2016	31 December 2015
At floating rate expiring within 1 year	370,000	1,250,000
At floating rate expiring beyond 1 year	<u>252,980</u>	<u>265,000</u>
Total	<u>622,980</u>	<u>1,515,000</u>

23 OTHER NON-CURRENT LIABILITIES

	31 December 2016	31 December 2015
Cooling service fee	42,000	44,000
Others	—	93
	<u>42,000</u>	<u>44,093</u>

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24 DEFERRED REVENUE

Deferred revenue represents the subsidies received from governmental authorities with respects to the Group's certain construction and research and development projects. Details of the deferred revenue are as below:

	31 December 2015	Additions	Recognised in other gains-net (Note 33)	31 December 2016	Relating to assets/costs
Sewage water processing plants:					
– Xianyanglu-upgrading project	66,168	—	(2,363)	63,805	assets
– Project of the solution and maintainess of water pollution	4,187	2,702	(230)	6,659	costs
– Dongjiao-upgrading project	46,430	—	(1,658)	44,772	assets
– Jingu	744,683	—	(27,377)	717,306	assets
– Jingu upgrading project	—	163,000	—	163,000	assets
– Beichen upgrading project	—	90,000	—	90,000	assets
– Beishiqiao-upgrading project	12,810	—	(1,018)	11,792	assets
Water recycling plants in:					
– Dongjiao	23,106	—	(675)	22,431	assets
– Beichen	19,687	—	(525)	19,162	assets
Heating and cooling supply service project	91,639	45,950	(4,308)	133,281	assets
Water recycling plants:					
– Xianyanglu-water recycling project	14,109	—	(441)	13,668	assets
– Jingu	118,297	42,000	(3,669)	156,628	assets
Others	4,558	1,005	(1,096)	4,467	costs
Total	1,145,674	344,657	(43,360)	1,446,971	

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25 DEFERRED TAX LIABILITIES

	31 December 2016		31 December 2015	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of property, plant and equipment	<u>126,108</u>	<u>504,432</u>	<u>105,810</u>	<u>423,240</u>
Deferred tax liabilities to be recovered after more than 12 months	<u>126,108</u>		<u>105,810</u>	

(a) Deferred income tax liabilities were recognised on temporary differences arising between the tax bases of concession right and their carrying amounts, which is to be recovered within the concession period.

(b) The movement in deferred income tax liabilities during the year is as follows:

	2016	2015
At 1 January	105,810	86,778
Charged to income statement (Note 32)	<u>20,298</u>	<u>19,032</u>
At 31 December	<u>126,108</u>	<u>105,810</u>

(c) Unrecognised deferred income tax assets

(i) Deferred income tax assets were recognised for impairment loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB14 million (2015: RMB19 million) in respect of losses amounting to RMB58 million (2015: RMB77 million).

(ii) The amount of tax loss will expire in the following years:

Year	2016	2015
2016	—	24,476
2017	18,204	18,204
2018	10,372	10,372
2019	18,056	18,056
2020	6,243	6,243
2021	<u>5,124</u>	<u>—</u>
	<u>57,999</u>	<u>77,351</u>

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26 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND INCOME TAX AND OTHER TAXES PAYABLES

	31 December 2016	31 December 2015
Trade payables (note(a))	107,239	82,599
Advances from customers (note(b))	955,507	874,880
Other payables and others (note(c))	414,574	476,440
Income tax and other taxes payables (note(d))	69,080	96,387
	<u>1,546,400</u>	<u>1,530,306</u>

(a) At 31 December 2016, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	31 December 2016	31 December 2015
Within 1 year	95,336	81,252
1 to 2 years	11,903	1,347
	<u>107,239</u>	<u>82,599</u>

(b) Advances from customers

	31 December 2016	31 December 2015
For pipeline connection services	941,081	858,647
For heating supply service	3,069	6,720
For project Han Gu	4,467	5,267
Others	6,890	4,246
	<u>955,507</u>	<u>874,880</u>

As at 31 December 2016, advances of RMB723 million (31 December 2015: RMB625 million) were aged over one year, which mainly represented advances relating to the recycled water pipeline connection business. The balances had yet to be settled as those projects have not been completed.

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26 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND INCOME TAX AND
OTHER TAXES PAYABLES (Continued)

(c) Other payables and others

	31 December 2016	31 December 2015
Construction costs payable	300,161	307,810
Payable for purchases of property, plant and equipment and concession right	13,892	13,892
Interest payable for long-term bonds (Note 22(c))	26,575	28,098
Provisions (Note 27)	6,463	31,926
Others	67,483	94,714
	<u>414,574</u>	<u>476,440</u>

As at 31 December 2016, other payables of RMB123 million (31 December 2015: RMB205 million) were aged over one year, which mainly represented payables and deposits for sewage plants upgrading projects. The balances had yet to be settled as those projects and their final accounts have not been completed.

(d) Income tax and other taxes payables

	31 December 2016	31 December 2015
Income tax payables	42,589	2,237
VAT payables	22,011	78,493
Business tax payables	—	3,783
Others	4,480	11,874
	<u>69,080</u>	<u>96,387</u>

27 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Major overhauls for the assets of concession right
At 1 January 2016	31,926
Additional provisions	7,790
Used during year	(323)
Balance at 31 December 2016	<u><u>39,393</u></u>

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27 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (Continued)

Analysis of total provisions:

	31 December 2016	31 December 2015
Non-current	32,930	—
Current(Note 26(c))	6,463	31,926
	<u>39,393</u>	<u>31,926</u>

28 TAX EXPENSES AND SURCHARGES

	2016	2015
Business tax	5,135	16,486
City construction and maintenance tax	14,981	9,268
Surcharge and others	25,554	7,535
	<u>45,670</u>	<u>33,289</u>

29 EXPENSES BY NATURE

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

	2016	2015
Amortisation of intangible assets and land use rights	279,022	272,667
Utilities	240,200	235,942
Employee benefit expenses (Note 30)	234,074	207,395
Repair and maintenance expenses	82,197	90,048
Raw materials and consumables used	62,371	86,718
Sewage mud processing fee	65,495	54,343
Cost of recycling water pipeline connection service	55,669	42,938
Depreciation of property, plant and equipment and investment properties	44,095	44,728
Factory environment, detection and fire prevention expenses	23,793	23,409
Impairment of intangible assets (Note 7)	16,795	18,278
Network maintenance costs	14,116	18,351
Provision of trade receivables (Note 15)	12,904	2,330
Travel, meeting and business entertainment expenses	11,835	9,265
Consulting service expenses	9,588	6,229
Construction cost of environmental equipments	7,131	29,005
Toll road management fee	7,120	7,120
Office expenses	5,173	4,704
Auditors' remuneration	4,200	4,200
Expenses of secretary of the board	3,905	3,185
Other taxes	3,264	14,213
Impairment of other current assets	—	10,981
Others	16,984	35,347
	<u>1,199,931</u>	<u>1,221,396</u>

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30 EMPLOYEE BENEFIT EXPENSES

	2016	2015
Wages and salaries	157,421	138,545
Social security costs	43,558	40,155
Pension costs – defined contribution plans	20,570	19,280
Other benefits	12,525	9,415
	<u>234,074</u>	<u>207,395</u>

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2015: one) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments to the remaining three (2015: four) individuals during the year are as follows:

	2016	2015
Salary	1,187	2,024
Discretionary bonuses	790	551
Employer's contribution to a retirement benefit scheme	159	207
Housing fund and other social security contributions	300	360
Total	<u>2,436</u>	<u>3,142</u>

The emoluments fell within the following bands:

	2016	2015
Emolument bands (in HK dollar)		
HK\$500,000 – HK\$1,000,000	<u>3</u>	<u>3</u>
HK\$1,000,000 – HK\$1,500,000	<u>—</u>	<u>1</u>

31 FINANCE EXPENSES – NET

	2016	2015
Interest expenses of borrowings	146,959	197,420
Less: Capitalised interest	(735)	—
Net interest expenses	146,224	197,420
Less: Interest income	(23,457)	(26,853)
– long-term receivables	(10,860)	(11,089)
– bank deposits	(12,597)	(15,764)
Exchange loss (note(a))	24,582	7,394
Others	4,317	4,894
	<u>151,666</u>	<u>182,855</u>

- (a) For the year ended 31 December 2016, the exchange loss on the long-term payables denominated in JPY and US dollar were RMB25 million (2015: RMB7 million of the exchange loss).

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32 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015:16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2016	2015
Current income tax	134,024	126,671
Deferred tax (Note 25)	20,298	19,032
	<u>154,322</u>	<u>145,703</u>

Reconciliation between profit before income tax and the aggregate tax at the rates applicable to profits in the respective entities concerned is set below:

	2016	2015
Profit before tax	<u>622,228</u>	<u>490,182</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	155,557	122,545
Effect of favourable tax rates	(6,588)	(809)
Income not subject to tax	(11,461)	(5,576)
Expenses not deductible for taxation purposes	7,646	16,811
Utilisation of previously unrecognised tax losses	(5,127)	(4,888)
Current year deductible temporary differences for which no deferred income tax asset was recognised	13,014	7,897
Under provision in prior year	—	8,162
Current year tax losses for which no deferred income tax asset was recognised	<u>1,281</u>	<u>1,561</u>
Tax charge	<u>154,322</u>	<u>145,703</u>

33 OTHER GAINS - NET

	2016	2015
VAT refund	142,637	74,319
Government grants (Note 24)	43,360	41,137
(Loss)/gain on disposal of property, plant and equipment	(681)	4
Impairment of investments accounted for using the equity method (Note 10b)	(22,358)	—
Others	<u>7,736</u>	<u>4,074</u>
	<u>170,694</u>	<u>119,534</u>

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34 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the Company of RMB443 million (2015: RMB331 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2015: 1,427 million shares).

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

	2016	2015
Profit attributable to owners of the Company	<u>443,168</u>	<u>330,537</u>
Weighted average number of ordinary shares in issue (million shares)	<u>1,427</u>	<u>1,427</u>
Basic and diluted earnings per share (RMB yuan)	<u><u>0.31</u></u>	<u><u>0.23</u></u>

35 DIVIDENDS

The dividend paid in 2016 and 2015 were RMB133 million (RMB0.07 per share) and RMB129 million (RMB0.07 per share) respectively. A dividend in respect of the year ended 31 December 2016 of RMB0.095 (gross including tax) per share, amounting to a total dividend of RMB136 million, is to be approved at the annual general meeting. These financial statements did not reflect this dividend payable.

14. Financial Statements prepared in accordance with Hong Kong
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36 CASH GENERATED FROM OPERATIONS

	2016	2015
Profit before income tax	622,228	490,182
Adjustments for:		
– Amortisation of deferred revenue (Note 24)	(42,034)	(41,137)
– Depreciation and amortisation	323,117	317,395
– Share of loss of investment accounted for using equity method (Note 10b)	3,640	5,349
– Loss/(gain) on disposal of property, plant and equipment (Note 33)	681	(4)
– Impairment of other current assets	—	10,981
– Impairment of intangible assets	16,795	18,278
– Impairment of investments accounted for using the equity method	22,358	—
– Provision of trade receivables	12,904	2,330
– Interest income on bank deposit (Note 31)	(12,597)	(15,764)
– Interest expense of borrowings (Note 31)	146,224	197,420
– Exchange loss (Note 31)	24,582	7,394
	<hr/>	<hr/>
Changes in working capital		
– Decrease/(increase) in inventories	2,660	(12,759)
– (Increase)/decrease in trade receivables, other receivables and prepayments	(694,355)	1,250,430
– Increase in trade payables, advance from customers and other payables	58,536	211,244
	<hr/>	<hr/>
Cash generated from operations	<u>484,739</u>	<u>2,441,339</u>

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2016	2015
Net book amount	770	91
(Loss)/gain on disposal of property, plant and equipment (Note 33)	(681)	4
	<hr/>	<hr/>
Proceeds from disposal of property, plant and equipment	<u>89</u>	<u>95</u>

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37 COMMITMENTS

The Group's capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2016 Rmb' million	31 December 2015 Rmb' million	31 December 2016 Rmb' million	31 December 2015 Rmb' million
Sewage water processing plants in:				
– Yingshang project	71	—	101	—
– Ningxiang project	1	—	199	—
– Hangzhou (upgrading project)	—	170	26	165
– Karamay	—	—	318	—
– Dalian Chunliuhe project	—	—	221	—
– Dengjiacun and Beishiqiao (upgrading project)	—	—	4	10
Energy Station Project				
– Heiniucheng Road	62	—	156	—
– Tianjin cultural center	4	—	101	—
	<u>138</u>	<u>170</u>	<u>1,126</u>	<u>175</u>

38 RELATED PARTY TRANSACTIONS

(1) Information of the parent of the Company

(a) General information of the parent company

	Type	Place of registration	Legal representative	Nature of business
Municipal Investment	Limited liability company	Tianjin, the PRC	Yu Zhongpeng	Development and management of municipal infrastructures

The Company's ultimate controlling party is City Infrastructure Construction and Investment.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2015	Increase in current year	Decrease in current year	31 December 2016
Municipal Investment	<u>1,820,000</u>	<u>—</u>	<u>—</u>	<u>1,820,000</u>

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2016		31 December 2015	
	Shareholding (%)	Voting rights (%)	Shareholding (%)	Voting rights (%)
Municipal Investment	<u>50.14</u>	<u>50.14</u>	<u>50.14</u>	<u>50.14</u>

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38 RELATED PARTY TRANSACTIONS (Continued)

(2) **Information of subsidiaries**

The information of the subsidiaries is set out in Note 10a.

(3) **Information of associate**

The information of an associate is set out in Note 10b.

(4) **Information of other related parties**

	Relationship with the Group
Tianjin Lecheng Properties Limited	Controlled by City Infrastructure Construction and Investment
Tianjin City Resource Operation Co., Ltd.	Controlled by City Infrastructure Construction and Investment
Tianjin Metro Resources Investment Co., Ltd.	Controlled by City Infrastructure Construction and Investment
Tianjin Haihe Construction Developing Investment Co., Ltd.	Controlled by City Infrastructure Construction and Investment
Tianjin Machinery & Electric Equipment Imp. & Exp. Co., Ltd.	Subsidiary of the associate

(5) **Related party transactions**

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

(a) *Purchases of goods and sales of services*

Purchases of goods

Related party	Nature of transaction	2016	2015
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Purchase of equipment	1,179	21,705
		1,179	21,705

Sales of services

Related party	Nature of transaction	2016	2015
City Infrastructure Construction and Investment	Commission income from contract operation	57,113	59,515
City Infrastructure Construction and Investment	Commission income from construction agent service	396	3,000
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	38,996	37,801
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	2,317	4,867
Tianjin Haihe Construction Developing Investment Co., Ltd.	Income from sewage plant construction	332	1,514
		99,154	106,697

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38 RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(a) Purchase of goods and sales of services (continued):

The Group's pricing on construction contract service with related parties is based on the reference price for construction market stipulated by the local government. Pricing on heating and cooling supply with related parties is based on the reference price stipulated by the government. Other transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

(b) Guarantee:

Guarantor	Guarantee	Amount	Starting date	Due date
City Infrastructure Construction and Investment	Xi'an Capital Water Co., Ltd.	200,000	28 September 2008	27 September 2022

(c) Key management compensation:

	31 December 2016	31 December 2015
Key management compensation	10,263	11,884

(6) Year-end balances arising from sales/purchases of services/goods

	31 December 2016	31 December 2015
Receivables from related parties		
– Tianjin Lecheng Properties Limited	35,139	12,540
– City Infrastructure Construction and Investment	29,337	28,489
– Tianjin Metro Resources Investment Co., Ltd.	6,495	7,349
– Tianjin City Resource Operation Co., Ltd.	401	401
– Tianjin Haihe Construction Developing Investment Co., Ltd.	—	303
	71,372	49,082
Payables to related parties		
– Tianjin Machinery & Electric Equipment Imp. & Exp. Co., Ltd.	1,179	11,715

The receivables from related parties arise mainly from services provided and are due within one year after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties.

The payables to related parties arise mainly from purchase transactions and are due within one year after the date of purchase. The payables bear no interest.

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

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38 RELATED PARTY TRANSACTIONS (Continued)

(7) Related parties' commitments

	31 December 2016	31 December 2015
Guarantee received from City Infrastructure Construction and Investment	<u>200,000</u>	<u>225,000</u>

(8) Transactions/balances with other state-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as 'state-owned enterprises').

During the year, the Group's significant transactions with these state controlled entities include processing of sewage water construction and management of related facility processing of tap water and supply of heating. As at 31 December 2016, majority of the Group's cash and cash equivalents and borrowings are dealt with state controlled banks.

39 EVENTS AFTER THE REPORTING PERIOD

- (1) As at 30 December 2016, authorized by the second extraordinary shareholders' general meeting, the Company will issue A-shares via non-public offering of shares on The Shanghai Stock Exchange. The funds raised is mainly for the upgrading projects of Jingu and Beichen sewage water plants, Heiniucheng Road and Binhai cultural center heating and cooling supply projects, supplementing floating capital and repaying the loans, etc. Until reporting date, the non-public offering of shares has not accomplished.
- (2) As at 14 February 2017, the Company received notice of the bid issued by the Dalian City Construction Bureau, which granted the Company the access to first-phase construction of Dalian Chunliuhe sewage treatment plant BOT upgrading project. As of the date of this report, the two parties has not yet signed a formal contract.

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40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2016	2015
ASSETS		
Non-current assets		
Property, plant and equipment	125,374	141,424
Intangible assets	3,382,259	3,500,146
Land use rights	11,067	11,394
Investment properties	75,818	78,986
Investments in subsidiaries	1,746,349	1,557,255
Available-for-sale financial assets	2,000	2,000
Long-term receivables	309,148	319,463
Other non-current assets	237,480	181,580
	<u>5,889,495</u>	<u>5,792,248</u>
Current assets		
Inventories	4,333	3,697
Trade receivables	1,489,342	1,024,181
Prepayments	423	172
Dividend receivables	8,713	8,713
Other receivables	287,697	151,549
Other current assets	103,843	124,043
Restricted cash	5,000	7,500
Cash and cash equivalents	454,678	596,699
	<u>2,354,029</u>	<u>1,916,554</u>
Total assets	<u><u>8,243,524</u></u>	<u><u>7,708,802</u></u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	1,427,228	1,427,228
Other reserves	825,713	795,164
Retained earnings	1,932,015	1,756,983
Total equity	<u><u>4,184,956</u></u>	<u><u>3,979,375</u></u>

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40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December 2016	2015
LIABILITIES		
Non-current liabilities		
Borrowings	1,889,521	964,702
Deferred revenue	1,129,013	905,198
Deferred income tax liabilities	54,224	46,104
Provisions for other liabilities and charges	32,930	—
	<u>3,105,688</u>	<u>1,916,004</u>
Current liabilities		
Trade payables	20,089	26,193
Advances from customers	5,994	7,666
Wages payables	22,920	12,667
Income tax and other taxes payables	38,154	71,522
Dividend payable	1,438	32,426
Other payables and others	758,358	941,483
Borrowings	105,927	721,466
	<u>952,880</u>	<u>1,813,423</u>
Total liabilities	<u>4,058,568</u>	<u>3,729,427</u>
Total equity and liabilities	<u><u>8,243,524</u></u>	<u><u>7,708,802</u></u>

Liu Yujun

Peng Yilin

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40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

	Share capital	Other reserves	Retained earnings	Total
Balance at 1 January 2015	1,427,228	775,851	1,683,061	3,886,140
Comprehensive income				
– Profit for the year	—	—	193,141	193,141
Transactions with owners				
– Profit appropriation to statutory reserves	—	19,313	(19,313)	—
– Dividends relating to 2014	—	—	(99,906)	(99,906)
Total transactions with owners	—	19,313	(119,219)	(99,906)
Balance at 31 December 2015	1,427,228	795,164	1,756,983	3,979,375
Comprehensive income				
– Profit for the year	—	—	305,487	305,487
Transactions with owners				
– Profit appropriation to statutory reserves	—	30,549	(30,549)	—
– Dividends relating to 2015	—	—	(99,906)	(99,906)
Total transactions with owners	—	30,549	(130,455)	(99,906)
Balance at 31 December 2016	1,427,228	825,713	1,932,015	4,184,956

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41 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of directors of the Company for the year ended 31 December 2016 was as follows:

Name	Emoluments paid in respect of person's services as a director of the Company					Emoluments paid in respect of director's other services with the management of the affairs of the company				Total
	Fees	Salary	Discretionary bonuses	Housing fund and other social security contributions	Employer's contribution to a retirement benefit scheme	Salary	Discretionary bonuses	Housing fund and other social security contributions	Employer's contribution to a retirement benefit scheme	
Chairman:										
Liu Yujun	—	389	290	100	53	—	—	—	—	832
Executive directors:										
Lin Wenbo (i)	—	—	—	—	—	389	327	100	53	869
Fu Yana	—	—	—	—	—	312	255	100	53	720
Peng Yilin	—	—	—	—	—	261	146	79	41	527
Cao Shuo	—	—	—	—	—	19	121	9	4	153
Independent non- executive directors:										
Gao Zongze	220	—	—	—	—	—	—	—	—	220
Wang Xiangfei	220	—	—	—	—	—	—	—	—	220
Guo Yongqing	220	—	—	—	—	—	—	—	—	220
	<u>660</u>	<u>389</u>	<u>290</u>	<u>100</u>	<u>53</u>	<u>981</u>	<u>849</u>	<u>288</u>	<u>151</u>	<u>3,761</u>

The remuneration of directors of the Company for the year ended 31 December 2015 was as follows:

Name	Emoluments paid in respect of person's services as a director of the Company					Emoluments paid in respect of director's other services with the management of the affairs of the company				Total
	Fees	Salary	Discretionary bonuses	Housing fund and other social security contributions	Employer's contribution to a retirement benefit scheme	Salary	Discretionary bonuses	Housing fund and other social security contributions	Employer's contribution to a retirement benefit scheme	
Chairman:										
Liu Yujun	—	416	—	71	39	—	—	—	—	526
Zhang Wenhui	—	139	154	19	13	—	—	—	—	325
Executive directors:										
Lin Wenbo (i)	—	—	—	—	—	555	154	90	52	851
Fu Yana	—	—	—	—	—	460	107	90	52	709
Cao Shuo	—	—	—	—	—	444	80	90	52	666
Independent non- executive directors:										
Li Jieying	212	—	—	—	—	—	—	—	—	212
Gao Zongze	220	—	—	—	—	—	—	—	—	220
Guan Yimin	212	—	—	—	—	—	—	—	—	212
Wang Xiangfei	8	—	—	—	—	—	—	—	—	8
Guo Yongqing	8	—	—	—	—	—	—	—	—	8
	<u>660</u>	<u>555</u>	<u>154</u>	<u>90</u>	<u>52</u>	<u>1,459</u>	<u>341</u>	<u>270</u>	<u>156</u>	<u>3,737</u>

(i) The Director is also the General Manager.

15. List of Documents Available for Inspection

1. The financial statements signed and sealed by the legal representative, the chief accountant and the officer-in-charge of the accounting department of the Company.
2. Original of the report of the auditor sealed by the certified public accountants, signed and sealed by the auditor.
3. Originals of all documents and announcements of the Company publicly disclosed in newspapers designated by the CSRC during the reporting period.
4. The annual report released in other stock markets.