

# Annual Report 2017



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

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. Information on absent directors

| Position of absent director | Name of absent director | Reason(s) for absence provided by the absent director                                                               | Name of proxy |
|-----------------------------|-------------------------|---------------------------------------------------------------------------------------------------------------------|---------------|
| Director                    | An Pindong              | Unable to attend the Board meeting due to work, and appointed Director Ms. Fu Yana as proxy to vote for him instead | Fu Yana       |

III. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have issued standard unqualified audit reports of the Company.

IV. Liu Yujun, the officer in charge of the Company, 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 annual report.

V. The proposal on profit distribution 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 2017 amounted to RMB508.25 million. After deduction of the statutory common reserve of RMB34.98 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 RMB2,473.11 million at the beginning of the year, and less the distribution in 2017 of the 2016 cash dividend of RMB135.59 million, the actual profit distributable to the shareholders for this year amounted to RMB2,810.79 million.

As the Company’s application for the non-public issuance of A shares has been approved by the China Securities Regulatory Commission, the Company is proceeding with the relevant fundraising work. Considering the various factors such as the long-term development of the Company, shareholders’ interests and the validity period of the approval for the non-public issuance of A shares, the Company will not conduct profit distribution in 2017, and there will be no transfer from the capital reserve fund to share capital.

The distribution proposal shall be submitted to the 2017 general meeting of the Company for consideration.

VI. Risk statements for the forward-looking statements

Not applicable

## Important

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

No

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

No

IX. SIGNIFICANT RISKS WARNING

Not applicable

X. Others

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

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# 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                                                 |
| “Caring Company”                | Tianjin Caring 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 Company”       | Tianjin Jinning Capital Water Company Limited                                       |

## 1. Definitions

|                                 |                                                                                                                                                                                                                                                                                |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Jiyuantian”                    | Tianjin Jiyuantian Innovative Energy Technology Company Limited                                                                                                                                                                                                                |
| “Jiyuansheng”                   | Tianjin Jiyuansheng Innovative Energy Technology Company Limited                                                                                                                                                                                                               |
| “Shandong Company”              | Shandong Capital Environmental Protection Technology Consultant Company Limited                                                                                                                                                                                                |
| “Karamay Company”               | Karamay Tianchuang Capital Water Company Limited                                                                                                                                                                                                                               |
| “Jiyuanbin”                     | Tianjin Jiyuanbin Innovative Energy Technology Company Limited                                                                                                                                                                                                                 |
| “Yingshang Company”             | Yingshang Capital Water Company Limited                                                                                                                                                                                                                                        |
| “Changsha Company”              | Changsha Tianchaung Capital Water Company Limited                                                                                                                                                                                                                              |
| “Linxia Company”                | Linxia Capital Water Company Limited                                                                                                                                                                                                                                           |
| “Anhui Company”                 | Anhui Capital Water Company Limited                                                                                                                                                                                                                                            |
| “Dalian Chunliuhe Company”      | Dalian Oriental Chunliuhe Water Quality Purification Company Limited                                                                                                                                                                                                           |
| “International Machinery”       | Tianjin International Machinery Company Limited                                                                                                                                                                                                                                |
| “Jinrongcheng Property Company” | Tianjin Jinrongcheng Property Management Company Limited                                                                                                                                                                                                                       |
| “Road & Network Company”        | Tianjin City Road & Network Supporting Construction Investment Company Limited                                                                                                                                                                                                 |
| “Metro Group”                   | Tianjin Metro Group Company Limited                                                                                                                                                                                                                                            |
| “Metro Construction”            | Tianjin Metro Construction and Development 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 Company |
| “Southwest Region”              | including Guizhou Company and Qujing Company                                                                                                                                                                                                                                   |
| “Northwest Region”              | including Xi’an Company, Karamay Company, Bayannur Jinshengyuan Water Supply and Drainage Co., Ltd. and Linxia Company                                                                                                                                                         |
| “Central China Region”          | including Fuyang Company, Wuhan Company, Yingshang Company and Changsha Company                                                                                                                                                                                                |
| “Eastern China Region”          | including Hangzhou Company and Baoying Company                                                                                                                                                                                                                                 |
| “Northeast Region”              | Dalian Chunliuhe 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<br/>to the Board</u>                            | <u>Company Secretary<br/>in Hong Kong</u>    | <u>Securities<br/>Affairs Representative</u>                      |
|------------------------|----------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------|
| Name                   | Niu Bo                                                               | Mona Y.Y. Cho                                | Guo Fengxian                                                      |
| Correspondence address | TCEP Building<br>76 Weijin South Road<br>Nankai District,<br>Tianjin | 22/F, Worldwide House,<br>Central, Hong Kong | TCEP Building<br>76 Weijin South Road<br>Nankai District, Tianjin |
| Telephone number       | 86-22-23930128                                                       | 852-21629620                                 | 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

|                                                  |                                                                        |
|--------------------------------------------------|------------------------------------------------------------------------|
| Company registered address                       | No. 45 Guizhou Road, Heping District, Tianjin, the PRC                 |
| Postal code of<br>the Company registered address | 300051                                                                 |
| Company office address                           | TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC |
| Postal code of the Company office address        | 300381                                                                 |
| Company website                                  | <a href="http://www.tjcep.com">http://www.tjcep.com</a>                |
| Email address                                    | tjcep@tjcep.com                                                        |



## 2. Company Profile and Major Financial Indicators

### IV. PLACES WHERE INFORMATION IS DISCLOSED AND AVAILABLE FOR INSPECTION

|                                                                                                          |                                                                                                      |
|----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Name of the media designated by the Company 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,<br>76 Weijin South Road, Nankai District, Tianjin, the PRC |

### V. PROFILE OF THE SHARES OF THE COMPANY

#### 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,<br>2 Leading Enterprise Square,<br>202 Hu Bin Road, Huangpu District, Shanghai |
|                                                                 | Name of Signing Accountant | Li Jun Song Yijin                                                                                                   |
| 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                                                                                                      |

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

## (i) Major accounting data

|                                                                                                         |                          | <i>Unit: 0'000 Currency: RMB</i>                                                        |                              |                          |
|---------------------------------------------------------------------------------------------------------|--------------------------|-----------------------------------------------------------------------------------------|------------------------------|--------------------------|
|                                                                                                         |                          | Increase/decrease<br>for the period<br>as compared to<br>the same period                |                              |                          |
| Major accounting data                                                                                   | 2017                     | 2016                                                                                    | last year (%)                | 2015                     |
| Operating income                                                                                        | 214,834.1                | 195,866.6                                                                               | 9.68                         | 193,420.6                |
| Net profit attributable to the<br>shareholders of the Company                                           | 50,825.1                 | 44,316.8                                                                                | 14.69                        | 33,053.7                 |
| Net profit after deduction of<br>extraordinary items attributable to the<br>shareholders of the Company | 46,887.7                 | 40,683.3                                                                                | 15.25                        | 29,723.7                 |
| Net cash flow from operating activities                                                                 | 91,205.2                 | 40,367.0                                                                                | 125.94                       | 231,067.9                |
|                                                                                                         |                          | Increase/decrease<br>as at the end of<br>the period as<br>compared to the<br>end of the |                              |                          |
|                                                                                                         | As at the end of<br>2017 | As at the end of<br>2016                                                                | same period<br>last year (%) | As at the end of<br>2015 |
| Net assets attributable to the<br>shareholders of the Company                                           | 511,704.0                | 474,437.7                                                                               | 7.85                         | 440,111.5                |
| Total assets                                                                                            | 1,245,289.0              | 1,064,089.7                                                                             | 17.03                        | 1,004,930.2              |

## 2. Company Profile and Major Financial Indicators

### (ii) Major financial indicators

| Major financial indicators                                                                   | 2017  | 2016 | Increase/decrease<br>for the period<br>as compared to<br>the same period<br>last year (%) | 2015 |
|----------------------------------------------------------------------------------------------|-------|------|-------------------------------------------------------------------------------------------|------|
| Basic earnings per share (RMB/share)                                                         | 0.36  | 0.31 | 16.13                                                                                     | 0.23 |
| Diluted earnings per share (RMB/share)                                                       | 0.36  | 0.31 | 16.13                                                                                     | 0.23 |
| Basic earnings per share after deduction<br>of extraordinary items (RMB/share)               | 0.33  | 0.29 | 13.79                                                                                     | 0.21 |
| Weighted average return on<br>net assets ratio (%)                                           | 10.33 | 9.71 | Increased by 0.62<br>percentage point                                                     | 7.73 |
| Weighted average return on<br>net assets ratio after deduction<br>of extraordinary items (%) | 9.53  | 8.91 | Increased by 0.62<br>percentage point                                                     | 6.95 |

## 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

## IX. MAJOR FINANCIAL DATA BY QUARTER FOR THE YEAR 2017

*Unit: 0'000 Currency: RMB*

|                                                                                                         | The First<br>Quarter<br>(January<br>to March) | The Second<br>Quarter<br>(April<br>to June) | The Third<br>Quarter<br>(July<br>to September) | The Fourth<br>Quarter<br>(October<br>to December) |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------------------|------------------------------------------------|---------------------------------------------------|
| Operating Income                                                                                        | 48,807.1                                      | 49,856.4                                    | 56,318.1                                       | 59,852.5                                          |
| Net profit attributable to the shareholders<br>of the Company                                           | 11,924.9                                      | 13,580.9                                    | 15,503.7                                       | 9,815.6                                           |
| Net profit after deduction of extraordinary<br>items attributable to the shareholders<br>of the Company | 11,852.5                                      | 12,217.0                                    | 15,544.6                                       | 7,273.6                                           |
| Net cash flow from operating activities                                                                 | 8,804.4                                       | 23,609.1                                    | 9,091.5                                        | 49,700.2                                          |
| Differences between data by quarter and data disclosed in periodical reports                            |                                               |                                             |                                                |                                                   |
| Not applicable                                                                                          |                                               |                                             |                                                |                                                   |

## X. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

*Unit: 0'000 Currency: RMB*

|                                                                                                                                                                                                                                             | Amount in<br>2017 | Notes<br>(if applicable) | Amount in<br>2016 | Amount in<br>2015 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------------|-------------------|-------------------|
| Extraordinary Profit And Loss Items                                                                                                                                                                                                         |                   |                          |                   |                   |
| Profit/loss from disposal of non-current assets                                                                                                                                                                                             | -8.2              |                          | -68.1             | 0.4               |
| Government grants recognized in current<br>profit and loss, except for those closely<br>related to business operation,<br>in compliance with national policy<br>and settled in certain amount which<br>are constantly granted by government | 5,343.3           |                          | 4,336.0           | 4,113.7           |
| Other non-operating income and<br>expenses save for the above items                                                                                                                                                                         | -72.6             |                          | 773.6             | 407.4             |
| Effect on minority interests                                                                                                                                                                                                                | -9.5              |                          | -147.6            | -61.1             |
| Effect on income tax                                                                                                                                                                                                                        | -1,315.6          |                          | -1,260.4          | -1,130.4          |
| Total                                                                                                                                                                                                                                       | <u>3,937.4</u>    |                          | <u>3,633.5</u>    | <u>3,330.0</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 |                 |                 |                 |                |
|-----------------------------------------------------------|----------------------------------|-----------------|-----------------|-----------------|----------------|
|                                                           | 2017                             | 2016            | 2015            | 2014            | 2013           |
| Turnover                                                  | <u>193,193</u>                   | <u>177,381</u>  | <u>175,367</u>  | <u>167,113</u>  | <u>161,468</u> |
| Profit before taxation                                    | <u>71,879</u>                    | <u>62,223</u>   | <u>49,018</u>   | <u>43,326</u>   | <u>38,752</u>  |
| Taxation                                                  | <u>(19,959)</u>                  | <u>(15,432)</u> | <u>(14,570)</u> | <u>(11,555)</u> | <u>(9,916)</u> |
| Profit after taxation                                     | 51,920                           | 46,791          | 34,448          | 31,771          | 28,836         |
| Non-controlling interests                                 | <u>(1,094)</u>                   | <u>(2,474)</u>  | <u>(1,394)</u>  | <u>(954)</u>    | <u>(646)</u>   |
| Profit attributable to the shareholders<br>of the Company | <u>50,825</u>                    | <u>44,317</u>   | <u>33,054</u>   | <u>30,817</u>   | <u>28,190</u>  |
| Dividend                                                  | <u>—</u>                         | <u>13,559</u>   | <u>9,991</u>    | <u>9,991</u>    | <u>11,418</u>  |

Note: The results for each of the five years ended 31 December 2017 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

#### Assets and Liabilities

Unit: 0'000 Currency: RMB

|                                      | As at 31st December |                |                |                |                |
|--------------------------------------|---------------------|----------------|----------------|----------------|----------------|
|                                      | 2017                | 2016           | 2015           | 2014           | 2013           |
| Fixed assets                         | 52,803              | 53,046         | 57,114         | 61,346         | 477,516        |
| Intangible assets                    | 686,970             | 621,900        | 624,475        | 630,610        | 264,848        |
| Associated company                   | —                   | —              | 2,600          | 3,135          | 3,262          |
| Available-for-sale financial assets  | 200                 | 200            | 200            | 200            | 200            |
| Long-term receivables                | 29,496              | 30,915         | 31,946         | 32,615         | 33,361         |
| Trade receivables due after one year | —                   | —              | —              | —              | —              |
| Other non-current assets             | 59,843              | 18,774         | 805            | 846            | 725            |
| Net current assets                   | <u>98,631</u>       | <u>159,479</u> | <u>28,637</u>  | <u>161,617</u> | <u>105,961</u> |
|                                      | 927,943             | 884,314        | 745,777        | 890,369        | 885,873        |
| Non-controlling interests            | 29,674              | 25,944         | 21,764         | 16,750         | 15,805         |
| Long-term liabilities                | <u>386,564</u>      | <u>383,932</u> | <u>283,901</u> | <u>456,570</u> | <u>472,418</u> |
| Net assets                           | <u>511,704</u>      | <u>474,438</u> | <u>440,112</u> | <u>417,048</u> | <u>397,650</u> |

### 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

Compared with 2016, there was no significant change in the principal business of the Company in 2017, which remains to be water utilities business and new energy cooling and heating supply business. Water utilities business includes traditional sewage treatment, tap water supply and reclaimed water business.

##### 1. Water Utilities Business

- (1) Sewage treatment business. As of the end of the reporting period, the Company had sewage treatment projects with a total capacity of 4,713,000 m<sup>3</sup>/day, inclusive of equity-based projects with a total capacity of 4,130,000 m<sup>3</sup>/day, a rise of 460,000 m<sup>3</sup>/day over the beginning of the reporting period; and commissioned operation projects with a capacity of 580,300 m<sup>3</sup>/day, a slight decrease than the previous year. Starting from the four sewage treatment plants covering the urban area of Tianjin, the Company has now spread its sewage treatment business to 15 cities in such places as Northern China, Central China, Southern China and Northwest China, under professional operation and management by 23 project companies.

The Company still operated its equity-based sewage treatment projects under the BOT, TOT and PPP models, alike to last year.

- (2) Tap water supply business. The Company operated the tap water supply business with a capacity of 285,000 m<sup>3</sup>/day, an increase of 85,000 m<sup>3</sup>/day as compared to the beginning of the reporting period, primarily covering Qujing, Yunnan and Bayannur, Inner Mongolia under the BOT and TOT models.
- (3) Recycled water business. The Company operated the recycled water business with a capacity of 355,000 m<sup>3</sup>/day, an increase of 115,000 m<sup>3</sup>/day as compared to the beginning of the reporting period, primarily covering Tianjin, Fuyang, Anhui and Bayannur, Inner Mongolia.

The Company's recycled water business included the production, sales of recycled water and the construction of recycled water pipeline connection works. The production and sales of recycled water employed an integrated mode of production, supply and selling, where the income was generated from sales of recycled water with reference to the government's guiding price. The recycled water pipeline connection works business was operated under the model that the construction cost was collected for the recycled water pipeline connection works undertook according to the relevant requirements of the government. There was no significant change in the business as compared to last year.

##### 2. New Energy Cooling and Heating Supply Business

The new energy cooling and heating supply business is mainly operated in Tianjin, serving a total area of 2 million square meters. During the reporting period, the Company has no addition to projects besides the operation and construction of existing projects. The business is still operated under the BOT model, same as the previous year.

#### 3. Other businesses

In line with the strategic objective of being a comprehensive environmental service provider, the Company was led by technology continually to extend to both ends of the water industrial chain by developing patented process deodorizing technologies and products for sewage plant, and marketing the same while consolidating the basic water business, in order to promote its comprehensive environmental services ability. Supported by proprietary technologies, the Company expanded its business presence to industrial wastewater and sludge treatment fields. One of the Company's subsidiaries and as the platform of converting research and development results, Caring Company responsible for the business development stated above.

In addition, since 2015 the Company has carried out the business of third-party control of environmental pollution. As of the end of the reporting period, the Company was developing two hazardous waste disposal projects in Linyi region, Shandong, to deal with industrial hazardous wastes in Yishui and Tancheng chemical industrial parks through burning, materializing and safe landfill, with a total capacity of 80,000 tons/year. The projects are in the process of construction.

#### (II) Explanation of the Industry Situation

##### (1) *Integrated environmental services have become the mainstream market demand*

After years of development, the urban sewage treatment rate has been continuously improved, and the sewage treatment standard has been continuously improved. With the newly revised Water Pollution Prevention and Control Law of the PRC, the requirements for integrated water environment quality are getting higher and higher. In accordance with the relevant industry policies, such as the State's Thirteenth Five-Year Planning for National Urban Wastewater Treatment and Recycling (《「十三五」全國城鎮污水處理及再生利用建設規劃》), the Company implemented various measures simultaneously including the construction of urban sewage treatment facilities, the comprehensive utilization of water resources and the construction of sponge cities. Therefore, the simple sewage treatment will be shifted to comprehensive water environment treatment for increasing and ensuring the water environment quality and improvement of comprehensive water utilization. As such, water environment comprehensive treatment will become a major trend in the development of the water industry. At the same time, with the demand of rural ecological civilization construction, the comprehensive rural water environment treatment will also become a new development area for the water industry.

In 2017, the State has introduced a number of environmental policies relating to comprehensive environment treatment, inclusive of water, atmosphere and soil. The reports at the 19th National Congress of the CPC put forwarded a range of new targets, new arrangements and new requirements for ecological civilization construction and environmental protection. Therefore, the future environmental protection industry will foster great opportunities and challenges.

Not only exert the water project operation ability in the future to ensure water treatment quality, the Company will also focus on sludge disposal, recycled water use, sponge city construction, water environmental restoration, improving the capacity of water environment comprehensive treatment. Meanwhile, the Company will continue to carry out businesses in the field of solid waste disposal, garbage treatment, soil restoration, so as to enhance its comprehensive environmental service capacity.

*(2) PPP model has been further regulated*

In recent years, the environmental protection industry has experienced a rapid growth in terms of PPP. In order to further regulate the industry, several departments of the State have issued successively several documents, including the Notice on Fully Implementing PPP Model in Sewage and Waste Treatment Projects Involved by the Government (《關於政府參與的污水、垃圾處理項目全面實施PPP 模式的通知》) and the Notice on Regulating the Management of Integrated Information Platform Project Repository of the Government and Social Capital Cooperation (PPP) (《關於規範政府和社會資本合作(PPP) 綜合信息平台項目庫管理的通知》), requiring the sewage and waste treatment projects involved by the government to implement PPP model, which aims to regulate PPP project management and strengthen PPP risk control. The regulation of PPP model is beneficial to the healthy development of the environmental protection industry.

*(3) An increasingly competitive market*

At present, 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 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 2017, the Company further consolidated its strengths and enhanced its overall competitiveness. In respect of market development, the Company made positive progress as it won multiple water treatment projects, such as Bayannur Integrated PPP Project incorporating sewage treatment, reuse and supply of recycled water. Those projects covered Inner Mongolia, Gansu and Dalian, broadening the strategic outlay across the country. As to capital operation, the Company was approved by the CSRC for its proposed non-public issuance of A shares on 1 February 2018, evidencing important progress made in equity financing. With much of joint efforts, Caring Company, a subsidiary of the Company, was quoted officially on the NEEQ, with strategic investors being introduced as at the release date of this report. On business development, the Company continued to focus on environmental services such as new energies and hazardous waste treatment, while strengthening its major businesses. Further, as for technological development, the Company continued to actively reserve environment control technologies and new environmental technical products, combining independent research and development and collaborative research and development.



# 4 Management Discussion and Analysis

## I. OPERATION DISCUSSION AND ANALYSIS

In 2017, under the leadership of the Board of Directors and in accordance with 2017 Operating Strategy and Business Plan of the Group, the management of the Company has continued to solidly promote the innovation and thorough implementation in basic management, technology R&D and market development and other operations, and steadily completed the following tasks:

**1. Give full play to operational advantages to ensure the quality and profits of projects**

With the revision of the Water Pollution Prevention and Control Law of the PRC, the demands of local governments on improving and ensuring the quality of water environment became more explicit. The stable operation of water projects is the basic guarantee of water environment quality. The Company made full use of its operational and technological advantages, on one hand, it ensured the high-quality project construction of existing projects, on the other hand, it also ensured the stable operation of projects and at the same time maintained the projects' franchise agreements to the expected level of return.

**2. Increase market development and expand the scale of water business**

During the reporting period, the Company has set up a marketing centre and focused its efforts on market expansion. In 2017, it has successively obtained a number of water PPP projects such as the Sewage Treatment, Recycled Water Reuse and Water Supply Integration PPP Project in Bayannur, Inner Mongolia. With newly-added sewage treatment capacity of 460,000 tons per day, water supply capacity of 85,000 tons per day and recycled water capacity of 115,000 tons per day, while improving the scale of the water project business, it has also achieved another breakthrough in the Group's regional development, filling the gap of the Group's water business distribution in Liaoning, Gansu and Inner Mongolia.

**3. Vigorously develop new strategic business and gradually improve comprehensive capabilities in environmental service**

During the reporting period, the Company has vigorously developed new strategic business while consolidating and developing its fundamental water business. The Company's Yishui hazardous waste disposal project in Shandong has made certain progress in its preliminary work. At the same time, the Company has also obtained the Tancheng hazardous waste disposal project in Shandong with a total annual capacity of 40,000 tons. At the same time, the Company has actively promoted the new strategic business such as sewage-source heat pump, electric heating, sewage comprehensive treatment integrated equipment and sponge city construction.

#### 4. Promote direct financing to support business development

The Company's non-public issuance of A shares has been approved unconditionally by the China Securities Regulatory Commission. The Company is currently preparing the issue, which will provide financial support for the construction of the Company's water projects and new energy projects, supplementing the Company's rapid development.

Caring Technology, one of the Company's subsidiaries, has successfully listed on the National Equities Exchange and Quotations System and successfully introduced strategic investors to provide support and space for the future development of Caring Technology.

#### 5. Continue to promote R&D and strive to play the leading role in science and technology

During the reporting period, the Company has continued to strengthen scientific and technological R&D and independently obtained a utility model patent for the soil/solid waste remediation and conditioning agent. It has applied for two invention patents and laid a technical foundation for the Company to entering into the soil remediation business.

## II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

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

In 2017, the Group recorded an operating revenue of RMB2,148.34 million, representing an increase of 9.68% as compared to that of last year. The operating costs were RMB1,291.17 million, representing an increase of 12.27% as compared to that of last year. Net profit attributable to the Company was RMB508.25 million, representing an increase of 14.69% over last year. The increase in net profit was mainly due to the income of sewage treatment business among principal business increased compared with the same period of last year, while the increase in exchange gains results in the decrease of financial cost of current period.

### 2. Analysis of the principal business

During the reporting period, the Group's principal business segment did not change significantly compared with the previous year and are still engaged in the sewage treatment and construction of sewage treatment plant business, recycled water business, tap water supply, new energy heating and cooling supply business, toll collection business and transformation of technological achievements. It recorded operating income of RMB1,931.93 million, representing an increase of 8.91% over the previous year.

## 4 Management Discussion and Analysis

### 3. Analysis of Other business

The Group's other business mainly includes the sewage treatment entrusted operation business via the technical service model, as well as the technical and engineering consulting business. During the reporting period, it realised an income for other business of RMB216.41 million, representing an increase of 17.07% over the previous year.

## (I) ANALYSIS OF PRINCIPAL BUSINESSES

### Analysis on changes in income statement and cash flow statement

Unit: 0,000 Currency: RMB

| Item                                    | Amount for<br>the current<br>period | Amount for                      | Percentage<br>change (%) |
|-----------------------------------------|-------------------------------------|---------------------------------|--------------------------|
|                                         |                                     | the same<br>period last<br>year |                          |
| Operating revenue                       | 214,834.1                           | 195,866.6                       | 9.68                     |
| Operating costs                         | 129,117.1                           | 115,001.2                       | 12.27                    |
| Sales expenses                          | 646.7                               | 996.4                           | -35.10                   |
| Administrative expenses                 | 13,974.9                            | 11,648.1                        | 19.98                    |
| Financial expenses                      | 10,033.9                            | 15,166.6                        | -33.84                   |
| Asset impairment losses                 | 2,192.8                             | 5,205.7                         | -57.88                   |
| Other income                            | 18,527.0                            | 0.0                             | 100.00                   |
| Investment income                       | 40.0                                | -364.0                          | 110.99                   |
| Non-operating income                    | 387.0                               | 19,429.5                        | -98.01                   |
| Non-operating expenses                  | 197.5                               | 126.0                           | 56.75                    |
| Non-controlling interests               | 1,094.4                             | 2,473.8                         | -55.76                   |
| Net cash flow from operating activities | 91,205.2                            | 40,367.0                        | 125.94                   |
| Net cash flow from investing activities | -50,715.1                           | -14,248.0                       | -255.95                  |
| Net cash flow from financing activities | 30,766.8                            | -40,864.5                       | 175.29                   |
| Research and development expenses       | 425.5                               | 314.1                           | 35.47                    |

1. Reasons for the change in operating income: The main reason is that the revenue from the sewage treatment and recycled water pipeline connection projects achieved a YoY increase.
2. Reasons for the changes in operating costs: The main reason is the increase in business volume and costs.
3. Reasons for the changes in sales expenses: The main reason is the reduction in personnel expenses.
4. Reasons for the changes in administrative expenses: The main reason is the increase in business volume and personnel expenses.
5. Reasons for the changes in financial expenses: The main reason is that the exchange gains has increased during the current period. At the same time, measures such as the adjustment of stock loan interest rates have been taken, resulting in a YoY decrease in interest expenses.
6. Reasons for the changes in asset impairment losses: The main reason is that the provision for bad debt losses and other current asset impairment decreased as compared to same period last year.
7. Reasons for the changes in other income: According to the most updated Accounting Standards for Business Enterprises of the PRC, government grants that are related to ordinary activities in the current period is classified from non-operating income to other income.
8. Reasons for the change in investment income: The main reason is that at the end of 2016, after making provision for the impairment of International Machinery, the investment losses of this company will no longer be calculated during the current period. The amount incurred in the current period was a dividend of RMB 400,000 received from Tianjin Beifang Rencaigang Company Limited.
9. Reasons for the changes in non-operating income: According to the the most updated Accounting Standards for Business Enterprises of the PRC, government grants that are related to ordinary activities in the current period is classified from non-operating income to other income.
10. Reasons for changes in non-operating expenses: The main reason is the overdue fine of land use tax.
11. Reasons of the changes in non-controlling interests: The main reason is the decrease in net profit of non-wholly-owned subsidiaries during the current period.

## 4 Management Discussion and Analysis

12. Reasons for the changes in net cash flow generated from operating activities: The net amount in the current period is higher than that of the same period of last year mainly because of the receipt of more sewage treatment fee in the current period as compared to that of same period last year.
13. Reasons for the changes in net cash flow generated from investment activities: The main reason is that the investment expenditures of various types of projects of the Company during the current period increased YoY.
14. Reasons for the change in net cash flow generated from financing activities: The main reason is that the loan proceed and repayment amount during the current period increased and decreased respectively YoY.
15. Reasons for the changes in research and development expenses: The main reason is that expenditures have increased according to the R&D plans in the current year.

### 1. Analysis of income and costs

During the reporting period, the operating revenue of the Group was RMB2,148.34 million. The main source of operating revenue was from the principal businesses, including sewage treatment, tap water supply, recycled water business and new energy heating and cooling supply business etc., which in total achieved a revenue of RMB1,931.93 million, accounting for 89.93% of the Group's operating revenue. In particular, sewage treatment and construction of sewage treatment plants business achieved a revenue of RMB1,412.49 million, representing an increase of 3.64% as compared to last year which was mainly due to the rise in unit price of sewage treatment service fees after completion of upgrading and reconstruction of sewage treatment projects of certain subsidiaries and the effect of new water projects; recycled water business generated a revenue of RMB300.9 million, representing an increase of 59.53% as compared to last year, which was mainly due to the increase in water supply volume and the increase in settlement of pipeline connection projects of recycled water; tap water supply business achieved a revenue of RMB67.4 million which was almost the same as compared to last year; the revenue from new energy cooling and heating supply business was RMB71.25 million which was almost the same as compared to last year; toll collection business generated a revenue of RMB62.66 million which was almost the same as compared to last year.

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

## Major business by industry

| Industry                                                                    | Operating revenue | Operating costs | Gross profit margin (%) | Increase/<br>decrease in                                | Increase/<br>decrease in                           | Increase/decrease in<br>gross profit margin<br>as compared to last<br>year (%) |
|-----------------------------------------------------------------------------|-------------------|-----------------|-------------------------|---------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------|
|                                                                             |                   |                 |                         | operating<br>revenue as<br>compared to<br>last year (%) | operating costs<br>as compared to<br>last year (%) |                                                                                |
| Sewage treatment and<br>construction of sewage<br>treatment plants business | 141,249           | 86,080          | 39.06                   | 3.64                                                    | 8.48                                               | Decreased by 2.72<br>percentage points                                         |
| Recycled water business                                                     | 30,090            | 18,188          | 39.55                   | 59.53                                                   | 36.34                                              | Increased by 10.27<br>percentage points                                        |
| Toll collection business                                                    | 6,266             | 712             | 88.64                   | -1.91                                                   | 0.00                                               | Decreased by 0.21<br>percentage points                                         |
| Tap water supply business                                                   | 6,740             | 4,900           | 27.30                   | 0.82                                                    | -0.26                                              | Increased by 0.79<br>percentage points                                         |
| Cooling and heating supply<br>business                                      | 7,125             | 4,886           | 31.42                   | -0.64                                                   | 9.67                                               | Decreased by 6.45<br>percentage points                                         |
| Transformation of<br>technology research<br>achievements (Note 1)           | 1,620             | 1,920           | -18.52                  | 1.57                                                    | 59.20                                              | Decreased by 42.91<br>percentage points                                        |
| Others (Note 2)                                                             | 103               | 83              | 19.42                   | -73.72                                                  | -79.51                                             | Increased by 22.74<br>percentage points                                        |

## Major business by region

| District                          | Operating revenue | Operating costs | Gross profit margin (%) | Increase/<br>decrease in                                | Increase/<br>decrease in                           | Increase/decrease in<br>gross profit margin<br>as compared to last<br>year (%) |
|-----------------------------------|-------------------|-----------------|-------------------------|---------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------------|
|                                   |                   |                 |                         | operating<br>revenue as<br>compared to<br>last year (%) | operating costs<br>as compared to<br>last year (%) |                                                                                |
| Northern China region<br>(Note 3) | 129,044           | 70,765          | 45.16                   | 11.09                                                   | 10.29                                              | Increased by 0.39<br>percentage points                                         |
| Southwest region<br>(Note 4)      | 11,427            | 9,913           | 13.25                   | -16.35                                                  | -0.09                                              | Decreased by 14.12<br>percentage points                                        |
| Eastern China region<br>(Note 5)  | 27,025            | 19,033          | 29.57                   | 12.24                                                   | 28.81                                              | Decreased by 9.06<br>percentage points                                         |
| Northwest region<br>(Note 6)      | 14,152            | 10,410          | 26.44                   | 10.74                                                   | 23.15                                              | Decreased by 7.41<br>percentage points                                         |
| Others                            | 11,545            | 6,648           | 42.42                   | 7.87                                                    | -5.93                                              | Increased by 8.45<br>percentage points                                         |

## 4 Management Discussion and Analysis

Note 1: Because the increase in growth of research and development expenses and personnel expenses, the business was in loss in the current period. Revenue and costs increased as compared to the same period last year;

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

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

Note 4: Southwest region includes Qujing Company and Guizhou Company. If discounting the influence of the price adjustment, the income is basically flat;

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 of Hangzhou Company’s sewage treatment plant, while the operation costs increased due to the improvement of discharge standard;

Note 6: The Northwest region includes to Xi’an Company, Karamay Company and Linxia Company. The newly-added revenue from the new Karamay Project operation and slight increase of Xi’an Company’s water volume resulted in the increase in revenue and operating costs.

### **Description of major business by industry, product and region**

Not applicable

### ***(2). Analysis of production and sales volume***

Not applicable

## (3). Cost analysis

Unit: 0,000 Currency: RMB

## By industry

| Industry                                                           | Cost item                           | Amount<br>for the<br>current<br>period | Percentage<br>of total<br>costs for<br>the current<br>period (%) | Amount in<br>the same<br>period<br>last year | Percentage<br>of total costs<br>for the<br>same period<br>last year<br>(%) | Percentage<br>change in<br>the amount<br>for the<br>current<br>period as<br>compared<br>to the same<br>period<br>last year | Explanation                                                                                                                                                                                           |
|--------------------------------------------------------------------|-------------------------------------|----------------------------------------|------------------------------------------------------------------|----------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                    |                                     |                                        |                                                                  |                                              |                                                                            | (%)                                                                                                                        |                                                                                                                                                                                                       |
| Sewage treatment<br>and construction of<br>sewage treatment plants | Labor                               | 11,725                                 | 10.04                                                            | 11,301                                       | 10.83                                                                      | 3.75                                                                                                                       | Nil.                                                                                                                                                                                                  |
|                                                                    | Energy consumption<br>(electricity) | 19,767                                 | 16.93                                                            | 19,786                                       | 18.96                                                                      | -0.10                                                                                                                      | Nil.                                                                                                                                                                                                  |
|                                                                    | Materials consumption               | 7,664                                  | 6.56                                                             | 5,032                                        | 4.82                                                                       | 52.31                                                                                                                      | The material consumption has increased mainly due to the improvement in water quality and increase in the volume of sewage treatment after the upgrading and construction of sewage treatment plants. |
|                                                                    | Depreciation<br>and amortization    | 27,093                                 | 23.20                                                            | 25,296                                       | 24.23                                                                      | 7.10                                                                                                                       | Nil.                                                                                                                                                                                                  |
| Other manufacturing<br>costs                                       | 19,831                              | 16.98                                  | 17,933                                                           | 17.18                                        | 10.58                                                                      | Nil.                                                                                                                       |                                                                                                                                                                                                       |
| Subtotal                                                           |                                     | 86,080                                 | 73.72                                                            | 79,348                                       | 76.02                                                                      | 8.48                                                                                                                       | 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 last year (%) |                                                                                 | Explanation |
|------------------------------------|----------------------------------|-------------------------------|------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------|
|                                    |                                  |                               |                                                      |                                     |                                                             |                                                                                                     |                                                                                 |             |
| Tap water                          | Labor                            | 776                           | 0.66                                                 | 715                                 | 0.69                                                        | 8.53                                                                                                | Nil.                                                                            |             |
|                                    | Energy consumption (electricity) | 392                           | 0.34                                                 | 421                                 | 0.40                                                        | -6.89                                                                                               | Nil.                                                                            |             |
|                                    | Materials consumption            | 2,673                         | 2.29                                                 | 2,653                               | 2.54                                                        | 0.75                                                                                                | Nil.                                                                            |             |
|                                    | Depreciation and amortization    | 982                           | 0.84                                                 | 989                                 | 0.95                                                        | -0.71                                                                                               | Nil.                                                                            |             |
|                                    | Other manufacturing costs        | 77                            | 0.07                                                 | 135                                 | 0.13                                                        | -42.96                                                                                              | It is mainly due to the reduction of maintenance cost from the tap water plant. |             |
|                                    | Subtotal                         | 4,900                         | 4.20                                                 | 4,913                               | 4.71                                                        | -0.26                                                                                               | Nil.                                                                            |             |
| Recycled water supply              | Labor                            | 1,548                         | 1.33                                                 | 1,390                               | 1.33                                                        | 11.37                                                                                               | Nil.                                                                            |             |
|                                    | Energy consumption (electricity) | 817                           | 0.70                                                 | 764                                 | 0.73                                                        | 6.94                                                                                                | Nil.                                                                            |             |
|                                    | Materials consumption            | 595                           | 0.51                                                 | 578                                 | 0.55                                                        | 2.94                                                                                                | Nil.                                                                            |             |
|                                    | Depreciation and amortization    | 3,742                         | 3.20                                                 | 3,610                               | 3.46                                                        | 3.66                                                                                                | Nil.                                                                            |             |
|                                    | Other manufacturing costs        | 1,745                         | 1.49                                                 | 1,426                               | 1.37                                                        | 22.37                                                                                               | It is mainly due to the increase in maintenance cost of pipe network.           |             |
|                                    | Subtotal                         | 8,447                         | 7.23                                                 | 7,768                               | 7.44                                                        | 8.74                                                                                                | Nil.                                                                            |             |
| Recycled water pipeline connection | Construction cost                | 9,741                         | 8.34                                                 | 5,572                               | 5.34                                                        | 74.82                                                                                               | Settlement of pipe network business increased, and the cost increased.          |             |
|                                    | Subtotal                         | 9,741                         | 8.34                                                 | 5,572                               | 5.34                                                        | 74.82                                                                                               | Nil.                                                                            |             |
| Cooling and heating supply         | Labor                            | 827                           | 0.71                                                 | 643                                 | 0.62                                                        | 28.62                                                                                               | Nil.                                                                            |             |
|                                    | Energy consumption (electricity) | 1,909                         | 1.63                                                 | 1,712                               | 1.64                                                        | 11.51                                                                                               | Nil.                                                                            |             |
|                                    | Materials consumption            | 59                            | 0.05                                                 | 50                                  | 0.05                                                        | 18.00                                                                                               | Nil.                                                                            |             |
|                                    | Depreciation and amortization    | 1,502                         | 1.29                                                 | 1,443                               | 1.38                                                        | 4.09                                                                                                | Nil.                                                                            |             |
|                                    | Other manufacturing costs        | 589                           | 0.50                                                 | 607                                 | 0.58                                                        | -2.97                                                                                               | Nil.                                                                            |             |
|                                    | Subtotal                         | 4,886                         | 4.18                                                 | 4,455                               | 4.27                                                        | 9.67                                                                                                | Nil.                                                                            |             |

| Industry                                                    | Cost item                                   | Amount<br>for the<br>current<br>period | Percentage<br>of total<br>costs for<br>the current<br>period (%) | Amount in<br>the same<br>period<br>last year | Percentage<br>of total costs<br>for the<br>same period<br>last year<br>(%) | Percentage<br>change in<br>the amount<br>for the<br>current<br>period as<br>compared<br>to the same<br>period<br>last year | Explanation                                                                          |
|-------------------------------------------------------------|---------------------------------------------|----------------------------------------|------------------------------------------------------------------|----------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
|                                                             |                                             |                                        |                                                                  |                                              |                                                                            | (%)                                                                                                                        |                                                                                      |
| Toll collection                                             | Collection management<br>fees               | 712                                    | 0.61                                                             | 712                                          | 0.68                                                                       | 0.00                                                                                                                       | Nil.                                                                                 |
|                                                             | Subtotal                                    | 712                                    | 0.61                                                             | 712                                          | 0.68                                                                       | 0.00                                                                                                                       | Nil.                                                                                 |
| Transformation of<br>achievements in technology<br>research | Labor                                       | 784                                    | 0.67                                                             | 580                                          | 0.56                                                                       | 35.17                                                                                                                      | It is mainly due to the increase in employees.                                       |
|                                                             | Expenditure for materials<br>and facilities | 1,049                                  | 0.90                                                             | 467                                          | 0.45                                                                       | 124.63                                                                                                                     | It is mainly due to the increase in the sales of environmental protection equipment. |
|                                                             | Other manufacturing<br>costs                | 87                                     | 0.08                                                             | 159                                          | 0.15                                                                       | -45.28                                                                                                                     | It is mainly due to the decrease in labor costs.                                     |
|                                                             | Subtotal                                    | 1,920                                  | 1.65                                                             | 1,206                                        | 1.16                                                                       | 59.20                                                                                                                      | Nil.                                                                                 |
| Others                                                      | Product sale                                | 0                                      | 0.00                                                             | 338                                          | 0.32                                                                       | -100.00                                                                                                                    | There was no sales of pipes in this year and no costs incurred.                      |
|                                                             | Other manufacturing<br>costs                | 83                                     | 0.07                                                             | 67                                           | 0.06                                                                       | 23.88                                                                                                                      | Nil.                                                                                 |
|                                                             | Subtotal                                    | 83                                     | 0.07                                                             | 405                                          | 0.38                                                                       | -79.51                                                                                                                     | Nil.                                                                                 |
| Total                                                       |                                             | 116,769                                | 100.00                                                           | 104,379                                      | 100.00                                                                     | 11.87                                                                                                                      |                                                                                      |

## 4 Management Discussion and Analysis

### Cost analysis and other explanation

Not applicable

#### (4). Major customers and major suppliers

Sales from the top five customers amounted to RMB1,261.211 million, accounting for 58.71% 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 RMB332.9593 million, accounting for 27.93% 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

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

#### 3. Research and development investment

##### *Research and development investment*

*Unit: 0,000 Currency: RMB*

|                                                                                                                  |        |
|------------------------------------------------------------------------------------------------------------------|--------|
| Expensed research and development investment during the period                                                   | 375.92 |
| Capitalized research and development investment during the period                                                | 49.54  |
| Total research and development investment                                                                        | 425.46 |
| Percentage of total research and development investment over operating revenue (%)                               | 0.2    |
| Number of research and development personnel in the Company                                                      | 113    |
| Percentage of number of research and development personnel over the total number of personnel of the Company (%) | 7.25   |
| Ratio of capitalized research and development investment (%)                                                     | 11.64  |

##### *Explanation*

Not applicable

#### 4. Cash flow

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

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

Not applicable

## (III) ANALYSIS OF ASSETS AND LIABILITIES

## 1. Assets and liabilities

Unit: 0,000 Currency: RMB

| Item                         | Ending<br>Balance in<br>the Current<br>Period | Proportion of                                                           | Ending<br>Balance<br>in the<br>Prior Period | Proportion of                                      | Proportion<br>of the<br>Changes in<br>Ending<br>Balance (%) | Explanation                                                                                                                                                                                            |
|------------------------------|-----------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------|----------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                              |                                               | Ending<br>Balance in<br>the Current<br>Period to<br>Total Assets<br>(%) |                                             | Ending<br>Balance<br>in the<br>Prior Period<br>(%) |                                                             |                                                                                                                                                                                                        |
| Cash and<br>cash equivalents | 190,567.8                                     | 15.30                                                                   | 119,905.8                                   | 11.27                                              | 58.93                                                       | It is mainly due to the compensation for the land consolidation reserve derived from the relocation of the Jizhuangzi Sewage Treatment Plant and Recycled Water Plant received during the fiscal year. |
| Notes receivable             | 190.0                                         | 0.02                                                                    | 40.0                                        | 0.00                                               | 375.00                                                      | It is mainly due to the receipt of new bank acceptance notes during the current period.                                                                                                                |
| Other receivables            | 9,370.8                                       | 0.75                                                                    | 15,087.2                                    | 1.42                                               | -37.89                                                      | It is mainly due to the recovered bid security for projects during the current period.                                                                                                                 |
| Other current assets         | 8,544.9                                       | 0.69                                                                    | 4,910.7                                     | 0.46                                               | 74.01                                                       | It is mainly due to reclassification of the deductible input value added tax (VAT) generated from the asset purchasing.                                                                                |
| Construction in<br>progress  | 2,065.7                                       | 0.17                                                                    | 439.6                                       | 0.04                                               | 369.90                                                      | It is mainly due to the increase in investment in non-franchising projects during the current period.                                                                                                  |
| Other non-<br>current assets | 59,843.3                                      | 4.81                                                                    | 18,774.4                                    | 1.76                                               | 218.75                                                      | It is mainly due to the payment of RMB380 million as investment amount of Baynnur Project.                                                                                                             |
| Short-term<br>borrowings     | 49,900.0                                      | 4.01                                                                    | 0.0                                         | 0.00                                               | 100.00                                                      | Mainly due to short-term loans newly added by the Company.                                                                                                                                             |
| Dividends<br>payable         | 191.2                                         | 0.02                                                                    | 143.8                                       | 0.01                                               | 32.96                                                       | Mainly due to payable dividends counting and drawing in 2016.                                                                                                                                          |

## 4 Management Discussion and Analysis

| Item                                        | Ending Balance in the Current Period | Proportion of                                            |                                    | Proportion of                                          |                                                 | Reasons for the changes                                                                                                                                                                                |
|---------------------------------------------|--------------------------------------|----------------------------------------------------------|------------------------------------|--------------------------------------------------------|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                             |                                      | Ending Balance in the Current Period to Total Assets (%) | Ending Balance in the Prior Period | Ending Balance in the Prior Period to Total Assets (%) | Proportion of the Changes in Ending Balance (%) |                                                                                                                                                                                                        |
| Other payables                              | 62,720.9                             | 5.04                                                     | 40,811.1                           | 3.84                                                   | 53.69                                           | Mainly due to the increased payables for construction projects.                                                                                                                                        |
| Non-current liabilities due within one year | 87,009.2                             | 6.99                                                     | 21,232.7                           | 2.00                                                   | 309.79                                          | It is mainly because the medium-term notes due within one year were reclassified to non-current liabilities due within one year.                                                                       |
| Bonds payable                               | 69,798.4                             | 5.60                                                     | 139,431.3                          | 13.10                                                  | -49.94                                          | It is mainly because the medium-term notes due within one year were reclassified to non-current liabilities due within one year.                                                                       |
| Deferred income                             | 212,906.4                            | 17.10                                                    | 144,697.1                          | 13.60                                                  | 47.14                                           | It is mainly due to the compensation for the land consolidation reserve derived from the relocation of the Jizhuangzi Sewage Treatment Plant and Recycled Water Plant received during the fiscal year. |

### (IV) INDUSTRY ANALYSIS

With the revision of Water Pollution Prevention and Control Law of the PRC, which results in increasingly stringent environmental protection standards, the existing sewage treatment plants have gradually begun to upgrade in order to meet the higher discharge standards. The rising discharge quality standards 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 within 10%, and the urban sludge harmless disposal rate shall reach 75%, and the utilization rate of recycled water in cities and counties shall be raised further. The above planning objectives provide great opportunities for the market.

“Several Opinions on the Promotion of the Price Mechanism Reform” issued by 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 costs of sewage treatment and sludge treatment and disposal.

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.

## Water Utilities Industry Analysis

## 1. Capacity and operation situation during the reporting period

| Section             | Capacity                           | Utilization rate<br>of capacity (%) |
|---------------------|------------------------------------|-------------------------------------|
| Supply of tap water | 200,000 tons m <sup>3</sup> /day   | 57.7                                |
| Sewage treatment    | 3,130,000 tons m <sup>3</sup> /day | 97.4                                |
| Recycled water      | 240,000 tons m <sup>3</sup> /day   | 47.9                                |

| District      | Capacity | Scale of new<br>production<br>during the<br>reporting<br>period | Planned<br>capacity of<br>projects under<br>construction | Estimated<br>production time |
|---------------|----------|-----------------------------------------------------------------|----------------------------------------------------------|------------------------------|
|               |          | Northern China                                                  | 184                                                      | 0                            |
| Central China | 37       | 0                                                               | 19                                                       | 2018                         |
| Eastern China | 65       | 0                                                               | 0                                                        | 2018                         |
| Southwest     | 39       | 0                                                               | 0                                                        |                              |
| Northwest     | 27       | 5                                                               | 19                                                       | 2019                         |
| Northeast     | 0        | 0                                                               | 12                                                       | 2018                         |

The Company won the bidding of Bayannur Sewage Treatment, Recycled Water Reuse and Water Supply Integration PPP Project, which has a sewage treatment scale of 150,000 cubic meters a day, a recycled water reuse scale of 115,000 cubic meters a day and a water supply scale of 85,000 cubic meters a day. As the equity acquisition has not been completed during the reporting period, it is not included in the above scale calculation.

## 2. Sales information

| Section             | <i>Unit: 0,000 Currency: RMB</i> |        |                     |                   |
|---------------------|----------------------------------|--------|---------------------|-------------------|
|                     | Sales<br>revenue                 | Cost   | Gross<br>margin (%) | YoY Change<br>(%) |
| Supply of tap water | 6,740                            | 4,900  | 27.3                | 0.79              |
| Sewage treatment    | 141,249                          | 86,080 | 39.06               | -2.81             |
| Recycled water      | 6,121                            | 8,447  | -38.00              | 18.30             |

## 4 Management Discussion and Analysis

### (1). Section of supply of tap water

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

Unit: Yuan Currency: RMB

| District | Average water price | Pricing principle                                                                                                                                                                   | Adjustment during the reporting period          | Adjustment mechanism (if any)                         |
|----------|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------------|
| Qijing   | 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 |

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

Unit: Yuan Currency: RMB

| Type of client | Average water price | Pricing principle                                                                                                                                                                   | Adjustment during the reporting period          | Adjustment mechanism (if any)                         |
|----------------|---------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------------|
| Government     | 1.688               | 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 | 1.26                | 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 |
| Central China  | 1.08                | The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.        | Nil                                    | Price adjustment by the cost factor adjustment method |
| Eastern China  | 1.12                | The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.        | Nil                                    | Price adjustment by the cost factor adjustment method |
| Southwest      | 1.15                | The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.        | Nil                                    | Price adjustment by the cost factor adjustment method |



## 4 Management Discussion and Analysis

| District  | Average water price | Pricing principle                                                                                                                                                              | Adjustment during the reporting period | Adjustment mechanism (if any)                         |
|-----------|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------|
| Northwest | 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. | Nil                                    | Price adjustment by the cost factor adjustment method |
| Northeast | 0.82                | The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return. | Nil                                    | Price adjustment by the cost factor adjustment method |

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

Unit: Yuan Currency: RMB

| Type of client | Average water price | Pricing principle                                                                                                                                                              | Adjustment during the reporting period | Adjustment mechanism (if any)                         |
|----------------|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------|
| Government     | 1.11                | 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. | No                                     | Price adjustment by the cost factor adjustment method |

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

During the reporting period, the tap water supply projects of the Company that have been put into operation were Qujing No. 1, No. 2, and No. 3 Water Plants. The water sources for these plants are Xiaoxiang Reservoir, Xihe Reservoir and Shuicheng Reservoir. According to the inspection data of Qujing Zhizhen Environmental Testing Co., Ltd.\* in 2017, the water quality indicators of the three reservoirs met Class II surface water environmental quality standards (GB3838-2002).

## 4. Supply of tap water

| Water supply            | Sales volume            | Difference of<br>production and<br>sales volume<br>(%) | YoY        |                                                                   | Impact on the<br>Company's<br>operation |
|-------------------------|-------------------------|--------------------------------------------------------|------------|-------------------------------------------------------------------|-----------------------------------------|
|                         |                         |                                                        | Change (%) | Reason                                                            |                                         |
| 42,130,000 cubic meters | 42,130,000 cubic meters | 0                                                      | 2.4        | Water used for residents' living and urban greening has increased | No material impact                      |

## 5. Significant capital expenditure

*Unit: 0,000 Currency: RMB*

| Total amount of<br>capital expenditure<br>plan during the<br>reporting period | Source of capital                                                                                                                  | Capital cost | Project status      |
|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------------|
| 257,335                                                                       | The project's capital was derived from the Company's own funds and the remaining construction capital was derived from bank loans. | 4.275%       | See the table below |

## 4 Management Discussion and Analysis

### 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 investment amount | Project revenue                                                                                                                                                                                            | If there is any significant change or significant difference in the project progress, the reasons shall be stated and disclosed |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------------------------|--------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| BOT Model (The Upgrading and Reconstruction Project of Tianjin Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant and Karamay Phase II Project) | 161,624              | Under construction                                  | 10,952                                           | 11,749.3                      | For the details of the projects (Tianjin Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant) revenues, see "Major Non-equity"; Karamay Phase II is under construction and there is no income. | Nil.                                                                                                                            |
| TOT Model (Karamay Project Phase I, Bayannur PPP Project)                                                                                                    | 95,711               | The acquisition is expected to be completed in 2018 | 38,000                                           | 56,014                        | It is expected to be put into operation in 2018                                                                                                                                                            | Nil.                                                                                                                            |

## (V) ANALYSIS OF INVESTMENT

### 1. Overall analysis of equity investment

During the reporting period, the Company's equity investment was distributed in water projects and hazardous waste business, and for the establishment of project companies or purchase of equity thereof. The total amount of equity investment in 2017 equals to RMB719.49 million, representing an increase of RMB476.11 million over that of last year.

#### (1) Major equity investment

- (1) The Company invested RMB 63.67 million to establish a wholly-owned subsidiary, Anhui Company, which was designed to operate the PPP project of Yuwan Sewage Treatment Plant in Hefei. The total investment of this project is RMB176 million, and it is expected that the project will start production in 2018. Currently, Anhui company has been established.
- (2) The Company invested RMB 45 million to establish Linxia Company, a wholly-owned subsidiary of the Company, which was designed to operate the expanded PPP project of Sewage Treatment Plant in Linxia. The total investment of this project is RMB 150 million and it is expected that the project will be put into production in 2018. Currently, Linxia Company has been established.
- (3) On July 17, 2017, the Board of Directors of the Company agreed to fund the reorganization of Dalian Chunliuhe Company. The Company's cash contribution was RMB 47.98087 million, accounting for 51% registered capital of Dalian Chunliuhe Company; Dalian Tongyang Municipal Engineering Group Co., Ltd. invested RMB 25.25089 million, accounting for 26.84% registered capital of Dalian Chunliuhe Company; Dalian Drainage Business Corporation invested the land use rights of RMB18.966 million, accounting for 20.16% registered capital of Dalian Chunliuhe Company; Dalian Municipal Engineering Co., Ltd. invested RMB 940,790, accounting for 1% registered capital of Dalian Chunliuhe Company; and Tianjin Municipal Engineering Design and Research Institute invested RMB 940,790, accounting for 1% registered capital of Dalian Chunliuhe Company. After the reorganization was completed, the registered capital of Dalian Chunliuhe Company was RMB 94.07934 million, which was used for its franchise Sewage Treatment Plant's phase 1 upgrade and expansion PPP project. At present, the project is under construction and the reorganization of Dalian Chunliuhe Company has been completed.

- (4) On December 7, 2017, the Board of Directors of the Company agreed to establish Changsha Company with Tianjin MOTIMO Membrane Technology Co., Ltd. (“**MOTIMO**”), Changsha Shuntai Investment Management Co., Ltd. (“**Shuntai Investment**”) and Tianjin No.2 Municipal Highway Engineering Co., Ltd.. The Company subscribes RMB 15.3181 million, holding 80% equity of the project company, MOTIMO subscribes RMB 574,400, holding 3% equity of the project company, and Shuntai Investment subscribes RMB 1.9148 million, holding 10% equity of the project company, and Tianjin No. 2 Municipal Highway Engineering Co., Ltd. subscribes RMB 1.3403 million, holding 7% equity of the project company. Changsha Tianchuang Water Co., Ltd. has a registered capital of RMB 19,147.6 million for its franchise PPP project of sewage treatment and reuse in Ningxiang Economic and Technological Development Zone. During the reporting period, Changsha Company has been established.
- (5) In August 2017, the Company won the bid of the integrated PPP project of sewage treatment and reuse and water supply (hereinafter referred to as “**the Project**”) in Bayannur, Inner Mongolia. The contract object of the Project is 70% state-owned equity of Bayannur Jinshengyuan Water Supply and Drainage Co., Ltd. (“**Jinshengyuan Company**”), and the total assets value of the corresponding cooperation projects was RMB 1.2198 billion, including: the value of the stock assets was RMB 1.0676 billion (including the finance lease was RMB 267.81 million), and the value of the assets to be built was RMB 152.2 million. The bid was based on the 70% equity transfer of the stock asset value of RMB1.0676 billion, and the assets of projects to be built will be increased in capital according to the audited fair value after completion of the projects. The Company won the bid at RMB 776.9 million. After the acquisition of equity, the registered capital of Jinshengyuan Company was RMB 1,067.6 million (the Company purchased 70% equity of Jinshengyuan Company in cash of RMB 776.9 million (of which the premium was RMB 29.6 million). Bayannur Hetao Water Company invested the investment in kind of RMB 320.3 million, holding 30% equity) to operate the franchise integrated PPP project of sewage treatment, recycled water reuse and water supply in Bayannur, Inner Mongolia. During the reporting period, the Company settled the first payment of RMB380 million for the acquisition of equity. At present, the equity acquisition has been completed and the project is expected to be into operation from 2018 onwards.
- (6) The Board of Directors of the Company agreed to invest RMB 110 million in the capital increase of a wholly-owned subsidiary, Shandong Company, for its investment in the construction of the Tancheng integrated hazardous waste disposal centre project. The estimated total investment of this project is approximately RMB 350.6481 million, and the investment in the first phase is approximately RMB 316.978 million and it is currently under construction. After the capital increase, the registered capital of the Shandong Company increased to RMB 192 million.

- (7) The Board of Directors of the Company agreed to invest RMB 7.56 million in the capital increase of a wholly-owned subsidiary, Jinning Capital Company for its investment in the upgrade of the sewage treatment plant in Ninghe Modern Industrial Zone. The estimated total investment is approximately RMB 25.6485 million, and it is currently under construction. After the capital increase, the registered capital of Jinning Capital Company will increase to RMB 22.56 million.
- (8) The Board of Directors of the Company agreed to invest RMB 25.553 million in the capital increase of a wholly-owned subsidiary, Jinghai Company, for its investment in the upgrade and reconstruction of the sewage treatment plant in Tianyu Science and Technology Park. The estimated total investment is approximately RMB 85.5857 million and is currently under construction. After the capital increase, the registered capital of Jinghai Company will increase to RMB 37.553 million.
- (9) The Board of Directors of the Company agreed to invest RMB 21.7289 million in the capital increase of a wholly-owned subsidiary of the Company, Wuhan Company, for its capital increase in Honghu Capital Water Co., Ltd. (“**Honghu Company**”), and Honghu Company would invest in the upgrade and reconstruction of the PPP project of the sewage treatment plant in Honghu. The estimated total investment is approximately RMB 80.3664 and it is currently under construction. After the capital increase, the registered capital of Wuhan Company will increase to RMB 124.9689 million.
- (10) The Board of Directors of the Company agreed to invest RMB 15 million in the capital increase of a wholly-owned subsidiary of the Company, Wuhan Company, for transforming its Xianning Branch into an independent legal person and using this branch to invest in the upgrade and reconstruction of the PPP project of Xining Yongan sewage treatment plant. The estimated total investment is approximately RMB 48.8421 million and it is currently under construction. After the capital increase, the registered capital of Wuhan Company will increase to RMB 139.9689 million.

## 4 Management Discussion and Analysis

### (2) *Major non-equity investment*

According to Tianjin's latest "Urban Sewage Treatment Plant Pollutant Discharge Standards", beginning from 2016, 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, the investment during the reporting period is RMB53.84 million, and accumulated investment up until the end of the reporting period is RMB61.81 million. According to the plan, the project investment capital source is from the equity financing intended to be carried out by the Company through the issue of non public A shares. At present, the equity financing scheme has been approved by the regulatory authorities and is in the process of issuing, and the Company will first invest the construction with its own capital and bank loans. When the issue of non public 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

## (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%                   | 160,492    | 28,376     | 9,855       |
| Hangzhou Company        | Hangzhou, Zhejiang          | Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training. And its technical services, technical training and other supporting services. | 37,745             | Limited Company       | 70%                    | 116,215    | 62,244     | 3,788       |
| 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%                   | 64,476     | 37,501     | 3,034       |
| Jiayuanxing             | Tianjin                     | Development, consulting, service and transfer of energy conservation and energy technology; property management services.                                                                                                                       | 19,160             | Limited Company       | 100%                   | 59,463     | 27,576     | 755         |
| Caring Company          | Tianjin                     | Environmental engineering management and technical advice etc.                                                                                                                                                                                  | 2,000              | Stock Limited Company | 100%                   | 6,331      | 4,652      | 576         |

Water Recycling Company generated a revenue of RMB300.90 million and an operating profit of RMB127.25 million.

## (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

Under the guidance of the New Goals and New Era set out in Xi Jinping's Report at 19th CPC National Congress, in order for the government to provide more quality ecological products to meet the people's growing expectation for ecological environment, unprecedented opportunities will certainly be brought to the development of the environmental protection industry. Specifically, under the requirements of building a Beautiful China, prominent environmental problems must be solved. This involves accelerating the prevention and control of water pollution, implementing comprehensive management of drainage environment and coastal waters, strengthening the control and rehabilitation of soil pollution, strengthening the control of agricultural non-point source pollution, strengthening solid waste and garbage disposal, continuing to implement air pollution prevention and control actions, and promoting overall resource conservation and recycling in specific fields. The above sectors will become the key sectors for the development of the environmental protection industry in the future. Judging from the characteristics of the projects, larger scale, more complex business models and higher-level comprehensive environmental governance will also become the development trends.

After years of hard work, the Company's water projects has a total water supply scale of approximately 5.35 million cubic meters per day, involving water supply, sewage treatment and recycling, it has accumulated rich experience and capabilities in water project's market development and operation management, and it has become a domestic well-known water company. In recent years, the Company has also made achievements in fields such as sludge disposal, industrial wastewater treatment, hazardous waste disposal, soil remediation and new energy utilization. It has gradually built up comprehensive environmental service capabilities. In the future, the Company is capable and confidence to participate in the competition in the key development areas of the environmental protection industry, creates revenue for shareholders, and contributes in building a Beautiful China.

#### (II) DEVELOPMENT STRATEGIES OF THE COMPANY

Positioning itself as a "comprehensive environmental service provider" and based on the development strategic objectives set out during the "13th Five-Year Plan" period, the Company will continue to promote the corporate development in all aspects. The Company not only continues to consolidate its core business focusing on wastewater treatment, but also actively expands other promising environmental protection business. Through the optimization of its business structure, the Company is committed to build up its integrated environmental service capabilities supported by the whole industry chain. In the process of solidly promoting business expansion, the Company also attaches importance to capital operation and technology R&D. On one hand, it hopes to meet its capital needs of business development through capital operations, on the other hand, it hopes to provide high-quality and efficient environmental services and products through scientific and technological R&D. The Company will continue to uphold the concept of openness and sharing, and contribute its own strength to the construction of a Beautiful China and green development.

### (III) OPERATING PLANS

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

Year 2017 was an important year for the implementation of the Company's "13th Five-Year" strategic plan. The Group started to transform itself into a "comprehensive environmental service provider" and implemented the main business concepts of "technology-leading, capital-stimulating, moderate-scale and legal-protection". Through comprehensive distribution, careful planning and solid progress, key progresses have been achieved in all aspects of work. With efforts of all employees, the operation strategy and operation plan formulated by the Board at the beginning of the year has basically been completed. The targets set on revenue, fees and costs have also been achieved successfully.

2. In 2018, the Company will use the "13th Five-Year" strategic plan as its guideline to consolidate staff's efforts and develop new strategic businesses. It will deepen organizational and structural reforms, improve research and development system, focuses on the refined management as the major task and strive to achieve the upgrading of "enterprise positioning, market position and comprehensive capabilities", as a result, laying a solid foundation for the final realization of the "13th Five-Year" strategic objective of "China's well-known comprehensive environmental service provider". The Company's business strategies in 2018 are as follows:

##### *(1) Increase efficiency through transformational development and seek innovation through strategic upgrading*

In terms of market development, on the basis of maintaining the continuous growth of traditional water businesses, the Company will vigorously develop new strategic businesses such as new energy, solid waste and soil remediation, strive for new breakthroughs in the fields of design, construction and equipment, find new profit growth points, and promote the transformation and upgrade toward comprehensive environmental services.

##### *(2) Deepen organizational and structural reform and strengthen basic management*

The Company will implement the matrix management system, strengthen the Group's refined management system, and improve the organizational management system, plan implementation system, resource guarantee system and internal control system to effectively guarantee the implementation of the goal of transforming towards comprehensive environmental services.

**(3) *Strengthen the construction of R&D system and improve the ability of scientific and technological innovation***

Focusing on the market and the Company's own needs, targeting at enhancing the ability in scientific and technological innovation and optimizing the allocation of technological innovation resources as the core focus, the Company will strengthen the construction of scientific and technological innovation systems and concentrate the efforts on the development of key technologies and leading products with independent intellectual property rights that are urgently needed by the market. It will make great efforts to achieve technological progress and industrial upgrading to inject new vitality into the Group's continuous growth.

**(4) *Strengthen talent cultivation and improve the market-oriented assessment and incentive systems***

With the development of the Company's business, the demands in all business sectors are urgent. On one hand, the Company has introduced professional talents through various channels. On the other hand, it has cultivated talents through trainings, selection and other measures. It will further innovate the incentive mechanism, optimize the target assessment and incentive systems, and set up different assessment and incentive mechanisms for different business sectors to stimulate employees' enthusiasm and the Company's vitality.

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

Party-building works will be further strengthened, and we 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 Company through internal controls and risks assessments, and strengthen the management of the Company's legal matters to ensure the proper legal and compliance reviews of various works.

### **3. Income, expenses and cost plan**

In 2018, it is expected that the main business of the Group will still mainly engage in sewage treatment business, and the annual sewage treatment will be not less than 1 billion cubic meters. With the continuous increase in costs of various types of resources, energy and labor, the operation costs of projects increase. If there are no major changes in the prevailing national guidelines, policies and business environment, it is expected that amount of variation in revenue from and cost for sewage treatment service fee will not be higher than 20%.

### **4. Technology R&D investment plan**

In 2018, the Group will invest not less than RMB6.40 million in technology research, development and technological reforms, and will continue to conduct research and development on the new technical processes and application technology in the areas of sewage water treatment and sludge treatment etc.

5. In 2018, the estimated capital expenditure is RMB2.2 billion, which will be mainly used for the upgrade of water projects, and the construction of new energy projects and hazardous waste projects.

In 2018, the capital required for the Group's operation and investment will be satisfied by the Group's existing credit, corporate bonds, equity financing, strategic cooperation and other channels.

#### (IV) POSSIBLE RISKS

##### (1) Risk of government credit

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

##### (2) Risk of change in policy

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

##### (3) Risk of operation and management

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

### 2. Risk control measures

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

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

#### (2) *Strengthen comprehensive risk management*

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

#### (3) *Continue to raise the standards of operating management*

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

## (V) OTHERS

Not applicable

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

Not applicable

### 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 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.

## 5 Major Events

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 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 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 non-executive 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 non-executive 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 non-executive Directors, and form a special proposal as well as an independent view expressed by independent non-executive 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 non-executive Directors shall express specific views.

Independent non-executive 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 non-executive 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 non-executive 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 non-executive 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 transparent.

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 non-executive 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 till the year of 2016.

#### (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) | Net profit                                                                                                            | Percentage of the                                                                                                       |
|-------------------|-----------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
|                   |                                               |                                                                        |                                                     |                                             | attributable to the ordinary shareholders of the listed company in the consolidated financial statements for the year | net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements (%) |
| 2017              | 0                                             | 0.00                                                                   | 0                                                   | 0.0                                         | 50,825.1                                                                                                              | 0.00                                                                                                                    |
| 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                                                                                                                   |

#### (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

Applicable  Not applicable

**Reasons for the case where 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**

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2017 amounted to RMB508.25 million. After deduction of the statutory common reserve of RMB34.98 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 RMB2,473.11 million at the beginning of the year, and less the distribution in 2017 of the 2016 cash dividend of RMB135.59 million, the actual profit distributable to the shareholders for this year amounted to RMB2,810.79 million.

As the Company's application for the non-public issuance of A shares has been approved by the China Securities Regulatory Commission, the Company is proceeding with the relevant fundraising work. Considering the various factors such as the long-term development of the Company, shareholders' interests and the validity period of the approval for the non-public issuance of A shares, the Company will not conduct profit distribution in 2017, and there will be no transfer from the capital reserve fund to share capital.

**the usage and the utilization plan of the undistributed profits**

Upon the completion of the non-public issuance of A shares, the Company will consider the possibility of profit distribution.

## II. PERFORMANCE OF COMMITMENT

- (I) Commitment of the Company's Ultimate Controller, Shareholders, Related Parties, Purchaser, the Company and Other Related Parties During or Subsisted in the Reporting Period

Not applicable

- (II) Where the Company Has Profit Forecasts on Assets or Projects, and the Reporting Period Was Within the Term of Profit Forecasts, the Company Has to State Whether Such Profit Forecasts on Assets or Projects Are Fulfilled and the Reasons Therefor

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

The Accounting Standards for Business Enterprises of the PRC promulgated and amended by the Ministry of Finance of the PRC and became effective in 2017 include: the "Accounting Standard for Business Enterprises No. 42 — Non-current Assets and Disposal Groups Held for Sale, and Discontinued Operations", the "Accounting Standard for Business Enterprises No. 16 — Government subsidies" and the "Notice on the Amendment to Format for Publishing Financial Statement for General Enterprises (Cai Kuai [2017] No. 30)". At the same time, the Ministry of Finance of the PRC issued a document in July 2017 to amend the "Accounting Standard for Business Enterprises No. 14 — Revenue" and requested its implementation with effect from 1 January 2018 for enterprises which were listed both in China and overseas.

The Company has prepared the financial statements for the year 2017 in accordance with Accounting Standards for Business Enterprises of the PRC and notices which became effective in 2017. The above changes in accounting standards have no impact on the total assets, liabilities, net assets and net profit of the Company.

## 5 Major Events

The Company started to implement the amended “Accounting Standard for Business Enterprises No. 14 — Revenue” (the “Standard”) with effect from 1 January 2018. The Standard allows the use of future application method. That means if an enterprise implements the Standard for the first time, it should adjust the retained revenue and the amounts of other relevant items in the financial statements at the beginning of the year when the Standard is first implemented according to the cumulative effect on such amount when the Standard was first implemented, and no adjustment to the information of the comparable period is required. The management of the Company has assessed the impact of the application of the new standard on the financial statements of the Company, and has confirmed that the effects are as follows: the Company should recognize the revenue from the pipeline connection business according to the progress of contractual performance during the period. This will lead to an earlier recognition of part of the revenue than the one-off recognition of revenue at the point of completion of the relevant pipeline connection project which were allowed to be used under the original standard.

Except for the four new standards as stated above, there is no change in other accounting standards of the Company.

The Audit Committee, the independent non-executive Directors and Supervisory Committee of the Company considered that such changes in accounting standards are based on the adjustments of the relevant accounting standards, which are in compliance with the practical circumstances of the Company, and therefore, they agreed to such changes in accounting standards.

(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

(IV) **Other Explanations**

Not applicable

## VI. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

*Unit: 0'000 Currency: RMB*

|                                                        | Present Appointment                   |             |
|--------------------------------------------------------|---------------------------------------|-------------|
| Name of the PRC accounting firm                        | PricewaterhouseCoopers Zhong Tian LLP |             |
| Remuneration of the PRC accounting firm                | 250                                   |             |
| Service years of the PRC accounting firm               | 23 years                              |             |
| Name of Hong Kong accounting firm                      | PricewaterhouseCoopers                |             |
| Remuneration of Hong Kong accounting firm              | 170                                   |             |
| Service years of Hong Kong accounting firm             | 23 years                              |             |
|                                                        | <b>Name</b>                           | <b>Fees</b> |
| Accounting firm responsible for internal control audit | PricewaterhouseCoopers Zhong Tian LLP | RMB800,000  |

#### Appointment and removal of accounting firm

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. The Company paid total remuneration of approximately RMB4.2 million to the two auditing firms for the auditing works for the last year. As at the end of the previous reporting period, the above two accounting firms have provided auditing services for the Company for 23 years.

### VII. RISKS OF SUSPENSION OF LISTING

#### (I) Causes of Suspension of Listing

Not applicable

#### (II) Measures to be taken by the Company

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 litigation (or arbitration) forms predicated liability and its amount | Progress of litigation (or arbitration) | Ruling results of litigation (or arbitration) and its effect | Enforcement of award of litigation (or arbitration) |
|-------------------|-------------------------------|-------------------------------|-----------------------------------|--------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------|-----------------------------------------------------|
| Anguo Company     | Anguo Municipal Government    | None                          | Arbitration                       | Note 1                                     | 5,142.32                                                  | No                                                                            | Note 2                                  | None                                                         | Note 2                                              |
| Jiayuanxing       | Tianjin Qudong Media (天津驅動傳媒) | None                          | Litigation                        | Note 3                                     | 1,203                                                     | No                                                                            | In first instance litigation            | None                                                         | None                                                |

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 RMB51,423,195.36.

Note 2: On 6 April 2017, the China International Economic and Trade Arbitration Commission made its final arbitral award on the case as follows: (1) the agreement related to the water supply project and the sewage treatment plant project involved in the case was terminated on 18 April 2014, and the transfer of the projects was completed on 10 July 2014; (2) from 1 November 2012 to the date of transfer of the water supply project involved in the case, the Anguo Company should provide the breakdown of water charges payable by all of its consumers, and should provide assistance to the Anguo Municipal Government in collecting the water charges; (3) the Anguo Municipal Government should pay the Anguo Company fees payable for water supply service that became due before 1 November 2012 in the amount of RMB3.557 million by 1 July 2014; (4) the Anguo Municipal Government should reimburse the Anguo Company for all capital invested by the Anguo Company in the said projects, being RMB47,475,320.86; (5) the arbitration fee of RMB781,749 for the case should be borne by both parties on the basis of 50:50, which means each party should pay RMB390,874.50, respectively. Since the above fee has already been set off by the advance payment of the applicant, the Anguo Municipal Government should pay to the Anguo Company RMB390,874.50 to compensate the Anguo Company with the arbitration fee paid for it. The above (1), (2) and (3) have been satisfied, and the Anguo Company is now actively negotiating with the Anguo Municipal Government for the relevant proposals for payment of the amounts payable under (4) and (5).

Note 3: From 2012 to 2016, Jiayuanxing and Tianjin Qudong Media signed the "Tianjin Non-residential Buildings Cold Supply Contract (《天津市非居民住宅供用冷合同》)" and "Tianjin Non-residential Buildings Heat Supply Contract (《天津市非居民住宅供用熱合同》)", in which it is stipulated that Jiayuanxing would provide cold and heat supply services to the Tianjin Cultural Center Grand Theatre (天津文化中心大劇院), which was operated and managed by Tianjin Qudong Media. Tianjin Qudong Media did not pay cold and heat supply energy fees to Jiayuanxing on time and in full according to the contract. As of the date of the lawsuit filed by Jiayuanxing, Tianjin Qudong Media owed cold and heat supply energy fees totaling RMB12,030,003. In order to safeguard the legal rights and interests of Jiayuanxing, Jiayuanxing has filed a civil lawsuit in the People's Court of Hexi District in Tianjin.

### (III) Other Explanations

Not applicable

**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**

**(I) Incentives Which Have Been Disclosed in the Company's Announcements, But Without Subsequent Progress or Changes to Their Implementation**

Not applicable

**(II) Incentives Which Have Not Been Disclosed in the Company's Announcements or With Subsequent Progress**

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 30 December 2016, the Company and Jinrongcheng Property Company entered into seven Property Service Contracts in respect of property services for five sewage water treatment plants (such as Jingu Sewage Water Treatment Plant) and the office buildings of the Company. The contract term is for the whole year of 2017, and the total service fees will amount to RMB6.0588 million.

Connected relationship: Jinrongcheng Property Company is a wholly-owned subsidiary of Tianjin Investment Group, which is the ultimate controller of the Company.

- b. On 26 May 2017, Jiayuanxing, a wholly-owned subsidiary of the Company, entered into the Cold Supply Agreement with TLP and TYCOM for the provision of cold supply services to TLP at a unit price of RMB65 per m<sup>2</sup>. The total service area is 363,042 m<sup>2</sup> 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.

- c. On 30 June 2017, the Company renewed 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 2017 to 30 June 2018 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.

- d. On 30 June 2017, the Company renewed 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 2017 to 30 June 2018, with the total amount of service fees expected to be not more than RMB9.45 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)

- e. On 6 November 2017, Water Recycling Company, a wholly-owned subsidiary of the Company, entered into construction contracts with Tianjin Chengtuo Properties Investment Development Company Limited \*(天津城投置地投資發展有限公司) and Tianjin Ruiding Properties Company Limited \*(天津瑞鼎置業有限公司) respectively for providing recycled water related engineering services to Wuli Primary School, Qili Primary School and Yahuli Community in Tianjin, with the total contract amount of RMB3,703,412.

Connected relationship: Water Recycling Company is a wholly-owned subsidiary of the Company; both Tianjin Chengtuo Properties Investment Development Company Limited\* and Tianjin Ruiding Properties Company Limited\* are wholly-owned subsidiaries of Tianjin Investment Group, the ultimate controller of the Company.

- f. On 6 November 2017, Jiayuanxing, a wholly-owned subsidiary of the Company, entered into the Heat Supply Agreement with TLP and TYCOM for the provision of heat supply services to TLP at a unit price of RMB40 per m<sup>2</sup>. The total service area is 363,042 m<sup>2</sup> and the service fees will amount to RMB14,521,680.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TLP is 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), (c) and (d) are continuing connected transactions.

The independent non-executive Directors of the Company have reviewed the above 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 2017 namely items (a), (c) and (d).

Save as discussed above, there is no related party transaction or continuing related party transaction as set out in the Annual Report 2017 of the Company that falls under the definition of "connected transaction" or "continuing connected transaction" which requires disclosure 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

None

## XIV. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

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

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

| <i>Unit: Yuan Currency: RMB</i>                     |                              |                               |                                                                                                                                                                         |                                                   |                                                                                  |                                 |                                                        |                                                                                                   |              |                                                                                               |
|-----------------------------------------------------|------------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------------------------------------------------------------|---------------------------------|--------------------------------------------------------|---------------------------------------------------------------------------------------------------|--------------|-----------------------------------------------------------------------------------------------|
| Connected Party                                     | Relationship                 | Type of connected transaction | Content of connected transaction                                                                                                                                        | Pricing principle of connected transaction        | Price of connected transaction                                                   | Amount of connected transaction | Percentage of the amount in comparable transaction (%) | Settlement method for connected transaction                                                       | Market price | Reasons for relatively large discrepancy between transaction price and market reference price |
| Jinrongcheng Property Company                       | Brother company of the Group | Receipt of labour services    | Jinrongcheng Property Company provided property services for Water Recycling Company and Caring Company, and entered into two property services contracts               | Mutual negotiation                                | Cleaning: RMB3798 per person per month<br>Security: RMB3200 per person per month | 663,504                         | 9.87                                                   | Settled by quarter                                                                                |              | None                                                                                          |
| Road & Network Company                              | Brother company of the Group | Other inflows                 | Water Recycling Company constructed for new facilities for landscaping water on the surface of eight roads surrounding the Quanyun Village under Road & Network Company | Actual settlement according to the project budget |                                                                                  | 536,928                         | 0.01                                                   | By one-off Payment after completion                                                               |              | None                                                                                          |
| Metro Group                                         | Brother company of the Group | Other inflows                 | Water Recycling Company constructed for the pipeline facility relocation project of the Youyi Road Station on the Subway Line 10 under Metro Group                      | Actual settlement according to the project budget |                                                                                  | 1,207,019                       | 0.33                                                   | 50% prepaid after signature of contract, 45% paid after acceptance, and 5% paid after settlement. |              | None                                                                                          |
| Metro Construction                                  | Brother company of the Group | Other inflows                 | Water Recycling Company constructed for the pipeline restoration project of the Sports Center Station on the Subway Line 5 under Metro Construction                     | Actual settlement according to the project budget |                                                                                  | 596,388                         | 0.17                                                   | Same as above                                                                                     |              | None                                                                                          |
| Total                                               |                              |                               | /                                                                                                                                                                       | /                                                 |                                                                                  | 3,003,839                       | / /                                                    |                                                                                                   |              | /                                                                                             |
| Details of return of sold goods in large quantities |                              |                               | None                                                                                                                                                                    |                                                   |                                                                                  |                                 |                                                        |                                                                                                   |              |                                                                                               |
| Description of connected transaction                |                              |                               | None                                                                                                                                                                    |                                                   |                                                                                  |                                 |                                                        |                                                                                                   |              |                                                                                               |

**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

1. Custody

Not applicable

2. Contracting

Not applicable

3. Leasing

Not applicable

## 5 Major Events

### 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 and its subsidiaries                                               |                |
| Total amount of guarantees provided to subsidiaries during the reporting period                                       | 44,725         |
| Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)                        | 112,560        |
| Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)                    |                |
| Total amount of guarantee (A+B)                                                                                       | 112,560        |
| Percentage of the total amount of guarantees to the net assets of the Company (%)                                     | 20.79          |
| Of which:                                                                                                             |                |
| Amount of guarantees provided to shareholders, ultimate controller and their connected parties (C)                    | 0.00           |
| Amount of guarantees provided directly or indirectly to borrowers with a gearing ratio of over 70% (D)                | 0.00           |
| Total amount of guarantees exceeding 50% of net assets (E)                                                            | 0.00           |
| Total of the above three classes of guarantees (C+D+E)                                                                | 0.00           |
| Explanation on contingent joint liability for undue guarantees                                                        | Not applicable |
| Explanation on guarantees                                                                                             | Not applicable |

#### (III) Cash Asset Management Entrusted to Others

##### 1. Entrusted wealth management

Not applicable

##### 2. Entrusted loans

Not applicable

##### 3. Others

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 any of its subsidiaries did not purchase, sell or redeem any shares of the Company. The proposal of non-public issuance of A-shares proposal of the Company has been approved by the CSRC and is currently in preparation for issuance. According to relevant requirements, the Company shall complete the issuance by the end of August 2018.

### (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 Corporate Governance Code as set out in the Appendix 14 to 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.

### (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 2017 with the Directors.



### XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY

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

According to the poverty alleviation task breakdown of Fuyang City, Fuyang Company has donated special poverty alleviation funds of more than RMB120,000 for offering assistance in pairs to nine poor families in Fenglou Village, Gaotang Township, Linquan County, which is used for purchasing pecans or greenery trees and flowers for Fenglou Village, Gaotang Township, Linquan County. In 2018, Fuyang Company will continue to carry out poverty alleviation work in accordance with the poverty alleviation task breakdown of Fuyang City.

In accordance with the poverty alleviation work arrangement of Tianjin City, the Company plans to participate in offering assistance in pairs to Nancai Village, Xixiaoliang Village and Wengyangfang Village in Nancai Town, Wuqing District, Tianjin City. In January 2018, the Company paid special poverty alleviation funds of RMB 100,000 as the start-up capital, and it will sign a donation assistance agreement with the local government to fulfill the social responsibility of targeted poverty alleviation.

## XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (CONTINUED)

### (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 28 March 2018.

### (III) Environment Information

#### 1. *Explanation on environmental protection of the Company and its major 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, etc.. 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 21 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.

## 5 Major Events

### XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (CONTINUED)

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   | Anion surfactant                        |                                     | 0.5                  | 1               |
| 7   | Total nitrogen (N)                      |                                     | 15                   | 20              |
| 8   | Ammonia nitrogen (N)                    |                                     | 5(8)                 | 8(15)           |
| 9   | Total phosphorus<br>(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 <sup>3</sup>      | 10 <sup>4</sup> |

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, 7,100 tonnes, 8,300 tonnes, 14,100 tonnes, 1,300 tonnes and 400 tonnes, respectively. Cumulatively, approximately 771,000 tonnes of environmental pollutants were eliminated, representing a significant contribution to water environmental governance.

#### 2. Companies that are not classified as key pollutant discharging entities

The Company is mainly engaged in sewage treatment business and all projects of it belong to the companies classified as key pollutant discharging entities by local environmental protection authorities, which has been explained in the "Explanation on Environmental Protection of the Company and its Subsidiaries Classified as Key Pollutant Discharging Entities as Published by Environmental Protection Authorities" above.

#### 3. Other explanations

Not applicable

### 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

##### 1. 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.

##### 2. Statement of changes in ordinary shares

Not applicable

#### (II) Changes in Restricted Shares

Not applicable

### II. ISSUE AND LISTING OF SECURITIES

#### (I) Issue of Securities As at the End of the Reporting Period

*Unit: share Currency: RMB*

| Types of stock and its derivative securities                    | Date of issue   | Issue price<br>(or interest rate) | Volume of issue | Listing date | Authorized trading                  | Date of termination |
|-----------------------------------------------------------------|-----------------|-----------------------------------|-----------------|--------------|-------------------------------------|---------------------|
|                                                                 |                 |                                   |                 |              | volume in respect<br>of the listing | of trading          |
| Convertible corporate bonds,<br>bonds with warrants, debentures |                 |                                   |                 |              |                                     |                     |
| Corporate bonds                                                 | 25 October 2016 | 0.0313                            | 7,000,000       |              |                                     | 25 October 2021     |

#### (II) Changes in the Total Number of Ordinary Shares of the Company and Shareholder Structure and the Company's Assets and Liabilities Structure

Not applicable

#### (III) Existing Employee Shares

Not applicable

## 6. Details of Changes in Ordinary Shares and Shareholders

### 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                                                                                                      | 109,101        |
| Total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report                                                        | 109,708        |
| Total number of shareholders of preferred shares whose voting rights have been restored as at the end of the reporting period                                                    | Not applicable |
| Total number of shareholders of preferred shares whose voting rights have been restored at the end of last month prior to the date on which the annual report shall be disclosed | Not applicable |

*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 109,101, among which 66 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 109,708, among which 65 are holders of H Shares.

#### (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

*Unit: Share*

| Name of shareholder                                                                   | Shareholdings of the top ten shareholders              |                                                         |                |                                  | Pledged or frozen |                 |                          | Nature of the shareholder |
|---------------------------------------------------------------------------------------|--------------------------------------------------------|---------------------------------------------------------|----------------|----------------------------------|-------------------|-----------------|--------------------------|---------------------------|
|                                                                                       | Increase/decrease during the reporting period (shares) | Number of shares held at the end of the period (shares) | Percentage (%) | Number of restricted shares held | Status            | Number (shares) |                          |                           |
| TMICL                                                                                 | 0                                                      | 715,565,186                                             | 50.14          | 0                                | None              | 0               | State-owned legal person |                           |
| HKSCC Nominees Limited                                                                | -6,000                                                 | 337,824,900                                             | 23.67          | 0                                | Unknown           | —               | Unknown                  |                           |
| Cental Huijin Investment Co., Ltd.                                                    | 0                                                      | 14,169,800                                              | 0.99           | 0                                | Unknown           | —               | State-owned legal person |                           |
| Agricultural Bank of China Limited-CSI500 Index Open-ended Fund (中證500交易型開放式指數證券投資基金) | 127,400                                                | 1,880,783                                               | 0.13           | 0                                | Unknown           | —               | Unknown                  |                           |
| Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)                     | 1,595,000                                              | 1,595,000                                               | 0.11           | 0                                | Unknown           | —               | Unknown                  |                           |
| Shenyang Railway Coal Group Co., Ltd. (瀋陽鐵道煤炭集團有限公司)                                  | 0                                                      | 1,500,000                                               | 0.11           | 0                                | Unknown           | —               | State-owned legal person |                           |
| Yu Ronglin (余榮琳)                                                                      | 1,244,600                                              | 1,244,600                                               | 0.09           | 0                                | Unknown           | —               | Unknown                  |                           |
| Wu Jianyan (吳建炎)                                                                      | 1,126,270                                              | 1,126,270                                               | 0.08           | 0                                | Unknown           | —               | Unknown                  |                           |
| Yan Liping (嚴麗萍)                                                                      | 1,000,000                                              | 1,000,000                                               | 0.07           | 0                                | Unknown           | —               | Unknown                  |                           |
| China Jianyin Investment Ltd.                                                         | 0                                                      | 1,000,000                                               | 0.07           | 0                                | Unknown           | —               | Unknown                  |                           |

## III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER (CONTINUED)

## (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 (Continued)

| Name of shareholder                                                                                 | Shareholdings of the top ten shareholders of non-restricted circulating shares                                                                                                                                                                 |                                |             |
|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------|
|                                                                                                     | Number of non-restricted circulating shares held                                                                                                                                                                                               | Type                           | Number      |
| TMICL                                                                                               | 715,565,186                                                                                                                                                                                                                                    | Ordinary RMB Shares            | 715,565,186 |
| HKSCC Nominees Limited                                                                              | 337,824,900                                                                                                                                                                                                                                    | Overseas listed Foreign Shares | 337,824,900 |
| Cental Huijin Investment Co., Ltd.                                                                  | 14,169,800                                                                                                                                                                                                                                     | Ordinary RMB Shares            | 14,169,800  |
| Agricultural Bank of China Limited-CSI500 Index Open-ended Fund (中證500交易型開放式指數證券投資基金)               | 1,880,783                                                                                                                                                                                                                                      | Ordinary RMB Shares            | 1,880,783   |
| Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)                                   | 1,595,000                                                                                                                                                                                                                                      | Ordinary RMB Shares            | 1,595,000   |
| Shenyang Railway Coal Group Co., Ltd. (瀋陽鐵道煤炭集團有限公司)                                                | 1,500,000                                                                                                                                                                                                                                      | Ordinary RMB Shares            | 1,500,000   |
| Yu Ronglin (余榮琳)                                                                                    | 1,244,600                                                                                                                                                                                                                                      | Ordinary RMB Shares            | 1,244,600   |
| Wu Jianyan (吳建炎)                                                                                    | 1,126,270                                                                                                                                                                                                                                      | Ordinary RMB Shares            | 1,126,270   |
| Yan Liping (嚴麗萍)                                                                                    | 1,000,000                                                                                                                                                                                                                                      | Ordinary RMB Shares            | 1,000,000   |
| China Jianyin Investment Ltd.                                                                       | 1,000,000                                                                                                                                                                                                                                      | Ordinary RMB Shares            | 1,000,000   |
| 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.                                                                                                                                                                       |                                |             |
| Explanation of holders of preferential shares with restored voting rights and number of shares held | Not applicable                                                                                                                                                                                                                                 |                                |             |

## (III) Strategic Investors or General Legal Persons Becoming the Top Ten Shareholders Due to Placing of New Shares

Not applicable

## 6. Details of Changes in Ordinary Shares and Shareholders

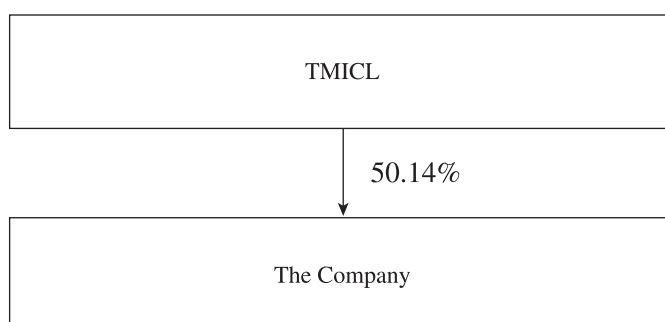
### IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

#### (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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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



(II) **Ultimate Controller**

1 *Legal person*

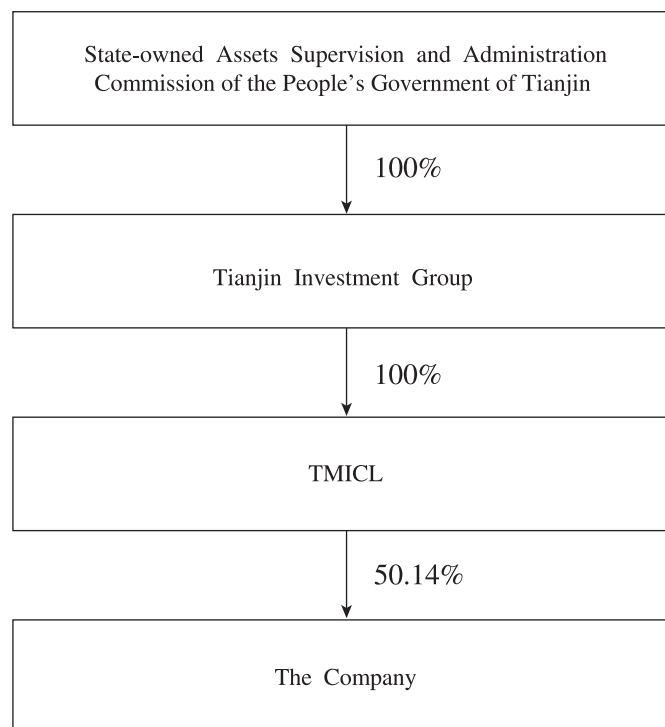
|                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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). |



## 6. Details of Changes in Ordinary Shares and Shareholders

|                                                                                                                                                              |     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| 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

## VII. SUBSTANTIAL SHAREHOLDERS INTERESTS

- (a) As at 31 December 2017, 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<br>of securities<br>(Note) | Approximate<br>percentage of the<br>relevant class<br>of securities | Approximate<br>percentage of the<br>total issued share<br>capital of the<br>Company |
|---------------------------|------------------------------------------------|---------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| TMICL                     | Beneficial owner                               | 715,565,186 A Shares (L)                    | 65.82%                                                              | 50.14%                                                                              |
| ISIS Asset Management Plc | Investment<br>manager                          | 17,286,000 H Shares (L)                     | 5.08%                                                               | 1.21%                                                                               |
| UBS Group AG              | Person having a security<br>interest in shares | 19,441,002 H Shares (L)                     | 6.60%                                                               | 1.57%                                                                               |
|                           | Interest of controlled<br>corporation          | 2,986,982 H Shares (L)                      |                                                                     |                                                                                     |
|                           | Interest of controlled<br>corporation          | 3,640,998 H Shares (S)                      | 1.07%                                                               | 0.26%                                                                               |

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 2017, 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   | 52  | 13 March 2015    | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 86.28                                                                                                    | No                                                                    |
| Tang Fusheng  | General manager                            | M   | 44  | 26 January 2017  | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 66.34                                                                                                    | No                                                                    |
|               | Executive Director                         |     |     | 14 March 2017    | 17 December 2018 |                                                          |                                                    |                                       |                    |                                                                                                          |                                                                       |
| Fu Yana       | Executive Director, deputy general manager | F   | 47  | 20 December 2003 | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 74.11                                                                                                    | No                                                                    |
| Peng Yilin    | Chief accountant                           | F   | 37  | 29 January 2016  | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 76.01                                                                                                    | No                                                                    |
|               | Executive Director                         |     |     | 16 March 2016    | 17 December 2018 |                                                          |                                                    |                                       |                    |                                                                                                          |                                                                       |
| An Pindong    | Non-executive Director                     | M   | 49  | 20 December 2003 | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 0                                                                                                        | Yes                                                                   |
| Chen Yinxing  | Non-executive Director                     | F   | 44  | 18 December 2009 | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 0                                                                                                        | Yes                                                                   |
| Gao Zongze    | Independent non-executive Director         | M   | 78  | 15 April 2014    | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 22.00                                                                                                    | No                                                                    |
| Wang Xiangfei | Independent non-executive Director         | M   | 65  | 18 December 2015 | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 22.00                                                                                                    | No                                                                    |
| Guo Yongqing  | Independent non-executive Director         | M   | 43  | 18 December 2015 | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 22.00                                                                                                    | No                                                                    |
| Wang Jing     | Chairwoman of Supervisory Committee        | F   | 47  | 24 November 2016 | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 79.72                                                                                                    | No                                                                    |
| Lu Hongyan    | Supervisor                                 | F   | 48  | 17 May 2017      | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 66.60                                                                                                    | No                                                                    |
| Nie Youzhuang | Supervisor                                 | M   | 49  | 19 December 2003 | 17 December 2018 | 959                                                      | 959                                                | 0                                     | No change          | 65.70                                                                                                    | No                                                                    |
| Wu Baolan     | Supervisor                                 | F   | 50  | 24 August 2011   | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 45.32                                                                                                    | No                                                                    |
| Niu Jing      | Supervisor                                 | F   | 48  | 18 December 2015 | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 45.02                                                                                                    | No                                                                    |
| Li Xiaoshen   | Supervisor                                 | M   | 59  | 18 December 2012 | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 0                                                                                                        | Yes                                                                   |
| Zhao Yi       | Deputy general manager                     | M   | 47  | 18 October 2010  | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 79.88                                                                                                    | No                                                                    |
| Zhang Jian    | Deputy general manager                     | M   | 48  | 17 January 2012  | 17 December 2018 | 822                                                      | 822                                                | 0                                     | No change          | 90.48                                                                                                    | No                                                                    |
| Zhang Qiang   | Deputy general manager                     | M   | 54  | 5 March 2009     | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 74.91                                                                                                    | No                                                                    |
| Li Yang       | Former supervisor                          | M   | 49  | 8 September 2009 | 15 March 2017    | 0                                                        | 0                                                  | 0                                     | No change          | 90.41                                                                                                    | No                                                                    |
|               | Deputy general manager                     |     |     | 15 March 2017    | 17 December 2018 |                                                          |                                                    |                                       |                    |                                                                                                          |                                                                       |
| Qi Lipin      | Chief economist                            | F   | 40  | 29 October 2015  | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 76.11                                                                                                    | No                                                                    |
| Li Jinhe      | Chief engineer                             | M   | 47  | 29 August 2017   | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 26.23                                                                                                    | No                                                                    |
| Niu Bo        | Secretary of the Board                     | M   | 41  | 29 January 2016  | 17 December 2018 | 0                                                        | 0                                                  | 0                                     | No change          | 68.45                                                                                                    | No                                                                    |
| Lin Wenbo     | Former general manager                     | M   | 61  | 25 March 2010    | 26 January 2017  | 0                                                        | 0                                                  | 0                                     | No change          | 22.09                                                                                                    | No                                                                    |
|               | Former Executive Director                  |     |     | 18 December 2009 | 26 January 2017  |                                                          |                                                    |                                       |                    |                                                                                                          |                                                                       |
| Li Yuqing     | Former chief engineer                      | M   | 52  | 30 June 2009     | 1 March 2017     | 0                                                        | 0                                                  | 0                                     | No change          | 23.95                                                                                                    | No                                                                    |
|               | Former Deputy general manager              |     |     | 18 October 2016  | 1 March 2017     |                                                          |                                                    |                                       |                    |                                                                                                          |                                                                       |
| Wang Hong     | Former Deputy general manager              | M   | 43  | 25 March 2010    | 1 March 2017     | 0                                                        | 0                                                  | 0                                     | No change          | 22.21                                                                                                    | No                                                                    |
| Yang Guang    | Deputy general manager                     | M   | 52  | 5 March 2009     | 20 April 2017    | 0                                                        | 0                                                  | 0                                     | No change          | 28.57                                                                                                    | No                                                                    |
| Deng Biao     | Deputy general manager                     | M   | 47  | 5 March 2009     | 20 April 2017    | 0                                                        | 0                                                  | 0                                     | No change          | 27.63                                                                                                    | No                                                                    |
| Total         | /                                          | /   | /   | /                | /                | 1,781                                                    | 1,781                                              | 0                                     | /                  | 1,302.02                                                                                                 | /                                                                     |

## 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 Tianjin Investment Group 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 Yujun has been a Director and chairman of the Company since 13 March 2015.                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Tang Fusheng | Mr Tang is now the Director and General Manager of the Company. Mr. Tang Fusheng served as the head of development department, deputy general manager and general manager of Water Recycling Company, a wholly-owned subsidiary of the Company, 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, a wholly owned subsidiary of the Company, since June 2011, and has been serving as an executive director of Jiayuanxing, a wholly owned subsidiary of the Company, 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 that 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. |
| 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 Beifang Rencaigang Limited Company, which is a subsidiary company in which the Company has invested from March 2004 to February 2017.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Peng Yilin   | Ms. Peng is now a Director, chief accountant and the assistant general manager of the Company. Ms. Peng Yilin 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 has been a Director of the Company since December 2000 but has resigned on 13 April 2018.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

## 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 has been a Director of the Company since 18 December 2009 but has resigned on 13 April 2018.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 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 non-executive director of Huaneng Power International Inc. from 1995 to 2005, an independent non-executive director of Shanxi Zhangze Electric Power Co., Ltd. from 2000 to 2006, an independent non-executive director of Shenzhen Capstone Industrial Co., Ltd. from 2003 to 2006, an independent non-executive director of HL Corp. (Shenzhen) from 2006 to 2011 and an independent non-executive 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, the vice chief financial officer of Sonangol Sinopec International Limited, the financial advisor of China Sonangol International Holding Limited and an executive director of Nan Nan Resources Enterprise Limited. 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., SSEC Media Group Limited 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 non-executive 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 has been 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Nie Youzhuang | Mr. Nie is now the Supervisor of the Company and the general manager of the northeast regional company. 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. 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 Tianjin Zichuang Engineering Investment Company Limited from February 2013 to January 2016 and was appointed as the deputy manager of the market development department of the Company with effect from January 2016 to March 2017 and the general manager of the northeast regional company since March 2017. Mr. Nie Youzhuang has been a Supervisor of the Company since 19 December 2003.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Lu Hongyan    | Ms. Lu is a supervisor and the general counsel of the Company. She obtained a doctor degree in laws from Nankai University. Ms. Lu served in Tianjin Winners Law Firm (天津金諾律師事務所) and Tianjin Hongyi Law Firm (天津泓毅律師事務所) consecutively from January 2001 to December 2009 as a lawyer. She joined the Company in January 2010 and served as a legal specialist, and has been the general counsel of the Company since January 2016. She is responsible for the legal affairs of the Company. Ms. Lu has been a supervisor of the Company since 17 May 2017.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 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 Rijiyuan 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 has joined the Company since July 2009 and has served as manager of the legal and audit department of the Company since then. She has been the Supervisor on behalf of the Company's shareholders since 18 December 2015.                                                                                                                                                                                                                                                                                                                                                                                         |
| 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 during which, 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 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 Qijing Company and Caring 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.                                                                                                                                                                                                                                                                                                                                                                |
| Li Yang     | Mr. Li is now the deputy general manager of the Company, the general manager of the northwest region of the Company, and the chairman 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 was the general manager of the eastern region of Tianjin water business division from January 2010 to February 2011 and was the general manager of Xi'an Company since February 2011 to May 2017 and has been the general manager of the northwest region of the 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. |
| 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 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.                                                                                                                                                             |
| Li Jinhe    | Mr. Li is now the chief engineer of the Company and also the chairman of Caring Company and a senior engineer. Mr. Li graduated from the department of environmental engineering of Hebei University of Science and Technology in 1993 majoring in environmental engineering. Mr. Li Jinhe has served in the 9th design institute of North China Municipal Engineering Design & Research Institute Co., Ltd. since March 1999 and acted successively as a technician, leader of the 2nd Process Group, deputy chief engineer and chief engineer. Mr. Li Jinhe has been engaged in municipal engineering design and research works for years and has extensive experience in such fields as water treatment facilities and designing, research and operation of process. Mr. Li Jinhe has been the chief engineer of the Company since 29 August 2017.                                                                                                                                                                                                       |



## 7. Directors, Supervisors, Senior Management and Employees

| Name       | Primary working experience                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Niu Bo     | Mr. Niu is now the secretary to the Board of the Company and deputy chief economist of the Company, and is concurrently the chairman of Hong Kong Company. 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 of the Company. 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 the secretary to the Board of the Company since 29 January 2016. |
| Lin Wenbo  | Mr. Lin was the Executive Director and General Manager of the Company during the reporting period, and retired as Executive Director and General Manager of the Company on 26 January 2017.                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Li Yuqing  | Mr. Li was the deputy general manager, chief engineer of the Company and also the chairman of Caring Company during the reporting period. Due to work allocation, he resigned from the duties 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Yang Guang | Mr. Yang 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 20 April 2017.                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Deng Biao  | Mr. Deng 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 20 April 2017.                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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).

### (II). Equity incentives granted to Directors and senior management during the reporting period

Not applicable



## 7. Directors, Supervisors, Senior Management and Employees

### 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 2017, 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 as set out in the Appendix 10 to the Listing Rules, 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%                                                                                        |
| <i>Deputy general manager</i> |                                         |                  |                                                             |                                                                                                  |
| Zhang Jian                    | Company                                 | Beneficial owner | 822 domestic shares (non-restricted circulating shares) (L) | 0.000058%                                                                                        |

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 2017, 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          | —                   |

Description on positions held at the shareholder's entity: not available

### (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 tasks and their 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) | RMB13.0202 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    |
| Li Yang      | Supervisor                             | Resignation | Re-designation     |
| Lu Hongyan   | Supervisor                             | Appointment | Work engagement    |
| Li Yang      | Deputy general manager                 | Appointment | Work engagement    |
| Li Jinhe     | Chief engineer                         | Appointment | Work engagement    |
| Li Yuqing    | Deputy general manager, Chief engineer | Resignation | Re-designation     |
| Wang Hong    | Deputy general manager                 | Resignation | Re-designation     |
| Yang Guang   | Deputy general manager                 | Resignation | Re-designation     |
| Deng Biao    | Deputy general manager                 | 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                                                             | 470   |
| Number of on-duty employees of major Subsidiaries                                                      | 1,088 |
| Total number of on-duty employees                                                                      | 1,558 |
| 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             | 719    |
| Sales                  | 78     |
| Technical              | 397    |
| Finance                | 88     |
| Administration         | 134    |
| Corporate management   | 142    |
| Total                  | 1,558  |

## Education

| Category of education | Number (persons) |
|-----------------------|------------------|
| Doctor                | 6                |
| Master                | 208              |
| Undergraduate         | 644              |
| Tertiary              | 396              |
| Secondary             | 136              |
| Below secondary       | 168              |
| Total                 | 1,558            |

## (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 Company Law and the relevant requirements of the CSRC.

In order to further improve the structure of the corporate governance of the Company and protect the interests of shareholders, the Company amended the Articles of Association, the "Rules of Procedures for General Meetings" and the "Rules of Procedures for Board Meetings" during the Reporting Period.

## I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

### (i) Corporate Governance of the Company (continued)

According to the “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 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

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 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, save of Mr. Nie Youzhuang and Mr. Zhang Jian holding 959 and 822 domestic Shares of the Company respectively, none of Directors of the Company held any other 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. Tang Fusheng, 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. 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. Mr. An Pindong and Ms. Chan Yinxing have resigned as non-executive Director on 13 April 2018.

## 8. Corporate Governance

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 2017 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 20 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 for the shares listed on Hong Kong Stock Exchange, 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 2017*

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. 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. Mr. An Pindong and Ms. Chan Yinxing have resigned as non-executive Director on 13 April 2018.

### 6. About Committees under the Board

- (1) The Remuneration and Assessment Committee 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 5 meetings of the Remuneration and Assessment Committee which mainly discussed the performance of the Company and its evaluation for the year 2017 (including the performance of executive Directors and its evaluation, the advice on remuneration of new Directors, Supervisors and Senior Management and the advice on adjustments to the wages of employees). 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 an executive Director, namely Mr. Tang Fusheng, have 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 3 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 general manager, deputy general manager and chief engineer.

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, interim 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.

During the reporting period, the Company held 7 meetings of the Audit Committee which mainly discussed financial information in quarterly reports, interim 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.

- (4) The Strategy Committee of the Company consists of three executive Directors, one non-executive Director and one independent non-executive Director with Mr. Liu Yujun, the Chairman of the Company, as its chairman. Its primary duties are to study and propose the medium and long term development strategies and major investment decisions of the Company. Mr. An Pindong, as a non-executive Director, has resigned as the member of the Strategy Committee on 13 April 2018.

During the reporting period, the Company held one meeting of the Strategy Committee which considered the 13th Five-Year Strategic Planning of the Company.

## 8. Corporate Governance

### 1. 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

During the reporting period, the Company appointed Mr. Lo Wai Keung, Eric of Li & Partners, the legal advisor in Hong Kong, as Company Secretary who generally contacts Mr. Niubo, the secretary to the Board of the Company. Mr. Lo attended not less than 15 hours of relevant professional trainings during 2017 financial year in accordance with Rule 3.29 of the Listing Rules. On 9 February 2018, Mr. Lo Wai Keung, Eric resigned as Company Secretary due to personal reason. On 9 February 2018, the Board of the Company appointed Ms. Cho Yee Yung, Mona of Li & Partners as Company Secretary and the authorised representative of the Company under Rule 3.05 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, in order to further enhance corporate governance and protect the interests of investors, the Company amended the Articles of Association, the “Rules of Procedures for General Meetings” and the “Rules of Procedures for Board Meetings”.

#### 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.

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 2017, 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 51st meeting of the seventh Board held on 27 March 2018, the resolution in respect of the internal control of the Company in 2017 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 2017, and has issued a standard unqualified audit opinion.

## II. SHAREHOLDERS' GENERAL MEETINGS

| Session of meeting                        | Date of meeting | Inquiry index for the designated website for publishing the voting results                                                                                                                                                                                                           | Date of disclosure of the resolutions |
|-------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 2017 first extraordinary general meeting  | 14 March 2017   | Website of the SSE at <a href="http://www.sse.com.cn">www.sse.com.cn</a> ;<br><br>Website of the Stock Exchange at <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ;<br>Website of Merrill IFN at <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a> | 15 March 2017                         |
| 2016 annual general meeting               | 17 May 2017     | Website of the SSE at <a href="http://www.sse.com.cn">www.sse.com.cn</a> ;<br><br>Website of the Stock Exchange at <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ;<br>Website of Merrill IFN at <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a> | 18 May 2017                           |
| 2017 second extraordinary general meeting | 3 July 2017     | Website of the SSE at <a href="http://www.sse.com.cn">www.sse.com.cn</a> ;<br><br>Website of the Stock Exchange at <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ;<br>Website of Merrill IFN at <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a> | 4 July 2017                           |

Description on shareholders' general meetings.

## 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                                 | 20                                                          | 20                               | 16                                                     | 0                            | 0               | No                                              | 3                                      |
| Tang Fusheng                                                                        | No                                 | 18                                                          | 18                               | 16                                                     | 0                            | 0               | No                                              | 3                                      |
| Fu Yana                                                                             | No                                 | 20                                                          | 20                               | 16                                                     | 0                            | 0               | No                                              | 3                                      |
| Peng Yilin                                                                          | No                                 | 20                                                          | 20                               | 17                                                     | 0                            | 0               | No                                              | 3                                      |
| An Pindong                                                                          | No                                 | 20                                                          | 20                               | 20                                                     | 0                            | 0               | No                                              | 3                                      |
| Chen Yinxing                                                                        | No                                 | 20                                                          | 20                               | 19                                                     | 0                            | 0               | No                                              | 3                                      |
| Gao Zongze                                                                          | Yes                                | 20                                                          | 20                               | 20                                                     | 0                            | 0               | No                                              | 3                                      |
| Wang Xiangfei                                                                       | Yes                                | 20                                                          | 20                               | 20                                                     | 0                            | 0               | No                                              | 3                                      |
| Guo Yongqing                                                                        | Yes                                | 20                                                          | 20                               | 20                                                     | 0                            | 0               | No                                              | 3                                      |
| Lin Wenbo                                                                           | No                                 | 1                                                           | 1                                | 1                                                      | 0                            | 0               | No                                              | 0                                      |
| Number of Board meetings held during the year (times)                               |                                    |                                                             |                                  |                                                        |                              |                 |                                                 | 20                                     |
| Among which: Physical Meetings (times)                                              |                                    |                                                             |                                  |                                                        |                              |                 |                                                 | 0                                      |
| Meetings held by way of other communication method (times)                          |                                    |                                                             |                                  |                                                        |                              |                 |                                                 | 16                                     |
| Meetings held physically together with by way of other communication method (times) |                                    |                                                             |                                  |                                                        |                              |                 |                                                 | 4                                      |

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

Not applicable.

#### 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

1. During the reporting period, the Company held 5 meetings of the Remuneration and Assessment Committee which mainly discussed the performance of the Company and its evaluation for the year 2017, including the performance of executive Directors and its evaluation, the advice on remuneration of new Directors, Supervisors and Senior Management and the advice on adjustments to the wages of employees, all of which were approved by the board of directors and the general meeting of the Company.
2. During the reporting period, the Company held 3 meetings of the Nomination Committee which discussed the proposed nominations of Mr. Tang Fusheng as director and general manager, Mr. Li Yang as deputy general manager and Mr. Li Jinhe as chief engineer, all of which were approved by the board of directors and the general meeting of the Company.
3. During the reporting period, the Company held 7 meetings of the Audit Committee which mainly discussed the financial information in four regular reports and the internal control and internal audit of the Company, and no disagreement was raised.
4. During the reporting period, the Company held one meeting of the Strategy Committee which discussed the 13th Five-Year Strategic Planning of the Company, which was approved by the board of directors and the general meeting of the Company.

#### 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

Measures, work progress and subsequent work plans of the Company concerning non-competition issues

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 |
| Liu Yujun  | 35463.69                       |
| Wang Jing  | 35463.69                       |
| Li Yang    | 35463.69                       |
| Zhang Jian | 35463.69                       |
| Zhao Yi    | 35463.69                       |

Note: The basic remuneration for the above five persons is less than HK\$1 million.

## 8. Corporate Governance

### VIII THE DISCLOSURE OF INTERNAL CONTROL ASSESSMENT REPORT

For details, please refer to “2017 Internal Control Assessment Report” disclosed at the website of the SSE on 28 March 2018.

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 “2017 Internal Control Audit Report” disclosed on the website of the SSE on 28 March 2018.

## 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. | SSE           |

#### Interests payment and bonds repayment of the Company

During the reporting period, the Company has completed interest payment of “16津創01” for the year 2017 as scheduled.

#### Explanation on other circumstances of corporate bond

“16津創01” has no issuer or investor option terms nor special terms such as exchangeable terms.

Issuing targets of “16津創01” are eligible investors fulfilling requirements of laws and regulations.

### 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,<br>9 Financial Street, Xicheng Beijing  |
|                      | 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,<br>Nankai District, Tianjin |

During the reporting period, there is no change in the bond trustee and credit rating agency engaged by the Company.

## 9. Relevant Details of Corporate Bonds

### III. USE OF PROCEEDS FROM BOND OFFERING

Scale of issue of “16津創01” reached RMB700 million, the proceed reached RMB697.2 million (net of underwriting fees). As of 31 December 2017, the proceed is fully utilized as intended as mentioned in the prospectus, remaining amount is RMB0.

During the reporting period, the proceed account operates well.

The Company strictly follows its capital management system and relevant laws and regulations, execute relevant procedures of use of proceed, use of proceeds is in line with intended use as mentioned in the prospectus, plan of use and other arrangements.

### IV. CORPORATE BOND RATING

On 25 May 2017, United Credit Rating Co., Ltd. completed ongoing credit rating for the Company and “16津創01”; long term credit of the Company maintained at “AA+”, the credit rating outlook is “stable”, credit rating of the corporate bond is “AA+”. Investors should be aware that United Credit Rating Co., Ltd. will perform updated ongoing credit rating for the Company for corporate bond within two months upon disclosure of the annual report and disclosure in the SSE website ([www.sse.com.cn](http://www.sse.com.cn)).

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

During the reporting period, both repayment schedule and repayment protection mechanism of “16津創01” were well executed and were in line with the arrangement and underlying undertakings as mentioned in the prospectus. There were no changes in that regard. The Company has set up specialized repayment account for the corporate bond and has completed withdrawal for such specialized repayment account in accordance with the undertakings as stated in the prospectus.

### VI. CONVENING OF MEETINGS OF BONDHOLDERS

During the reporting period, the Company has not encounter any issues that requires us to convene meetings of bondholders.

### VII. PERFORMANCE OF CORPORATE BOND TRUSTEE

During the terms of the corporate bonds, the corporate bond trustee strictly complies with the arrangement stated in the “Corporate Bond Trustee Agreement” and perform ongoing tracking on credit condition, management on use of proceed fund and corporate bond interest payment of the Company. It has also ensured that the Company perform obligations as stipulated in the corporate bond prospectus. The corporate bond trustee actively performed its responsibilities and protect the legal rights of bondholders.

Investors should be aware that corporate bond trustee shall issue its corporate bond trustee management report (2017) before 30 June 2018 and is expected to disclose on the SSE website ([www.sse.com.cn](http://www.sse.com.cn)).

## 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                     | 2017      | 2016      | Increase/decrease<br>for the period<br>as compared to<br>the same period<br>last year (%) | Reasons                                                                                 |
|--------------------------------------|-----------|-----------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Profit before EBITDA                 | 119,036.8 | 109,156.9 | 9.05%                                                                                     | Increase in amount of revenue greater than increase in amount of costs                  |
| Current ratio                        | 1.31      | 1.89      | -30.69%                                                                                   | Mid-term notes which mature within a year have been reclassified to current liabilities |
| Quick ratio                          | 1.31      | 1.87      | -29.95%                                                                                   | Mid-term notes which mature within a year have been reclassified to current liabilities |
| Assets liability ratio (%)           | 56.53%    | 52.98%    | 6.70%                                                                                     | Percentage increase in liabilities greater than percentage increase in assets           |
| Debt to EBITDA ratio                 | 0.41      | 0.45      | -8.89%                                                                                    | Increase of bank borrowing                                                              |
| Interest protection multiples        | 6.47      | 5.26      | 23.00%                                                                                    | Higher profit and lower interest payment                                                |
| Cash interest protection multiples   | 10.22     | 3.83      | 166.84%                                                                                   | Increase in net cash flow generated from operation activities                           |
| EBITDA interest protection multiples | 9.06      | 7.47      | 21.29%                                                                                    | Higher profit and lower interest payment                                                |
| 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

During the reporting period, redemption of other bonds and debt financing instruments issued by the Company has been fully made as scheduled. There is no delay in interest payment and principal and inability to repay interest payment.

### 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 RMB4.538 billion from various banks, namely, ICBC, Ping An Bank, Minsheng Bank and Agricultural Bank, of which credit facility, approximately RMB610 million was utilized with a remaining balance of approximately RMB3.928 billion. During the reporting period, the Company has repaid each bank loans as scheduled and there is no renewal or concession for such loans.

### 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. This is no major impact to the bondholders.

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

During the reporting period, Anguo Company, a subsidiary of the Company is involved in a material litigation and arbitration. Please see “X. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION” under “5 Major Events” for its particulars.

Apart from which, there are no other major events of the Company as prescribed under Rule 45 of the Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》).

## 10. Financial Report

For details, please refer to the accounting statements and audited reports for 2017 of the Company.



# 11. Report of the Auditors



## Auditor's Report

PwC ZT Shen Zi (2018) 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 the "Capital Environmental Protection"), which comprise:

- the consolidated and company balance sheets as at 31 December 2017;
- 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 the Capital Environmental Protection as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

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*PricewaterhouseCoopers Zhong Tian LLP*  
11/F, PricewaterhouseCoopers Center, 2 Leading Enterprise Square, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC  
T: +86 (21) 2323 8888, F: +86 (21) 2323 8800, [www.pwccn.com](http://www.pwccn.com)

## 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 the 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.

## 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 2017, RMB 1,634,604 thousand out of the total trade receivables of RMB 1,930,158 thousand was overdue, and RMB 665,614 thousand was overdue for more than one year. The trade receivables overdue for more than one year accounts for 5% 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 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 2017 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 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.

# 11. Report of the Auditors

PwC ZT Shen Zi (2018) No. 10031

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## OTHER INFORMATION

Management of the Capital Environmental Protection is responsible for the other information. The other information comprises all of the information included in 2017 annual report of the Capital Environmental Protection other than the financial statements and our auditor's report thereon.

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 of the Capital Environmental Protection 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 the 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 the Capital Environmental Protection or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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.
- 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 the 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 the Capital Environmental Protection to cease to continue as a going concern.

# 11. Report of the Auditors

PwC ZT Shen Zi (2018) No. 10031

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

- 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 the 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

27 March 2018

Signing CPA Li Jun

(Engagement Partner)

Signing CPA Song Yijing

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

As at 31 December 2017

(All amounts in RMB thousand unless otherwise stated)

| ASSETS                              | Note       | 31 December<br>2017<br>Consolidated | 31 December<br>2016<br>Consolidated | 31 December<br>2017<br>Company | 31 December<br>2016<br>Company |
|-------------------------------------|------------|-------------------------------------|-------------------------------------|--------------------------------|--------------------------------|
| <b>CURRENT ASSETS</b>               |            |                                     |                                     |                                |                                |
| Cash at bank and on hand            | 4(1)       | 1,905,678                           | 1,199,058                           | 784,959                        | 459,678                        |
| Notes receivable                    |            | 1,900                               | 400                                 | —                              | —                              |
| Trade receivables                   | 4(2)/14(1) | 1,930,158                           | 1,815,420                           | 1,663,178                      | 1,489,342                      |
| Advances to suppliers               | 4(3)       | 124,770                             | 153,198                             | 1,114                          | 423                            |
| Dividends receivable                |            | —                                   | —                                   | 13,880                         | 8,713                          |
| Other receivables                   | 4(4)/14(2) | 93,708                              | 150,872                             | 228,079                        | 287,697                        |
| Inventories                         | 4(5)       | 18,112                              | 24,491                              | 4,116                          | 4,333                          |
| Other current assets                | 4(6)       | 85,449                              | 49,107                              | 173,452                        | 103,843                        |
| <b>Total current assets</b>         |            | <b>4,159,775</b>                    | <b>3,392,546</b>                    | <b>2,868,778</b>               | <b>2,354,029</b>               |
| <b>NON-CURRENT ASSETS</b>           |            |                                     |                                     |                                |                                |
| Available-for-sale financial assets | 4(7)       | 2,000                               | 2,000                               | 2,000                          | 2,000                          |
| Long-term receivables               | 4(8)       | 294,956                             | 309,148                             | 294,956                        | 309,148                        |
| Long-term equity investments        | 4(9)/14(3) | —                                   | —                                   | 2,081,302                      | 1,746,349                      |
| Investment properties               | 4(10)      | 86,820                              | 97,590                              | 65,552                         | 75,818                         |
| Fixed assets                        | 4(11)      | 383,831                             | 413,486                             | 116,730                        | 125,374                        |
| Construction in progress            | 4(11)      | 20,657                              | 4,396                               | —                              | —                              |
| Intangible assets                   | 4(12)      | 6,906,418                           | 6,233,987                           | 3,321,141                      | 3,393,326                      |
| Other non-current assets            | 4(6)       | 598,433                             | 187,744                             | 726,085                        | 237,480                        |
| <b>Total non-current assets</b>     |            | <b>8,293,115</b>                    | <b>7,248,351</b>                    | <b>6,607,766</b>               | <b>5,889,495</b>               |
| <b>TOTAL ASSETS</b>                 |            | <b>12,452,890</b>                   | <b>10,640,897</b>                   | <b>9,476,544</b>               | <b>8,243,524</b>               |

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

As at 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

| LIABILITIES AND OWNERS' EQUITY                                  | Note      | 31 December<br>2017<br>Consolidated | 31 December<br>2016<br>Consolidated | 31 December<br>2017<br>Company | 31 December<br>2016<br>Company |
|-----------------------------------------------------------------|-----------|-------------------------------------|-------------------------------------|--------------------------------|--------------------------------|
| <b>CURRENT LIABILITIES</b>                                      |           |                                     |                                     |                                |                                |
| Short-term borrowings                                           | 4(16)     | 499,000                             | —                                   | 499,000                        | —                              |
| Trade payable                                                   | 4(14)     | 128,254                             | 107,239                             | 42,027                         | 20,089                         |
| Advances from customers                                         | 4(14)     | 930,888                             | 955,507                             | 5,123                          | 5,994                          |
| Taxes payable                                                   | 4(14)     | 63,741                              | 69,080                              | 7,802                          | 38,154                         |
| Dividends payable                                               | 4(14)     | 1,912                               | 1,438                               | 1,912                          | 1,438                          |
| Other payables                                                  | 4(14)     | 627,209                             | 408,111                             | 698,402                        | 751,895                        |
| Employee benefits payable                                       | 4(15)     | 44,550                              | 34,411                              | 26,067                         | 22,920                         |
| Current portion of non-current liabilities                      | 4(16)     | 870,092                             | 212,327                             | 724,449                        | 25,927                         |
| Other current liabilities                                       | 4(16)     | 7,827                               | 9,645                               | 86,463                         | 86,463                         |
| <b>Total current liabilities</b>                                |           | <b>3,173,473</b>                    | <b>1,797,758</b>                    | <b>2,091,245</b>               | <b>952,880</b>                 |
| <b>NON-CURRENT LIABILITIES</b>                                  |           |                                     |                                     |                                |                                |
| Long-term borrowings                                            | 4(16)     | 581,517                             | 510,428                             | —                              | —                              |
| Debentures payable                                              | 4(16)     | 697,984                             | 1,394,313                           | 697,984                        | 1,394,313                      |
| Long-term payables                                              | 4(16)     | 263,887                             | 285,208                             | 263,887                        | 285,208                        |
| Other non-current liabilities                                   | 4(16)     | 40,000                              | 43,364                              | 210,000                        | 210,000                        |
| Provisions                                                      | 4(17)     | 32,930                              | 32,930                              | 32,930                         | 32,930                         |
| Deferred income                                                 | 4(18)     | 2,129,064                           | 1,446,971                           | 1,719,380                      | 1,129,013                      |
| Deferred tax liabilities                                        | 4(19)     | 120,259                             | 126,108                             | 61,929                         | 54,224                         |
| <b>Total non-current liabilities</b>                            |           | <b>3,865,641</b>                    | <b>3,839,322</b>                    | <b>2,986,110</b>               | <b>3,105,688</b>               |
| <b>TOTAL LIABILITIES</b>                                        |           | <b>7,039,114</b>                    | <b>5,637,080</b>                    | <b>5,077,355</b>               | <b>4,058,568</b>               |
| <b>SHAREHOLDERS' EQUITY</b>                                     |           |                                     |                                     |                                |                                |
| Share capital                                                   | 4(20)     | 1,427,228                           | 1,427,228                           | 1,427,228                      | 1,427,228                      |
| Capital surplus                                                 | 4(21) (a) | 399,115                             | 399,115                             | 380,788                        | 380,788                        |
| Surplus reserve                                                 | 4(21) (b) | 479,907                             | 444,925                             | 479,907                        | 444,925                        |
| Undistributed profits                                           | 4(21) (c) | 2,810,790                           | 2,473,109                           | 2,111,266                      | 1,932,015                      |
| <b>Total equity attributable to equity owners of the parent</b> |           | <b>5,117,040</b>                    | <b>4,744,377</b>                    | <b>4,399,189</b>               | <b>4,184,956</b>               |
| Minority interests                                              |           | 296,736                             | 259,440                             | —                              | —                              |
| <b>Total owners' equity</b>                                     |           | <b>5,413,776</b>                    | <b>5,003,817</b>                    | <b>4,399,189</b>               | <b>4,184,956</b>               |
| <b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>               |           | <b>12,452,890</b>                   | <b>10,640,897</b>                   | <b>9,476,544</b>               | <b>8,243,524</b>               |

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

Company representative:

Liu Yujun

Person in charge of  
accounting function:

Peng Yilin

Person in charge of  
accounting department:

Liu Tao

## 12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Consolidated and Company Income Statements

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

| Item                                                                         | Note        | 2017<br>Consolidated | 2016<br>Consolidated | 2017<br>Company | 2016<br>Company |
|------------------------------------------------------------------------------|-------------|----------------------|----------------------|-----------------|-----------------|
| <b>1. Revenue</b>                                                            | 4(22)/14(4) | 2,148,341            | 1,958,666            | 999,237         | 958,983         |
| Less: Cost of sales                                                          | 4(22)/14(4) | (1,291,171)          | (1,150,012)          | (517,053)       | (506,081)       |
| Taxes and surcharges                                                         | 4(23)       | (57,464)             | (45,670)             | (27,596)        | (24,931)        |
| Selling and distribution expenses                                            | 4(24)       | (6,467)              | (9,964)              | —               | —               |
| General and administrative expenses                                          | 4(24)       | (139,749)            | (116,481)            | (81,782)        | (73,691)        |
| Financial expenses-net                                                       | 4(26)       | (100,339)            | (151,666)            | (62,682)        | (100,466)       |
| Asset impairment losses                                                      | 4(27)       | (21,928)             | (52,057)             | (4,540)         | (53,481)        |
| Add: Investment gains/(losses)                                               | 4(28)/14(5) | 400                  | (3,640)              | 45,067          | 93,730          |
| Including: Share of profit/(loss) of associates                              |             | —                    | (3,640)              | —               | —               |
| Gains on disposals of assets                                                 | 4(29)       | —                    | 17                   | —               | 1               |
| Other income                                                                 | 4(30)       | 185,270              | —                    | 107,801         | —               |
| <b>2. Operating profit</b>                                                   |             | 716,893              | 429,193              | 458,452         | 294,064         |
| Add: Non-operating income                                                    | 4(31)       | 3,870                | 194,295              | 175             | 110,208         |
| Less: Non-operating expenses                                                 | 4(32)       | (1,975)              | (1,260)              | (462)           | (241)           |
| <b>3. Total profit</b>                                                       |             | 718,788              | 622,228              | 458,165         | 404,031         |
| Less: Income tax expenses                                                    | 4(33)       | (199,593)            | (154,322)            | (108,344)       | (98,544)        |
| <b>4. Net profit</b>                                                         |             | 519,195              | 467,906              | 349,821         | 305,487         |
| Classified by continuity of operations                                       |             |                      |                      |                 |                 |
| Net profit from continuing operations                                        |             | 519,195              | 467,906              | 349,821         | 305,487         |
| Net profit from discontinued operations                                      |             | —                    | —                    | —               | —               |
| Classified by ownership of the equity                                        |             |                      |                      |                 |                 |
| Minority interests                                                           |             | 10,944               | 24,738               | —               | —               |
| Attributable to equity owners of the Company                                 |             | 508,251              | 443,168              | 349,821         | 305,487         |
| <b>5. Other comprehensive income after deduction of impact of income tax</b> |             | —                    | —                    | —               | —               |
| <b>6. Total comprehensive income</b>                                         |             | 519,195              | 467,906              | 349,821         | 305,487         |
| Attributable to minority shareholders of the Company                         |             | 10,944               | 24,738               | —               | —               |
| Attributable to owners of the parent                                         |             | 508,251              | 443,168              | 349,821         | 305,487         |
| <b>Earnings per share (in RMB Yuan)</b>                                      | 4(34)       |                      |                      |                 |                 |
| Basic                                                                        |             | 0.36                 | 0.31                 | —               | —               |
| Diluted                                                                      |             | 0.36                 | 0.31                 | —               | —               |

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

Company representative:

Liu Yujun

Person in charge of  
accounting function:

Peng Yilin

Person in charge of  
accounting department:

Liu Tao



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

## Consolidated and Company Cash Flow Statements

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

| Item                                                                            | Note      | 2017<br>Consolidated | 2016<br>Consolidated | 2017<br>Company    | 2016<br>Company  |
|---------------------------------------------------------------------------------|-----------|----------------------|----------------------|--------------------|------------------|
| <b>1. Cash flows from operating activities</b>                                  |           |                      |                      |                    |                  |
| Cash received from sales of goods or rendering of services                      |           | 2,344,694            | 1,705,972            | 1,005,222          | 644,110          |
| Refund of taxes and surcharges                                                  |           | 152,825              | 171,898              | 76,350             | 110,782          |
| Cash received relating to other operating activities                            | 4(35) (c) | <u>302,636</u>       | <u>82,453</u>        | <u>286,460</u>     | <u>64,860</u>    |
| <b>Sub-total of cash inflows</b>                                                |           | <u>2,800,155</u>     | <u>1,960,323</u>     | <u>1,368,032</u>   | <u>819,752</u>   |
| Cash paid for goods and services                                                |           | (827,475)            | (669,241)            | (318,242)          | (292,764)        |
| Cash paid to and on behalf of employees                                         |           | (256,738)            | (236,295)            | (118,310)          | (107,613)        |
| Payments of taxes and surcharges                                                |           | (497,074)            | (448,440)            | (272,901)          | (281,641)        |
| Cash paid relating to other operating activities                                | 4(35) (d) | <u>(306,816)</u>     | <u>(202,677)</u>     | <u>(349,499)</u>   | <u>(189,136)</u> |
| <b>Sub-total of cash outflows</b>                                               |           | <u>(1,888,103)</u>   | <u>(1,556,653)</u>   | <u>(1,058,952)</u> | <u>(871,154)</u> |
| <b>Net cash flows from operating activities</b>                                 | 4(35)     | <u>912,052</u>       | <u>403,670</u>       | <u>309,080</u>     | <u>(51,402)</u>  |
| <b>2. Cash flows from investing activities</b>                                  |           |                      |                      |                    |                  |
| Cash received from disposal of investments                                      |           | —                    | —                    | —                  | 4,000            |
| Cash received from returns on investments                                       |           | 400                  | —                    | 39,900             | 93,730           |
| Net cash received from disposal of fixed assets                                 | 4(35) (e) | <u>531</u>           | <u>89</u>            | <u>144</u>         | <u>1</u>         |
| Cash received from subsidiaries                                                 |           | —                    | —                    | 506,528            | 185,738          |
| Cash received from restricted bank deposits                                     |           | 6,100                | 3,362                | —                  | 2,500            |
| Cash received from government grants                                            |           | <u>726,861</u>       | <u>340,950</u>       | <u>664,990</u>     | <u>253,000</u>   |
| <b>Sub-total of cash inflows</b>                                                |           | <u>733,892</u>       | <u>344,401</u>       | <u>1,211,562</u>   | <u>538,969</u>   |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets |           | (860,892)            | (461,166)            | (143,368)          | (66,436)         |
| Cash paid to acquire investments                                                |           | (380,000)            | —                    | (719,493)          | (243,375)        |
| Cash paid for restricted bank deposits                                          |           | (151)                | —                    | (151)              | —                |
| Cash paid to subsidiaries                                                       |           | —                    | —                    | (610,295)          | (363,128)        |
| Cash paid relating to other investing activities                                | 4(35) (f) | <u>—</u>             | <u>(25,715)</u>      | <u>—</u>           | <u>(25,715)</u>  |
| <b>Sub-total of cash outflows</b>                                               |           | <u>(1,241,043)</u>   | <u>(486,881)</u>     | <u>(1,473,307)</u> | <u>(698,654)</u> |
| <b>Net cash flows from investing activities</b>                                 |           | <u>(507,151)</u>     | <u>(142,480)</u>     | <u>(261,745)</u>   | <u>(159,685)</u> |

## 12. Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises Consolidated and Company Cash Flow Statements

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

| Item                                                                                         | Note      | 2017<br>Consolidated    | 2016<br>Consolidated    | 2017<br>Company       | 2016<br>Company       |
|----------------------------------------------------------------------------------------------|-----------|-------------------------|-------------------------|-----------------------|-----------------------|
| <b>3. Cash flows from financing activities</b>                                               |           |                         |                         |                       |                       |
| Cash received from borrowings                                                                |           | 727,632                 | 202,943                 | 500,000               | 290,000               |
| Cash received from issuance of debentures                                                    |           | —                       | 700,000                 | —                     | 700,000               |
| Cash received from capital contributions                                                     |           | 27,132                  | 19,474                  | —                     | —                     |
| Including: Cash received from capital contributions by minority shareholders of subsidiaries |           | 27,132                  | 19,474                  | —                     | —                     |
| <b>Sub-total of cash inflows</b>                                                             |           | <u>754,764</u>          | <u>922,417</u>          | <u>500,000</u>        | <u>990,000</u>        |
| Cash repayments of borrowings                                                                |           | (201,482)               | (1,067,925)             | (1,000)               | (700,000)             |
| Cash payments for distribution of interest expenses                                          |           | (109,720)               | (129,833)               | (86,091)              | (90,040)              |
| Payments for distribution of dividends or profits                                            |           | (135,894)               | (133,304)               | (135,114)             | (130,894)             |
| <b>Sub-total of cash outflows</b>                                                            |           | <u>(447,096)</u>        | <u>(1,331,062)</u>      | <u>(222,205)</u>      | <u>(920,934)</u>      |
| Net cash flows from financing activities                                                     |           | <u>307,668</u>          | <u>(408,645)</u>        | <u>277,795</u>        | <u>69,066</u>         |
| <b>4. Effect of foreign exchange rate changes on cash</b>                                    |           | <u>—</u>                | <u>—</u>                | <u>—</u>              | <u>—</u>              |
| <b>5. Net increase/(decrease) in cash and cash equivalents</b>                               |           | 712,569                 | (147,455)               | 325,130               | (142,021)             |
| Add: Cash at beginning of year                                                               |           | <u>1,181,120</u>        | <u>1,328,575</u>        | <u>454,678</u>        | <u>596,699</u>        |
| <b>6. Cash at end of year</b>                                                                | 4(35) (b) | <u><u>1,893,689</u></u> | <u><u>1,181,120</u></u> | <u><u>779,808</u></u> | <u><u>454,678</u></u> |

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

Company representative:

**Liu Yujun**

Person in charge of  
accounting function:

**Peng Yilin**

Person in charge of  
accounting department:

**Liu Tao**

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

## Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

| Item                                                 | Note      | Attributable to owners of the parent |                 |                 |                       |                    | Total shareholders' equity |
|------------------------------------------------------|-----------|--------------------------------------|-----------------|-----------------|-----------------------|--------------------|----------------------------|
|                                                      |           | Share capital                        | Capital surplus | Surplus reserve | Undistributed profits | Minority interests |                            |
| Balance at 1 January 2016                            |           | 1,427,228                            | 382,311         | 414,376         | 2,177,200             | 217,638            | 4,618,753                  |
| <b>Movements for the year ended 31 December 2016</b> |           |                                      |                 |                 |                       |                    |                            |
| 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                       | 4(21) (c) | —                                    | 16,804          | —               | (16,804)              | —                  | —                          |
| Profit distribution                                  |           |                                      |                 |                 |                       |                    |                            |
| Appropriation to surplus reserves                    |           | —                                    | —               | 30,549          | (30,549)              | —                  | —                          |
| Dividend distribution to shareholders                |           | —                                    | —               | —               | (99,906)              | (2,410)            | (102,316)                  |
| <b>Balance at 31 December 2016</b>                   |           | <b>1,427,228</b>                     | <b>399,115</b>  | <b>444,925</b>  | <b>2,473,109</b>      | <b>259,440</b>     | <b>5,003,817</b>           |
| Balance at 1 January 2017                            |           | 1,427,228                            | 399,115         | 444,925         | 2,473,109             | 259,440            | 5,003,817                  |
| <b>Movements for the year ended 31 December 2017</b> |           |                                      |                 |                 |                       |                    |                            |
| Total comprehensive income                           |           |                                      |                 |                 |                       |                    |                            |
| Net profit                                           |           | —                                    | —               | —               | 508,251               | 10,944             | 519,195                    |
| Total comprehensive income for the year              |           | —                                    | —               | —               | 508,251               | 10,944             | 519,195                    |
| Capital contribution by shareholders                 |           | —                                    | —               | —               | —                     | 27,132             | 27,132                     |
| Profit distribution                                  |           |                                      |                 |                 |                       |                    |                            |
| Appropriation to surplus reserves                    |           | —                                    | —               | 34,982          | (34,982)              | —                  | —                          |
| Dividend distribution to shareholders                |           | —                                    | —               | —               | (135,588)             | (780)              | (136,368)                  |
| <b>Balance at 31 December 2017</b>                   |           | <b>1,427,228</b>                     | <b>399,115</b>  | <b>479,907</b>  | <b>2,810,790</b>      | <b>296,736</b>     | <b>5,413,776</b>           |

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

Company representative:

Liu Yujun

Person in charge of  
accounting function:

Peng Yilin

Person in charge of  
accounting department:

Liu Tao

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

### Company Statement of Changes in Owners' Equity

For the year ended 31 December 2017

(All amounts in RMB thousand unless otherwise stated)

| Item                                                 | Share capital    | Capital surplus | Surplus reserve | Undistributed profits | Total shareholders' equity |
|------------------------------------------------------|------------------|-----------------|-----------------|-----------------------|----------------------------|
| <b>Balance at 1 January 2016</b>                     | 1,427,228        | 380,788         | 414,376         | 1,756,983             | 3,979,375                  |
| <b>Movements for the year ended 31 December 2016</b> |                  |                 |                 |                       |                            |
| 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)                   |
| <b>Balance at 31 December 2016</b>                   | <u>1,427,228</u> | <u>380,788</u>  | <u>444,925</u>  | <u>1,932,015</u>      | <u>4,184,956</u>           |
| <b>Balance at 1 January 2017</b>                     | 1,427,228        | 380,788         | 444,925         | 1,932,015             | 4,184,956                  |
| <b>Movements for the year ended 31 December 2017</b> |                  |                 |                 |                       |                            |
| Total comprehensive income                           |                  |                 |                 |                       |                            |
| Net profit                                           | —                | —               | —               | 349,821               | 349,821                    |
| Total comprehensive income for the year              | —                | —               | —               | 349,821               | 349,821                    |
| Profit distribution                                  |                  |                 |                 |                       |                            |
| Appropriation to surplus reserves                    | —                | —               | 34,982          | (34,982)              | —                          |
| Dividend distribution to shareholders                | —                | —               | —               | (135,588)             | (135,588)                  |
| <b>Balance at 31 December 2017</b>                   | <u>1,427,228</u> | <u>380,788</u>  | <u>479,907</u>  | <u>2,111,266</u>      | <u>4,399,189</u>           |

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

Company representative:

**Liu Yujun**

Person in charge of  
accounting function:

**Peng Yilin**

Person in charge of  
accounting department:

**Liu Tao**

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

## Notes to the Financial Statements

For the year ended 31 December 2017  
(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 2017, 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 Construction Bureau<br>(Renamed Qujing Housing and Urban Construction Bureau)                |
| 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<br>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                                                     |
| Karamay, Xinjiang   | 4 November 2016   | Karamay Construction Bureau                                                                         |
| Linxia, Gansu       | 4 November 2017   | Linxia Housing and Urban Construction Bureau                                                        |
| Ningxiang, Changsha | 5 June 2017       | Ningxiang Economic and Technological Development Zone<br>Management Committee                       |
| Hefei, Anhui        | 16 June 2017      | Hefei Urban Construction Committee                                                                  |
| Dalian, Liaoning    | 1 November 2017   | Dalian Urban Construction Bureau                                                                    |

For the year ended 31 December 2017  
(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 5 and Note 6.**

**(g) These financial statements were approved by the Company's Board of Directors on 27 March 2018.**

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

For the year ended 31 December 2017  
(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 2017 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 2017 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 Company’s recording currency is Renminbi (RMB). The recording currency of the Company’s subsidiaries is determined based on the primary economic environment in which they operate, and the recording currency of Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd. is HK dollar. The financial statements are presented in RMB.

For the year ended 31 December 2017  
(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.



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

For the year ended 31 December 2017  
(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 recording currency 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 recording currency 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.

For the year ended 31 December 2017  
(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.

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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.

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## 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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Receivables

Receivables comprise trade receivable, other receivables and notes 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                          |
| Bank acceptance                        | Bank acceptance from bank under low risk                                                                                           | None                                           |

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## 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<br>for trade receivable | Provision ratios used<br>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.

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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 investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid.

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## 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 at the amount it expects to undertake. 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.



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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%                 |

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## 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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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)).

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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.

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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 available 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.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

### (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 Short-term 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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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.

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## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (20) Provisions (Continued)

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

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.



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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue recognition (Continued)

(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.

(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.

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## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (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 are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deducted against related costs, expenses or losses directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

For the policy loans with favourable interest rates, the Group records the loans at the actual amounts and calculates the interests by loan principals and the favourable interest rates. The interest subsidies directly received from government are recorded as a reduction of interest expenses.

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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.

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## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (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.

### (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.

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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*

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.

(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.

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

For the year ended 31 December 2017  
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### 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### (27) Significant changes in accounting policies

- (a) In 2017, the Ministry of Finance released the ‘Accounting Standard for Business Enterprises No. 42—Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations’, revised ‘Accounting Standard for Business Enterprises No. 16—Government Grants’ and the ‘Circular on Amendment to Formats of Financial Statements of General Industry’ and its interpretation (Cai Kuai [2017] 30). The financial statements are prepared in accordance with the above standards and circular, and impacts are as follows:

| The nature and the reasons of the changes in accounting policies                                                                                                                                                                        | The line items affected                              | The amounts affected<br>1 January 2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|----------------------------------------|
| The Group recorded the VAT return obtained in 2017 in other income(Note 4(30)). The comparatives as at 31 December 2016 were not restated.                                                                                              | Not applicable                                       | Not applicable                         |
| The Group recorded those government grants related to daily operations into other income(Note 4(30)), and the other government grants into non-operating income (Note 4(31)) The comparatives as at 31 December 2016 were not restated. | Not applicable                                       | Not applicable                         |
|                                                                                                                                                                                                                                         |                                                      | <b>2016</b>                            |
| The Group recorded the gains or losses on disposals of fixed assets and intangible assets, occurred in 2017, in gains on disposals of assets. The comparatives as at 31 December 2016 were restated accordingly.                        | Gains on disposals of assets<br>Non-operating income | 17<br>(17)                             |

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies

- (b) The Ministry of Finance has issued the revised '*Accounting Standards for Enterprises No. 14-Revenue*'. This will replace the '*Accounting Standards for Enterprises No. 14-Revenue*', and '*Accounting Standards for Enterprises No. 15-Construction Contract*' and will take effect on January 1, 2018.

The principle of the new accounting standards is that the enterprise should fulfill its contractual obligations, that is, the revenue should be recognized when the customer acquires control of the relevant goods.

This standard allows for the prospective application. That is, an enterprise implementing these standards for the first time, shall adjust the amount of retained earnings and other relevant items in the financial statements at the beginning of the implementation of these standards according to the cumulative impact. There is no need for adjustments to comparable period financial information.

The management has assessed the impact of the application of the new standards on the Group's financial statements and has determined that it will have the following implications:

Accounting for recycling water pipeline-connection revenue recognition-The revised '*Accounting Standards for Enterprises No. 14-Revenue*' requires that, for obligations to be performed within a certain period of time, the enterprise shall recognize revenue during this period of time in accordance with the actual progress of performance. This will result in earlier recognition of part of the revenue compares with one-time recognition of revenue at the time of completion of the connection project, as approved by old accounting standards. The Group estimates that, on 1 January 2018, the advance from customers will decrease by about 342 million yuan, advance to suppliers will decrease by 91 million yuan, and trade payables will increase by 9 million yuan and retained earnings increase by 171 million yuan.

The adoption date by the Group: financial years commencing on January 1, 2018.

## 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)

### 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%   |
| City maintenance and construction tax | The payment amount of VAT                                                                                                                                                   | 7%       |
| Educational surcharge                 | The payment amount of VAT                                                                                                                                                   | 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.

- (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 2017  | Reason for the preferential tax policy                                                                                                                                                                                                                 |
|------------------------------------------------|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fuyang Capital Water Co., Ltd.                 | 12.5%                                | 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 Caring Technology Development 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.                                         |
| Karamay 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 2017 for the first 3 years and reduction half for the next 3 years.        |



12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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3 TAXATION (Continued)

(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.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

|                                   | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------|---------------------|---------------------|
| Cash on hand                      | 144                 | 173                 |
| Cash at bank                      | 1,893,545           | 1,180,947           |
| Other cash balances               | 11,989              | 17,938              |
|                                   | <u>1,905,678</u>    | <u>1,199,058</u>    |
| Including: Bank deposits overseas | <u>8,203</u>        | <u>9,143</u>        |

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

|                                                 | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------------------------|---------------------|---------------------|
| Cash at bank and on hand                        | 1,905,678           | 1,199,058           |
| Less: Restricted bank deposits (Note (i))       | (11,989)            | (17,938)            |
| Cash listed in cash flow statement (Note 4(35)) | <u>1,893,689</u>    | <u>1,181,120</u>    |

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

(2) Trade receivables

|                               | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------|---------------------|---------------------|
| Trade receivables             | 1,964,259           | 1,837,823           |
| Less: Provision for bad debts | (34,101)            | (22,403)            |
|                               | <u>1,930,158</u>    | <u>1,815,420</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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Trade receivables (Continued)

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

|               | 31 December 2017 |                    | 31 December 2016 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 1,266,494        | 64%                | 1,274,671        | 69%                |
| 1-2 years     | 666,168          | 34%                | 533,389          | 29%                |
| Over 2 years  | 31,597           | 2%                 | 29,763           | 2%                 |
| Total         | <u>1,964,259</u> | <u>100%</u>        | <u>1,837,823</u> | <u>100%</u>        |

As at 31 December 2017, trade receivables of RMB1,685 million (31 December 2016: RMB1,485 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:

|                       | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------|---------------------|---------------------|
| Overdue within 1 year | 968,990             | 1,019,083           |
| Overdue for 1-2 years | 660,209             | 458,992             |
| Overdue for 2-3 years | 5,405               | 7,360               |
|                       | <u>1,634,604</u>    | <u>1,485,435</u>    |

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

(2) Trade receivables (Continued)

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

|                                                                                                                                                | 31 December 2017 |                    |                         |                    | 31 December 2016 |                    |                         |                    |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------|-------------------------|--------------------|------------------|--------------------|-------------------------|--------------------|
|                                                                                                                                                | 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                | 1,719,508        | 88%                | 20,329                  | 1%                 | 1,512,493        | 82%                | 16,992                  | 1%                 |
| General credit portfolio                                                                                                                       | 236,842          | 12%                | 5,863                   | 2%                 | 325,330          | 18%                | 5,411                   | 2%                 |
| Trade receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts (note (i)) | 7,909            | 0%                 | 7,909                   | 100%               | —                | —                  | —                       | —                  |
| <b>Total</b>                                                                                                                                   | <b>1,964,259</b> | <b>100%</b>        | <b>34,101</b>           | <b>2%</b>          | <b>1,837,823</b> | <b>100%</b>        | <b>22,403</b>           | <b>1%</b>          |

(i) As at 31 December 2017, Tianjin Capital Alternative Energy Technology Co., Ltd. (“Capital Alternative”) provided RMB8 million (31 December 2016: Nil) of bad debt provision for one of its customers, the relevant receivables is aged within 2 years and is currently in process of litigation.

(c) As at 31 December 2017, 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                                 | Ending balance   | Bad debts       | % of ending balance |
|-----------------------------------------------|------------------|-----------------|---------------------|
| TWAB (note (i))                               | 1,534,573        | —               | —                   |
| Qujing City Water General Company (note (ii)) | 126,219          | (20,329)        | 16%                 |
| Hangzhou City Sewerage Company (note (i))     | 58,716           | —               | —                   |
| <b>Total</b>                                  | <b>1,719,508</b> | <b>(20,329)</b> |                     |

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

(ii) As at 31 December 2017, 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 126 million. Management provided RMB 20 million bad debt provision for all foreseeable uncollectible receivables with aging over 2 years.

**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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(2) Trade receivables (Continued)

- (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 2017 |                         |                     | 31 December 2016 |                         |                     |
|---------------|------------------|-------------------------|---------------------|------------------|-------------------------|---------------------|
|               | Ending balance   | Provision for bad debts | % of ending balance | Ending balance   | Provision for bad debts | % of ending balance |
|               | Amount           | Amount                  |                     | Amount           | Amount                  |                     |
| Within 1 year | 210,064          | —                       | —                   | 299,002          | —                       | —                   |
| 1-2 years     | 15,510           | —                       | —                   | 18,957           | —                       | —                   |
| Over 2 years  | 11,268           | 5,863                   | 52%                 | 7,371            | 5,411                   | 73%                 |
| <b>Total</b>  | <b>236,842</b>   | <b>5,863</b>            | <b>2%</b>           | <b>325,330</b>   | <b>5,411</b>            | <b>2%</b>           |

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

|                                                 | 31 December 2017 | 31 December 2016 |
|-------------------------------------------------|------------------|------------------|
| City Infrastructure Construction and Investment | 28,570           | 29,337           |

- (f) As at 31 December 2017, 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                                     | 927,221          | Within 1 year | —                       | 47%                |
|                                                 |                                                 | 607,352          | 1-2 years     | —                       | 31%                |
| Qijing City Water General Company               | Third party                                     | 68,543           | Within 1 year | —                       | 3%                 |
|                                                 |                                                 | 37,347           | 1-2 years     | —                       | 2%                 |
|                                                 |                                                 | 20,329           | Over 2 years  | 20,329                  | 1%                 |
| Hangzhou Sewage Company                         | Third party                                     | 58,716           | Within 1 year | —                       | 3%                 |
| Tianjin Lecheng Properties Co., Ltd.            | Controlled by the same ultimate holding company | 38,171           | Within 1 year | —                       | 1%                 |
| City Infrastructure Construction and Investment | Ultimate holding company                        | 28,570           | Within 1 year | —                       | 2%                 |
| <b>Total</b>                                    |                                                 | <b>1,786,249</b> |               | <b>20,329</b>           | <b>90%</b>         |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Advances to suppliers

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

|               | 31 December 2017 |                    | 31 December 2016 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 43,069           | 35%                | 75,282           | 49%                |
| 1 to 2 years  | 71,489           | 57%                | 50,031           | 33%                |
| Over 2 years  | 10,212           | 8%                 | 27,885           | 18%                |
|               | <u>124,770</u>   | <u>100%</u>        | <u>153,198</u>   | <u>100%</u>        |

As at 31 December 2017, advances to suppliers of RMB 82 million (31 December 2016: RMB 78 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.

(b) As at 31 December 2017, 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>17,462</u> | <u>14%</u>         |

(4) Other receivables

|                               | 31 December 2017 | 31 December 2016 |
|-------------------------------|------------------|------------------|
| Project deposits              | 74,284           | 120,149          |
| VAT refund receivable         | 9,525            | 27,810           |
| Others                        | 9,899            | 2,913            |
| Less: Provision for bad debts | —                | —                |
|                               | <u>93,708</u>    | <u>150,872</u>   |

As at 31 December 2017, there were no other receivables overdue but unimpaired (31 December 2016: Nil).

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**4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(4) Other receivables (Continued)**

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

|               | 31 December 2017 |                    | 31 December 2016 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 66,515           | 71%                | 145,235          | 96%                |
| 1-2 years     | 22,850           | 25%                | 1,586            | 1%                 |
| 2-3 years     | 1,413            | 2%                 | 1,445            | 1%                 |
| Over 3 years  | 2,930            | 2%                 | 2,606            | 2%                 |
|               | <u>93,708</u>    | <u>100%</u>        | <u>150,872</u>   | <u>100%</u>        |

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

| Category                                               | 31 December 2017 |                    |                         |                    | 31 December 2016 |                    |                         |                    |
|--------------------------------------------------------|------------------|--------------------|-------------------------|--------------------|------------------|--------------------|-------------------------|--------------------|
|                                                        | 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 |                  |                    |                         |                    |                  |                    |                         |                    |
| Project deposits                                       | 74,284           | 79%                | —                       | —                  | 120,149          | 80%                | —                       | —                  |
| VAT refunds                                            | 9,525            | 10%                | —                       | —                  | 27,810           | 18%                | —                       | —                  |
| Others                                                 | 9,899            | 11%                | —                       | —                  | 2,913            | 2%                 | —                       | —                  |
| Total                                                  | <u>93,708</u>    | <u>100%</u>        | <u>—</u>                | <u>—</u>           | <u>150,872</u>   | <u>100%</u>        | <u>—</u>                | <u>—</u>           |

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

|               | 31 December 2017 |                    |                         |                    | 31 December 2016 |                    |                         |                    |
|---------------|------------------|--------------------|-------------------------|--------------------|------------------|--------------------|-------------------------|--------------------|
|               | 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 | <u>9,899</u>     | <u>11%</u>         | <u>—</u>                | <u>—</u>           | <u>2,913</u>     | <u>2%</u>          | <u>—</u>                | <u>—</u>           |

(d) As at 31 December 2017, there were no balances of other receivables due from shareholders holding 5% or more of voting shares of the Company (31 December 2016: Nil), and there were no receivables from any of the related parties of the Group (31 December 2016: Nil).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

(e) As at 31 December 2017, other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

|                                                            | Nature                | Amount | Aging           | % of total balance |
|------------------------------------------------------------|-----------------------|--------|-----------------|--------------------|
| Changsha Wangcheng District Public Resource Trading Center | Project deposits      | 35,000 | Within one year | 37%                |
| Linxia City Water Supply and Sewerage Company              | Project deposits      | 30,000 | Within one year | 32%                |
| Tianjin State Taxation Bureau                              | VAT refund receivable | 5,343  | Within one year | 6%                 |
| Xi'an Hi-tech District State Taxation Bureau               | VAT refund receivable | 3,247  | Within one year | 3%                 |
| Linxia Bureau of Human Resources and Social Security       | Others                | 1,816  | Within one year | 2%                 |
|                                                            |                       | 75,406 |                 | 80%                |

(f) As at 31 December 2017, the amount of receivables from government grants (VAT refunds) was RMB 10 million with aging within 1 year. This amount was collected in the first quarter of 2018.

(5) Inventories

|                                      | 31 December 2017 |                                                   |                 | 31 December 2016 |                                                   |                 |
|--------------------------------------|------------------|---------------------------------------------------|-----------------|------------------|---------------------------------------------------|-----------------|
|                                      | 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                        | 8,251            | —                                                 | 8,251           | 10,114           | —                                                 | 10,114          |
| Finished goods                       | 3,198            | —                                                 | 3,198           | 3,766            | —                                                 | 3,766           |
| Spare parts and low cost consumables | 414              | —                                                 | 414             | 188              | —                                                 | 188             |
| Construction contract                | 6,249            | —                                                 | 6,249           | 10,423           | —                                                 | 10,423          |
|                                      | 18,112           | —                                                 | 18,112          | 24,491           | —                                                 | 24,491          |

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

(6) Other current and non-current assets

|                                                                 | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------------------------------|---------------------|---------------------|
| <b>Other current assets:</b>                                    |                     |                     |
| Assets of Anguo                                                 | 36,913              | 47,143              |
| Input VAT to be deducted                                        | 47,219              | —                   |
| Input VAT to be verified                                        | 38                  | —                   |
| Others                                                          | 1,279               | 1,964               |
|                                                                 | <u>85,449</u>       | <u>49,107</u>       |
| <b>Other non-current assets:</b>                                |                     |                     |
| Stock prepayments of Bayannur Projects                          | 380,000             | —                   |
| Prepayments of construction                                     | 209,824             | —                   |
| Acquisition of Karamay Sewage Treatment Plant Concession rights | —                   | 180,145             |
| Others                                                          | 8,609               | 7,599               |
|                                                                 | <u>598,433</u>      | <u>187,744</u>      |

(7) Available-for-sale financial assets

|                                         | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------|---------------------|---------------------|
| Measured at cost                        |                     |                     |
| – Available-for-sale equity instruments | 2,000               | 2,000               |
|                                         | <u>2,000</u>        | <u>2,000</u>        |

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

|                                                                  | 31 December<br>2017 | 31 December<br>2016 |
|------------------------------------------------------------------|---------------------|---------------------|
| Available-for-sale equity instruments - Cost                     | 2,000               | 2,000               |
| Available-for-sale equity instruments - Provision for impairment | —                   | —                   |
|                                                                  | <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.



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(8) Long-term receivables

|                      | 31 December<br>2017 | 31 December<br>2016 |
|----------------------|---------------------|---------------------|
| Toll road concession | <u>294,956</u>      | <u>309,148</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.

(9) Long-term equity investments

|                                                             | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------------------------------------|---------------------|---------------------|
| Investment in an associate (note (a))                       | 22,358              | 22,358              |
| Less: Impairment of Long-term equity investments (note (b)) | <u>(22,358)</u>     | <u>(22,358)</u>     |
|                                                             | <u>—</u>            | <u>—</u>            |

(a) Investment in associate

|                                           | Type            | Place of<br>registration | Registered<br>capital | Shareholding/<br>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<br>investment<br>cost | 31 December<br>2016 | Share of net<br>loss under<br>equity method | Cash<br>dividends or<br>profit declared | Provision for<br>impairment<br>accrued | 31 December<br>2017 | Provision for<br>impairment<br>at the end<br>of the year |
|-------------------------|-------------------------------|---------------------|---------------------------------------------|-----------------------------------------|----------------------------------------|---------------------|----------------------------------------------------------|
| International Machinery | 33,000                        | —                   | —                                           | —                                       | —                                      | —                   | (22,358)                                                 |

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

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(9) Long-term equity investments (Continued)

(a) Investment in associate (Continued)

Summarised financial information for an insignificant associate:

|                                       | 2017 | 2016    |
|---------------------------------------|------|---------|
| Carrying amount of an investment      | —    | —       |
| The following items in proportion     |      |         |
| Net profit (note (i))                 | —    | (3,640) |
| Other comprehensive income (note (i)) | —    | —       |
|                                       | —    | —       |
| Total comprehensive income            | —    | (3,640) |

- (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.

(b) Excess losses incurred by joint ventures and associated associates:

|                         | Accumulated<br>unrecognized<br>losses at the<br>beginning of<br>the year | unrecognized<br>losses in the<br>current year | Accumulated<br>unrecognized<br>losses at the end<br>of the year |
|-------------------------|--------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------|
| International Machinery | —                                                                        | 644                                           | 644                                                             |
|                         | —                                                                        | 644                                           | 644                                                             |

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

|                         | 31 December<br>2016 | Additions | Disposals | 31 December<br>2017 |
|-------------------------|---------------------|-----------|-----------|---------------------|
| International Machinery | 22,358              | —         | —         | 22,358              |
|                         | 22,358              | —         | —         | 22,358              |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Investment properties

|                                     | <b>Buildings</b> |
|-------------------------------------|------------------|
| Cost                                |                  |
| 1 January 2016 and 31 December 2016 | 137,374          |
| Transfer to fixed assets            | (18,966)         |
|                                     | <hr/>            |
| 31 December 2017                    | 118,408          |
|                                     | <hr/>            |
| Accumulated depreciation            |                  |
| 1 January 2016                      | (36,111)         |
| Increase in the current year        | (3,673)          |
| Decrease in the current year        | —                |
|                                     | <hr/>            |
| 31 December 2016                    | (39,784)         |
|                                     | <hr/>            |
| Charge for the year                 | (3,673)          |
| Transfer to fixed assets            | 11,869           |
|                                     | <hr/>            |
| 31 December 2017                    | (31,588)         |
|                                     | <hr/>            |
| Net book value                      |                  |
| 31 December 2017                    | 86,820           |
|                                     | <hr/> <hr/>      |
| 31 December 2016                    | 97,590           |
|                                     | <hr/> <hr/>      |

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 2017 was approximately RMB 122 million (2016: RMB 260 million) and its carrying amount was approximately RMB 66 million. The fair value of leased property of Tianjin Water Recycling Co., Ltd. at 31 December 2017 was approximately RMB 117 million (2016: RMB 70 million) and its carrying amount was approximately RMB 21 million.

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(11) Fixed assets and construction in progress

(a) Fixed assets

|                                                          | Buildings and structures<br>(note (i)) | Machinery and equipment | Motor vehicles & others | Total     |
|----------------------------------------------------------|----------------------------------------|-------------------------|-------------------------|-----------|
| Cost –                                                   |                                        |                         |                         |           |
| 1 January 2016                                           | 280,859                                | 320,009                 | 65,591                  | 666,459   |
| Transfers from construction in progress                  | —                                      | —                       | 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   |
| Transfers from investment properties                     | 18,966                                 | —                       | —                       | 18,966    |
| Transfers from construction in progress (Note 6(11) (b)) | —                                      | 405                     | —                       | 405       |
| Other additions in the current year                      | —                                      | 615                     | 2,903                   | 3,518     |
| Disposals in the current year                            | —                                      | —                       | (1,869)                 | (1,869)   |
| 31 December 2017                                         | 299,825                                | 320,131                 | 67,539                  | 687,495   |
| Accumulated depreciation –                               |                                        |                         |                         |           |
| 1 January 2016                                           | (53,497)                               | (110,981)               | (50,471)                | (214,949) |
| Charge for the year (note (ii))                          | (18,647)                               | (19,651)                | (2,124)                 | (40,422)  |
| Decrease in the current year                             | —                                      | 1,608                   | 774                     | 2,382     |
| 31 December 2016                                         | (72,144)                               | (129,024)               | (51,821)                | (252,989) |
| Transfers from investment properties                     | (11,869)                               | —                       | —                       | (11,869)  |
| Charge for the year (note (ii))                          | (18,819)                               | (19,325)                | (1,918)                 | (40,062)  |
| Disposals in the current year                            | —                                      | —                       | 1,256                   | 1,256     |
| 31 December 2017                                         | (102,832)                              | (148,349)               | (52,483)                | (303,664) |
| Net book value –                                         |                                        |                         |                         |           |
| 31 December 2017                                         | 196,993                                | 171,782                 | 15,056                  | 383,831   |
| 31 December 2016                                         | 208,715                                | 190,087                 | 14,684                  | 413,486   |

- (i) All of the Group's buildings and structures are located in the PRC.
- (ii) The Group's depreciation expenses of RMB 36 million (2016: RMB 36 million) have been included in cost of sales and RMB 4 million (2016: RMB 4 million) in general and administrative expenses and selling and distribution expenses.
- (iii) As at 31 December 2017, 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 118 million (31 December 2016: cost of RMB 175 million and carrying amount of RMB 123 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.

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(11) Fixed assets and construction in progress (Continued)

(b) Movement of significant projects of construction in progress

| Name                                                                                   | Budgeted amount | 31 December 2016 | Increase in the current year | Transfer to fixed assets | Transfer to Intangible assets | 31 December 2017 | Proportion of expenditures incurred to budgeted amount | Progress | Borrowing costs Capitalized amount | Including: borrowing costs capitalized in current year | Capitalisation rate | Source of funds                    |
|----------------------------------------------------------------------------------------|-----------------|------------------|------------------------------|--------------------------|-------------------------------|------------------|--------------------------------------------------------|----------|------------------------------------|--------------------------------------------------------|---------------------|------------------------------------|
| Tianjin-Jingu sewage water processing plant expanding and standard upgrading project   | 835,590         | —                | 34,814                       | —                        | (34,814)                      | —                | 5%                                                     | 5%       | —                                  | —                                                      | —                   | Self-raised                        |
| Tianjin-Beichen sewage water processing plant expanding and standard upgrading project | 462,880         | —                | 19,022                       | —                        | (19,022)                      | —                | 5%                                                     | 5%       | —                                  | —                                                      | —                   | Self-raised                        |
| Tianjin- Capital Alternative Heiniucheng Roads energy station project                  | 247,270         | —                | 59,546                       | —                        | (59,546)                      | —                | 36%                                                    | 36%      | —                                  | —                                                      | —                   | Self-raised                        |
| Tianjin- Capital Alternative Binhai Culture Center energy station project              | 109,111         | 3,690            | 76,875                       | —                        | (80,565)                      | —                | 74%                                                    | 74%      | —                                  | —                                                      | —                   | Self-raised                        |
| Fuyang- Jieshou PPP Project of sewage operation                                        | 279,945         | 91               | 29,986                       | —                        | (30,077)                      | —                | 11%                                                    | 11%      | —                                  | —                                                      | —                   | Self-raised                        |
| Shandong- Yishui&Tancheng City Solid Waste Treatment project                           | 640,000         | 456              | 18,954                       | —                        | —                             | 19,410           | 3%                                                     | 3%       | —                                  | —                                                      | —                   | Self-raised                        |
| Yingshang-Chengnan sewage operation project                                            | 176,000         | —                | 94,770                       | —                        | (94,770)                      | —                | 34%                                                    | 34%      | 51                                 | 51                                                     | 4.41%               | Self-raised/<br>special borrowings |
| Changsha-Ningxiang sewage operation and supporting pipeline project                    | 200,000         | 71               | 110,452                      | —                        | (110,523)                     | —                | 55%                                                    | 55%      | 153                                | 153                                                    | 4.90%               | Self-raised/<br>special borrowings |
| Anhui-Yuwan sewage treatment project                                                   | 277,000         | —                | 35,620                       | —                        | (35,620)                      | —                | 13%                                                    | 13%      | 78                                 | 78                                                     | 4.66%               | Self-raised/<br>special borrowings |
| Xinjiang- Karamay PPP Project of sewage operation                                      | 497,915         | —                | 54,482                       | —                        | (54,482)                      | —                | 11%                                                    | 11%      | —                                  | —                                                      | —                   | Self-raised                        |
| Linxia-sewage water disposal PPP project                                               | 220,000         | —                | 47,631                       | —                        | (47,631)                      | —                | 22%                                                    | 22%      | —                                  | —                                                      | —                   | Self-raised                        |
| Dalian-Dalian Chunluhe sewage operation project                                        | 220,730         | —                | 83,426                       | —                        | (83,426)                      | —                | 38%                                                    | 38%      | —                                  | —                                                      | —                   | Self-raised                        |
| Others                                                                                 |                 | 88               | 10,014                       | (405)                    | (8,450)                       | 1,247            |                                                        |          | —                                  | —                                                      | —                   |                                    |
|                                                                                        |                 | <u>4,396</u>     | <u>675,592</u>               | <u>(405)</u>             | <u>(658,926)</u>              | <u>20,657</u>    |                                                        |          | <u>282</u>                         | <u>282</u>                                             | <u>—</u>            |                                    |

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(12) Intangible assets

|                                                     | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------------------|---------------------|---------------------|
| Concession rights (note (a))                        | 6,864,596           | 6,213,445           |
| Land use rights (note (b))                          | 36,717              | 14,986              |
| Technical know-how and computer software (note (c)) | 5,105               | 5,556               |
|                                                     | <u>6,906,418</u>    | <u>6,233,987</u>    |

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

|                                                          |                    |
|----------------------------------------------------------|--------------------|
| Cost                                                     |                    |
| 1 January 2016                                           | 7,433,926          |
| Transfers from construction in progress                  | <u>269,572</u>     |
| 31 December 2016                                         | 7,703,498          |
| Transfers from construction in progress (Note 4(11) (b)) | 658,926            |
| Other additions                                          | <u>287,574</u>     |
| 31 December 2017                                         | <u>8,649,998</u>   |
| Accumulated amortisation                                 |                    |
| 1 January 2016                                           | (1,160,027)        |
| Charge for the year                                      | <u>(277,943)</u>   |
| 31 December 2016                                         | (1,437,970)        |
| Charge for the year                                      | <u>(295,349)</u>   |
| 31 December 2017                                         | <u>(1,733,319)</u> |
| Provision for impairment                                 |                    |
| 31 December 2016 and 31 December 2017                    | <u>(52,083)</u>    |
| Net book value                                           |                    |
| 31 December 2017                                         | <u>6,864,596</u>   |
| 31 December 2016                                         | <u>6,213,445</u>   |

(i) As at 31 December 2017, certain of concession rights with net book value of RMB 181 million (Cost: RMB 302 million) (31 December 2016: cost of RMB 302 million, net book value of RMB 191 million) have been secured against long-term borrowings of RMB 25 million (31 December 2016: RMB 50 million) (Note 4(16) (a)).

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

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(12) Intangible assets

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

|                                     |             |
|-------------------------------------|-------------|
| Cost                                |             |
| 1 January 2016 and 31 December 2016 | 17,841      |
| Addition in the current year        | 22,321      |
|                                     | <hr/>       |
| 31 December 2017                    | 40,162      |
|                                     | <hr/>       |
| Accumulated amortisation            |             |
| 1 January 2016                      | (2,415)     |
| Charge for the year                 | (440)       |
|                                     | <hr/>       |
| 31 December 2016                    | (2,855)     |
| Charge for the year                 | (590)       |
|                                     | <hr/>       |
| 31 December 2017                    | (3,445)     |
|                                     | <hr/>       |
| Net book value                      |             |
| 31 December 2017                    | 36,717      |
|                                     | <hr/> <hr/> |
| 31 December 2016                    | 14,986      |
|                                     | <hr/> <hr/> |

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

|                              |             |
|------------------------------|-------------|
| Cost                         |             |
| 1 January 2016               | 11,462      |
| Increase in the current year | 56          |
|                              | <hr/>       |
| 31 December 2016             | 11,518      |
| Increase in the current year | 23          |
|                              | <hr/>       |
| 31 December 2017             | 11,541      |
|                              | <hr/>       |
| Accumulated amortisation     |             |
| 1 January 2016               | (5,323)     |
| Charge for the year          | (639)       |
|                              | <hr/>       |
| 31 December 2016             | (5,962)     |
| Charge for the year          | (474)       |
|                              | <hr/>       |
| 31 December 2017             | (6,436)     |
|                              | <hr/>       |
| Net book value               |             |
| 31 December 2017             | 5,105       |
|                              | <hr/> <hr/> |
| 31 December 2016             | 5,556       |
|                              | <hr/> <hr/> |

(d) In 2017, the amounts of amortization charged to cost of sales and general and administrative expenses were RMB 295 million (2016: RMB 278 million) and RMB 1 million (2016: RMB 1 million), respectively.

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(13) Provision for asset impairment

|                                                              | 31 December<br>2016 | Increase in the<br>current year | 31 December<br>2017 |
|--------------------------------------------------------------|---------------------|---------------------------------|---------------------|
| Provision for bad debts (note (i))                           | 22,403              | 11,698                          | 34,101              |
| Provision for impairment of intangible assets                | 52,083              | —                               | 52,083              |
| Provision for impairment of other current assets (note (ii)) | 29,205              | 10,230                          | 39,435              |
| Provision for impairment of long-term equity investments     | 22,358              | —                               | 22,358              |
|                                                              | <u>126,049</u>      | <u>21,928</u>                   | <u>147,977</u>      |

(i) The Group accrued provision for trade receivables in 2017.

(ii) The Group accrued provision for Anguo assets in 2017.



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(14) Trade payables, advances from customers, other payables, taxes payable and dividends payable

|                                    | 31 December<br>2017 | 31 December<br>2016 |
|------------------------------------|---------------------|---------------------|
| Trade payables (note (a))          | 128,254             | 107,239             |
| Advances from customers (note (b)) | 930,888             | 955,507             |
| Other payables (note (c))          | 627,209             | 408,111             |
| Taxes payable (note (d))           | 63,741              | 69,080              |
| Dividends payable (note (e))       | 1,912               | 1,438               |
|                                    | <u>1,752,004</u>    | <u>1,541,375</u>    |

- (a) As at 31 December 2017, trade payables are mainly for inventory purchase. Trade payables aged over one year are RMB 30 million (31 December 2016: RMB 12 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 2017, there were no trade payables from any of the shareholders of the Company who hold 5% or more of voting rights (31 December 2016: Nil). And there were no trade payables from any of the related parties of the Group (31 December 2016: Nil).

- (b) Advances from customers:

|                                 | 31 December<br>2017 | 31 December<br>2016 |
|---------------------------------|---------------------|---------------------|
| For pipeline connection service | 916,513             | 941,081             |
| For heating service             | 4,749               | 3,069               |
| Received from project of Han Gu | 4,467               | 4,467               |
| Others                          | 5,159               | 6,890               |
|                                 | <u>930,888</u>      | <u>955,507</u>      |

As at 31 December 2017, advances from customers aged over one year are RMB 701 million (31 December 2016: RMB 723 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.

As at 31 December 2017, there were no advances from customers from any of the shareholders of the Company who hold 5% or more of voting rights (31 December 2016: Nil). And there were no advances from customers from any of the related parties of the Group (31 December 2016: Nil).

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(14) Trade payables, advances from customers, other payables, taxes payable and dividends payable (Continued)

(c) Other payables comprise:

|                                                            | 31 December<br>2017 | 31 December<br>2016 |
|------------------------------------------------------------|---------------------|---------------------|
| Construction costs payable                                 | 525,603             | 300,161             |
| Payable for purchase of fixed assets and concession rights | 13,892              | 13,892              |
| Interests payable for debentures payable                   | 26,586              | 26,575              |
| Others                                                     | 61,128              | 67,483              |
|                                                            | <u>627,209</u>      | <u>408,111</u>      |

As at 31 December 2017, other payables of RMB 226 million (31 December 2016: RMB 123 million) are aged over one year, which mainly represent construction costs payable and guarantee deposits for Hangzhou Qige Sewage Plant Upgrading project, Jizhuangzi Relocation and construction project, Xi'an Beishiqiao Dengjiacun upgrading projects and etc. The balance is yet to be settled as the projects have not been completed.

As at 31 December 2017, there were no other payables from any of the shareholders of the Company who hold 5% or more of voting rights (31 December 2016: Nil). And there were no other payables from any of the related parties of the Group (31 December 2016: Nil).

(d) Balances of taxes payable

|                                         | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------|---------------------|---------------------|
| Enterprise income tax payable/(prepaid) | 39,477              | 42,589              |
| Unpaid VAT                              | 15,463              | 22,011              |
| Others                                  | 8,801               | 4,480               |
|                                         | <u>63,741</u>       | <u>69,080</u>       |

(e) Dividends payable

|                                  | 31 December<br>2017 | 31 December<br>2016 |
|----------------------------------|---------------------|---------------------|
| Ordinary share dividends payable | <u>1,912</u>        | <u>1,438</u>        |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Employee benefits payable

|                                                 | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------------------------|---------------------|---------------------|
| Short-term employee benefits payable (note (a)) | 44,413              | 34,269              |
| Defined contribution plans payable (note (b))   | 137                 | 142                 |
|                                                 | <u>44,550</u>       | <u>34,411</u>       |

(a) Short-term employee benefits payable

|                                                       | 31 December<br>2016 | Increase in the<br>current year | Decrease in the<br>current year | 31 December<br>2017 |
|-------------------------------------------------------|---------------------|---------------------------------|---------------------------------|---------------------|
| Wages and salaries, bonuses, allowances and subsidies | 27,169              | 175,807                         | (165,040)                       | 37,936              |
| Staff welfare                                         | —                   | 8,824                           | (8,824)                         | —                   |
| Social security contributions                         | 110                 | 14,504                          | (14,512)                        | 102                 |
| Including: Medical insurance                          | 101                 | 13,351                          | (13,357)                        | 95                  |
| Work injury insurance                                 | 1                   | 487                             | (487)                           | 1                   |
| Maternity insurance                                   | 8                   | 666                             | (668)                           | 6                   |
| Housing funds                                         | 301                 | 31,700                          | (31,989)                        | 12                  |
| Labour union funds and employee education funds       | 6,689               | 5,132                           | (5,458)                         | 6,363               |
|                                                       | <u>34,269</u>       | <u>235,967</u>                  | <u>(225,823)</u>                | <u>44,413</u>       |

As at 31 December 2017, no defaulted payables are included in the balance of employee benefits payable and the balance is estimated to be used up in 2018.

(b) Defined contribution plans payable

|                        | 31 December<br>2016 | Increase in the<br>current year | Decrease in the<br>current year | 31 December<br>2017 |
|------------------------|---------------------|---------------------------------|---------------------------------|---------------------|
| Basic pensions         | 132                 | 30,103                          | (30,103)                        | 132                 |
| Unemployment insurance | 10                  | 807                             | (812)                           | 5                   |
|                        | <u>142</u>          | <u>30,910</u>                   | <u>(30,915)</u>                 | <u>137</u>          |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Employee benefits payable (Continued)

(c) Directors' emoluments

The remuneration of every director for the year ended 31 December 2017 is set out below:

|                                 | Fees       | Salaries and other emoluments | Total        |
|---------------------------------|------------|-------------------------------|--------------|
| <b>Executive directors:</b>     |            |                               |              |
| Liu Yujun                       | —          | 863                           | 863          |
| Peng Yilin                      | —          | 760                           | 760          |
| Fu Yana                         | —          | 741                           | 741          |
| Tang Fusheng (note (i))         | —          | 546                           | 546          |
| Lin Wenbo (note (i))            | —          | 221                           | 221          |
| <b>Non-executive directors:</b> |            |                               |              |
| Gao Zongze                      | 220        | —                             | 220          |
| Wang Xiangfei                   | 220        | —                             | 220          |
| Guo Yongqing                    | 220        | —                             | 220          |
|                                 | <u>660</u> | <u>3,131</u>                  | <u>3,791</u> |

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

|                                 | Fees       | Salaries and other emoluments | Total        |
|---------------------------------|------------|-------------------------------|--------------|
| <b>Executive directors:</b>     |            |                               |              |
| Liu Yujun                       | —          | 891                           | 891          |
| Lin Wenbo (note (i))            | —          | 869                           | 869          |
| Fu Yana                         | —          | 720                           | 720          |
| Peng Yilin (note (ii))          | —          | 663                           | 663          |
| Cao Shuo (note (iii))           | —          | 153                           | 153          |
| <b>Non-executive directors:</b> |            |                               |              |
| Gao Zongze                      | 220        | —                             | 220          |
| Wang Xiangfei                   | 220        | —                             | 220          |
| Guo Yongqing                    | 220        | —                             | 220          |
|                                 | <u>660</u> | <u>3,296</u>                  | <u>3,956</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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities

|                                           | Note | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------------------|------|---------------------|---------------------|
| <b>Non-current:</b>                       |      |                     |                     |
| Long-term borrowings                      | (a)  | 727,160             | 696,828             |
| Less: Current portion due within one year | (a)  | (145,643)           | (186,400)           |
|                                           |      | <u>581,517</u>      | <u>510,428</u>      |
| Debentures payable                        | (b)  | 1,396,941           | 1,394,313           |
| Less: Current portion due within one year | (b)  | (698,957)           | —                   |
|                                           |      | <u>697,984</u>      | <u>1,394,313</u>    |
| Long-term payables                        | (c)  | 289,379             | 311,135             |
| Less: Current portion due within one year | (c)  | (25,492)            | (25,927)            |
|                                           |      | <u>263,887</u>      | <u>285,208</u>      |
| Other non-current liabilities             | (e)  | <u>40,000</u>       | <u>43,364</u>       |
| <b>Current:</b>                           |      |                     |                     |
| Current portion of long-term borrowings   | (a)  | 145,643             | 186,400             |
| Current portion of debentures payable     | (b)  | 698,957             | —                   |
| Current portion of long-term payables     | (c)  | 25,492              | 25,927              |
|                                           |      | <u>870,092</u>      | <u>212,327</u>      |
| Short-term borrowings                     | (d)  | <u>499,000</u>      | <u>—</u>            |
| Other current liabilities                 | (e)  | <u>7,827</u>        | <u>9,645</u>        |

(a) Long-term borrowings

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

|                                                  | 31 December<br>2017 | 31 December<br>2016 |
|--------------------------------------------------|---------------------|---------------------|
| Borrowings from:                                 |                     |                     |
| China Construction Bank (“CCB”)                  | 199,000             | 250,000             |
| Industrial and Commercial Bank of China (“ICBC”) | 168,517             | 134,078             |
| China Minsheng Bank (“CMBC”)                     | 124,000             | 144,900             |
| Bank of China (“BOC”)                            | 67,372              | 10,000              |
| China Development Bank (“CDB”)                   | 64,100              | 78,600              |
| Industrial Bank (“IB”)                           | 46,571              | 40,250              |
| Bank of Communications (“BOC”)                   | 30,000              | —                   |
| Agriculture Bank of China (“ABC”)                | 27,600              | 39,000              |
|                                                  | <u>727,160</u>      | <u>696,828</u>      |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(a) Long-term borrowings (Continued)

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

|            | Note | 31 December<br>2017 | 31 December<br>2016 |
|------------|------|---------------------|---------------------|
| Pledged    | (i)  | 25,000              | 25,000              |
| Guaranteed | (ii) | 27,000              | 26,000              |
| Unsecured  |      | 93,643              | 135,400             |
|            |      | 145,643             | 186,400             |

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

|            | Note  | 31 December<br>2017 | 31 December<br>2016 |
|------------|-------|---------------------|---------------------|
| Pledged    |       | —                   | 25,000              |
| Guaranteed | (iii) | 147,000             | 174,000             |
| Unsecured  |       | 434,517             | 311,428             |
|            |       | 581,517             | 510,428             |

- (i) As at 31 December 2017, the current portion of bank borrowings of RMB 25 million (31 December 2016: RMB 25 million) is secured by the concession rights (Note 4(12) (a)).
- (ii) As at 31 December 2017, the current portion of bank borrowings of RMB 27 million (2016: RMB 26 million) is guaranteed by City Infrastructure Construction and Investment for the subsidiary of the Company Xi'an Capital Water Co., Ltd. (Note 8(5) (b)).
- (iii) As at 31 December 2017, the non-current portion of bank borrowings of RMB 147 million (2016: RMB 174 million) is guaranteed by City Infrastructure Construction and Investment for the subsidiary of the Company Xi'an Capital Water Co., Ltd. (Note 8(5) (b)).
- (iv) As at 31 December 2017, these long-term borrowings bear interest rates between 4.275% and 7.830% in 2017 (2016: between 4.275% and 5.460%).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(a) Long-term borrowings (Continued)

(vi) Borrowings were repayable as follows:

|               | 31 December<br>2017 | 31 December<br>2016 |
|---------------|---------------------|---------------------|
| Within 1 year | 145,643             | 186,400             |
| 1 to 2 years  | 142,332             | 131,053             |
| 2 to 5 years  | 316,488             | 287,975             |
| Over 5 years  | 122,697             | 91,400              |
|               | <u>727,160</u>      | <u>696,828</u>      |

(vii) Top five of current portion of long-term borrowings at 31 December 2017 is analyzed as follows:

|      | Grant date | Maturity date | Currency | Interest rate (%) | Amount        |
|------|------------|---------------|----------|-------------------|---------------|
| CCB  | 2008.09.28 | 2018.09.27    | RMB      | 4.66%             | 27,000        |
| CCB  | 2006.05.26 | 2018.05.25    | RMB      | 4.90%             | 25,000        |
| ICBC | 2012.06.29 | 2018.05.25    | RMB      | 4.41%             | 17,078        |
| CMBC | 2016.06.17 | 2018.06.17    | RMB      | 4.28%             | 16,800        |
| ICBC | 2017.03.20 | 2018.07.30    | RMB      | 4.90%             | 6,900         |
|      |            |               |          |                   | <u>92,778</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 (%) | Amount         |
|------|------------|---------------|----------|-------------------|----------------|
| CCB  | 2008.09.28 | 2022.09.27    | RMB      | 4.66%             | 147,000        |
| ICBC | 2016.08.21 | 2020.03.29    | RMB      | 4.90%             | 71,200         |
| CMBC | 2016.06.17 | 2021.06.17    | RMB      | 4.28%             | 49,800         |
| BOC  | 2017.10.20 | 2031.09.18    | RMB      | 4.90%             | 45,786         |
| ICBC | 2016.04.01 | 2026.03.29    | RMB      | 4.90%             | 45,000         |
|      |            |               |          |                   | <u>358,786</u> |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings 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

|                | 31 December<br>2017 | 31 December<br>2016 |
|----------------|---------------------|---------------------|
| 6 to 12 months | <u>727,160</u>      | <u>696,828</u>      |

(x) As at 31 December 2017, the Group has the following committed undrawn banking facilities:

|                                      | 31 December<br>2017 | 31 December<br>2016 |
|--------------------------------------|---------------------|---------------------|
| Floating rate expiring within 1 year | 3,228,000           | 1,900,000           |
| Floating rate expiring over 1 year   | <u>700,000</u>      | <u>1,879,800</u>    |
|                                      | <u>3,928,000</u>    | <u>3,779,800</u>    |

(b) Debentures payable

|                    | 31 December<br>2016 | Bond payable<br>due within<br>1 year | Increase in the<br>current year | Payment/<br>Amortization | 31 December<br>2017 |
|--------------------|---------------------|--------------------------------------|---------------------------------|--------------------------|---------------------|
| Debentures payable |                     |                                      |                                 |                          |                     |
| – Par value        | 1,400,000           | (700,000)                            | —                               | —                        | 700,000             |
| – Transaction cost | (5,687)             | 1,043                                | —                               | 2,628                    | (2,016)             |
|                    | <u>1,394,313</u>    | <u>(698,957)</u>                     | <u>—</u>                        | <u>2,628</u>             | <u>697,984</u>      |

General information of debentures payable are as follows:

|                                     | Book value     | Issuance date     | Maturity | Issuance amount |
|-------------------------------------|----------------|-------------------|----------|-----------------|
| Corporate Debenture II (note (i))   | 700,000        | 2013-05-29        | 5        | 700,000         |
| Corporate Debenture III (note (ii)) | <u>700,000</u> | <u>2016-10-25</u> | <u>5</u> | <u>700,000</u>  |



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(b) *Debentures payable* (Continued)

Interests payable of debentures are analyzed as follows:

|                                     | 31 December<br>2016 | Interest accrued                        |                                      | 31 December<br>2017 |
|-------------------------------------|---------------------|-----------------------------------------|--------------------------------------|---------------------|
|                                     |                     | Interest accrued in<br>the current year | Interest paid in<br>the current year |                     |
| Corporate Debenture II (note (i))   | 22,554              | 3,815                                   | (3,815)                              | 22,554              |
| Corporate Debenture III (note (ii)) | 4,021               | 2,191                                   | (2,191)                              | 4,021               |
|                                     | <u>26,575</u>       | <u>6,006</u>                            | <u>(6,006)</u>                       | <u>26,575</u>       |

(i) 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. Since the debenture will be due for repayment on 30 May 2018, it was classified as current portion of non-current liabilities.

(ii) On 25 October 2016, the Company issued a debenture at par value of RMB700 million on The Shanghai Stock Exchange approved by the Securities Regulatory Commission of China [2016]1896. The fixed interest rate of 3.13% has been accrued and settled per annum. The debenture will be due for repayment on 25 October 2021. The principal will be repaid on maturity.

(c) *Long-term payables*

|                                   | 31 December 2017 |                                   |                | 31 December 2016 |                                   |                |
|-----------------------------------|------------------|-----------------------------------|----------------|------------------|-----------------------------------|----------------|
|                                   | Payables         | Unrecognized<br>financial charges | Total          | Payables         | Unrecognized<br>financial charges | Total          |
| Payable for assets<br>acquisition | <u>462,123</u>   | <u>(172,744)</u>                  | <u>289,379</u> | <u>507,827</u>   | <u>(196,692)</u>                  | <u>311,135</u> |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(c) Long-term payables (Continued)

(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 | 430,314          | 5.94%                   | 289,379 | 25,492          | 263,887        |

As at 31 December 2017, 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:

|     | 31 December 2017 | 31 December 2016 |
|-----|------------------|------------------|
| JPY | 197,719          | 209,411          |
| USD | 91,660           | 101,724          |
|     | <u>289,379</u>   | <u>311,135</u>   |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(c) Long-term payables (Continued)

(iii) The amounts of long-term payables (including interest) are denominated in the following currencies:

|     | 31 December<br>2017 | 31 December<br>2016 |
|-----|---------------------|---------------------|
| JPY | 345,507             | 373,437             |
| USD | 116,616             | 134,390             |
|     | <u>462,123</u>      | <u>507,827</u>      |

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 2017, the current portion of long-term payables of RMB 25 million (31 December 2016: RMB 26 million) was classified as current liabilities.

|               | 31 December<br>2017 | 31 December<br>2016 |
|---------------|---------------------|---------------------|
| Within 1 year | 25,492              | 25,927              |
| 1-2 years     | 24,691              | 25,070              |
| 2-5 years     | 70,080              | 70,901              |
| Over 5 years  | 169,116             | 189,237             |
|               | <u>289,379</u>      | <u>311,135</u>      |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Long-term borrowings, debentures payable, long-term payables, short-term borrowings and other liabilities (Continued)

(d) *short-term borrowings*

|                                         | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------|---------------------|---------------------|
| Borrowings from:                        |                     |                     |
| Industrial and Commercial Bank of China | 200,000             | —                   |
| Tianjin Rural Commercial Bank           | 150,000             | —                   |
| Bank of China                           | 100,000             | —                   |
| China Everbright Bank                   | 49,000              | —                   |
|                                         | 499,000             | —                   |
|                                         | 499,000             | —                   |

Summary of short-term borrowings by terms

|           | 31 December<br>2017 | 31 December<br>2016 |
|-----------|---------------------|---------------------|
| Unsecured | 499,000             | —                   |
|           | 499,000             | —                   |

(e) *Other liabilities*

|                                                                                         | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------------------------------------------------------|---------------------|---------------------|
| Non-current:                                                                            |                     |                     |
| – Cooling service fee                                                                   | 40,000              | 42,000              |
| – Government loan for water recycling plants construction (note (i))                    | —                   | 1,364               |
|                                                                                         | 40,000              | 43,364              |
|                                                                                         | 40,000              | 43,364              |
| 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)) | 1,364               | 3,182               |
|                                                                                         | 7,827               | 9,645               |
|                                                                                         | 7,827               | 9,645               |

- (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 1 million at the end of 2017 (2016: 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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Provisions

|                                                      | 31 December<br>2016 | Increase in the<br>current year | Decrease in the<br>current year | 31 December<br>2017 |
|------------------------------------------------------|---------------------|---------------------------------|---------------------------------|---------------------|
| Maintenance cost of sewage water processing plants   | 39,393              | —                               | —                               | 39,393              |
| Less: Provisions expected to be paid within one year | (6,463)             | —                               | —                               | (6,463)             |
|                                                      | <u>32,930</u>       | <u>—</u>                        | <u>—</u>                        | <u>32,930</u>       |

(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<br>2016 | Increase in the<br>current year | Recognized in<br>other income | 31 December<br>2017 | Related to<br>assets/incomes |
|--------------------------------------------------------------------|---------------------|---------------------------------|-------------------------------|---------------------|------------------------------|
| Sewage water processing plants                                     |                     |                                 |                               |                     |                              |
| – Jingu sewage water processing plant                              | 717,306             | 625,589                         | (31,362)                      | 1,311,533           | Assets                       |
| – Xianyang Road upgrading project                                  | 63,805              | —                               | (2,363)                       | 61,442              | Assets                       |
| – Dongjiao upgrading project                                       | 44,772              | —                               | (1,658)                       | 43,114              | Assets                       |
| – Beishiqiao plant upgrading project                               | 11,792              | —                               | (719)                         | 11,073              | Assets                       |
| – Water pollution management and control project                   | 6,659               | —                               | (82)                          | 6,577               | Incomes                      |
| – 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                                             |                     |                                 |                               |                     |                              |
| – Jingu water recycling project                                    | 156,628             | 58,351                          | (4,301)                       | 210,678             | Assets                       |
| – Dongjiao water recycling project                                 | 22,431              | —                               | (675)                         | 21,756              | Assets                       |
| – Beichen water recycling project                                  | 19,162              | —                               | (525)                         | 18,637              | Assets                       |
| – Xianyang Road water recycling project                            | 13,668              | —                               | (441)                         | 13,227              | Assets                       |
| Heating and cooling supply project                                 | 133,281             | 42,921                          | (4,532)                       | 171,670             | Assets                       |
| Others                                                             | 4,467               | 3,026                           | (1,136)                       | 6,357               | Incomes                      |
|                                                                    | <u>1,446,971</u>    | <u>729,887</u>                  | <u>(47,794)</u>               | <u>2,129,064</u>    |                              |

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4 NOTES TO THE CONSOLIDATED 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<br>2017 | 31 December<br>2016 |
|-------------------------------------------------------------------------------|---------------------|---------------------|
| Deductible temporary difference - provision for asset impairment (Note 4(13)) | 147,977             | 126,049             |
| Deductible losses                                                             | 43,261              | 57,999              |
| Maintenance cost of sewage water processing plants (Note 4(17))               | 39,393              | 39,393              |
|                                                                               | <u>230,631</u>      | <u>223,441</u>      |

- (ii) Deductible losses that are not recognized as deferred tax assets will expire in the follows:

| Year | 31 December<br>2017 | 31 December<br>2016 |
|------|---------------------|---------------------|
| 2017 | —                   | 18,204              |
| 2018 | 10,372              | 10,372              |
| 2019 | 18,056              | 18,056              |
| 2020 | 6,243               | 6,243               |
| 2021 | 5,124               | 5,124               |
| 2022 | 3,466               | —                   |
|      | <u>43,261</u>       | <u>57,999</u>       |

(b) *Deferred income tax liabilities*

|                                                      | 31 December 2017                      |                                     | 31 December 2016                      |                                     |
|------------------------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|
|                                                      | Deferred<br>income tax<br>liabilities | Taxable<br>temporary<br>differences | Deferred<br>income tax<br>liabilities | Taxable<br>temporary<br>differences |
| Depreciation of fixed assets                         | <u>120,259</u>                        | <u>481,036</u>                      | <u>126,108</u>                        | <u>504,432</u>                      |
| Including:                                           |                                       |                                     |                                       |                                     |
| Expected to be recovered within one year (inclusive) | —                                     |                                     | —                                     |                                     |
| Expected to be recovered after one year              | <u>120,259</u>                        |                                     | <u>126,108</u>                        |                                     |

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4 NOTES TO THE CONSOLIDATED 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<br>A shares | Circulating<br>H shares | Total            |
|------------------------------------------|-------------------------|-------------------------|------------------|
| At 31 December 2016 and 31 December 2017 | <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

|                                                                     | 31 December<br>2016 | Increase in<br>the current year | Decrease in<br>the current year | 31 December<br>2017 |
|---------------------------------------------------------------------|---------------------|---------------------------------|---------------------------------|---------------------|
| Share premium                                                       | 382,311             | —                               | —                               | 382,311             |
| A subsidiary recognized as a stock limited company (Note 4(21) (c)) | <u>16,804</u>       | <u>—</u>                        | <u>—</u>                        | <u>16,804</u>       |
|                                                                     | <u>399,115</u>      | <u>—</u>                        | <u>—</u>                        | <u>399,115</u>      |
|                                                                     | 31 December<br>2015 | Increase in<br>the current year | Decrease in<br>the current year | 31 December<br>2017 |
| Share premium                                                       | 382,311             | —                               | —                               | 382,311             |
| A subsidiary recognized as a stock limited company (Note 4(21) (c)) | <u>—</u>            | <u>16,804</u>                   | <u>—</u>                        | <u>16,804</u>       |
|                                                                     | <u>382,311</u>      | <u>16,804</u>                   | <u>—</u>                        | <u>399,115</u>      |

(b) Surplus reserve

|                           | 31 December<br>2016 | Increase in<br>the current year | Decrease in<br>the current year | 31 December<br>2017 |
|---------------------------|---------------------|---------------------------------|---------------------------------|---------------------|
| Statutory surplus reserve | <u>444,925</u>      | <u>34,982</u>                   | <u>—</u>                        | <u>479,907</u>      |
|                           | 31 December<br>2015 | Increase in<br>the current year | Decrease in<br>the current year | 31 December<br>2016 |
| Statutory surplus reserve | <u>414,376</u>      | <u>30,549</u>                   | <u>—</u>                        | <u>444,925</u>      |

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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Capital surplus, surplus reserve and undistributed profits (Continued)

(c) Undistributed profits

|                                                                           | 2017             |                                      | 2016             |                                      |
|---------------------------------------------------------------------------|------------------|--------------------------------------|------------------|--------------------------------------|
|                                                                           | Amount           | Appropriation/<br>distribution ratio | Amount           | Appropriation/<br>distribution ratio |
| Undistributed profits at the beginning of the year                        | 2,473,109        | —                                    | 2,177,200        | —                                    |
| Add: Net profit attributable to owners of the parent for the current year | 508,251          | —                                    | 443,168          | —                                    |
| Less: Appropriation for statutory surplus reserve                         | (34,982)         | 10%                                  | (30,549)         | 10%                                  |
| Dividends distribution to shareholders (note (i))                         | (135,588)        | —                                    | (99,906)         | —                                    |
| A subsidiary recognized as a stock limited company (note (ii))            | —                | —                                    | (16,804)         | —                                    |
| Undistributed profits at the end of the year                              | <u>2,810,790</u> |                                      | <u>2,473,109</u> |                                      |

- (i) According to the resolution passed by the general shareholders' meeting dated 17 May 2017, dividends for the year ended 31 December 2016 (a total of 1,427,000,000 shares as at 13 July 2017 as the base) shall be distributed to shareholders in the form of every 1 share with cash dividends of RMB 0.095 (gross tax), which amounted to RMB 136 million approximately.

The Company will not distribute profits in 2017, which is to be considered after the completion of non-public offering of A shares.

- (ii) The Company's subsidiary Tianjin Caring Technology Development 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 rest, respectively.



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales

|                                   | 2017             |                  | 2016             |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | Revenue          | Cost of sales    | Revenue          | Cost of sales    |
| Revenue from principal operations | 1,931,928        | 1,167,688        | 1,773,814        | 1,043,787        |
| Revenue from other operations     | 216,413          | 123,483          | 184,852          | 106,225          |
|                                   | <u>2,148,341</u> | <u>1,291,171</u> | <u>1,958,666</u> | <u>1,150,012</u> |

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

|                                                                 | 2017                              |                  | 2016                              |                  |
|-----------------------------------------------------------------|-----------------------------------|------------------|-----------------------------------|------------------|
|                                                                 | Revenue from principal operations | Cost of sales    | Revenue from principal operations | Cost of sales    |
| Processing of sewage water and construction of related facility | 1,412,489                         | 860,803          | 1,362,882                         | 793,482          |
| Water recycling and connection project                          | 300,897                           | 181,881          | 188,616                           | 133,404          |
| Heating and cooling supply services                             | 71,250                            | 48,857           | 71,707                            | 44,551           |
| Sales of tap water                                              | 67,401                            | 49,002           | 66,851                            | 49,131           |
| Sale of environmental protection equipment                      | 16,200                            | 19,195           | 15,946                            | 12,063           |
| Others                                                          | 63,691                            | 7,950            | 67,812                            | 11,156           |
|                                                                 | <u>1,931,928</u>                  | <u>1,167,688</u> | <u>1,773,814</u>                  | <u>1,043,787</u> |

Analysis by locations is as follows:

|          | 2017                              |                  | 2016                              |                  |
|----------|-----------------------------------|------------------|-----------------------------------|------------------|
|          | Revenue from principal operations | Cost of sales    | Revenue from principal operations | Cost of sales    |
| Tianjin  | 1,250,411                         | 681,943          | 1,121,162                         | 614,662          |
| Hangzhou | 252,000                           | 177,408          | 222,473                           | 134,888          |
| Xi'an    | 120,860                           | 85,352           | 127,791                           | 84,529           |
| Qujing   | 100,595                           | 68,733           | 99,202                            | 69,560           |
| Others   | 208,062                           | 154,252          | 203,186                           | 140,148          |
|          | <u>1,931,928</u>                  | <u>1,167,688</u> | <u>1,773,814</u>                  | <u>1,043,787</u> |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales (Continued)

(b) Revenue from other operations and cost of sales

|                           | 2017                          |                | 2016                          |                |
|---------------------------|-------------------------------|----------------|-------------------------------|----------------|
|                           | Revenue from other operations | Cost of sales  | Revenue from other operations | Cost of sales  |
| Contract operation income | 147,706                       | 111,286        | 138,707                       | 95,597         |
| Technical service fee     | 56,802                        | 5,491          | 36,099                        | 4,403          |
| Rental                    | 7,695                         | 4,266          | 6,953                         | 4,884          |
| Others                    | 4,210                         | 2,440          | 3,093                         | 1,341          |
|                           | <u>216,413</u>                | <u>123,483</u> | <u>184,852</u>                | <u>106,225</u> |

(c) As at 31 December 2017, revenue from the top five customers is analyzed as below:

Revenue from the Group's top 5 customers is RMB 1,261 million, which accounts for 60% of the Group's total revenue (2016: RMB 1,282 million and 65%). The details are as follows:

|                                                                    | Revenue          | % of the Group's total revenue |
|--------------------------------------------------------------------|------------------|--------------------------------|
| TWAB                                                               | 792,497          | 37%                            |
| Hangzhou Sewage Company                                            | 252,000          | 12%                            |
| Xi'an Urban Infrastructure Construction Investment Group Co., Ltd. | 120,860          | 6%                             |
| Qijing City Water General Company                                  | 33,195           | 2%                             |
| Tianjin Municipal and Highway Management Bureau                    | 62,659           | 3%                             |
|                                                                    | <u>1,261,211</u> | <u>60%</u>                     |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Taxes and surcharges

|                                       | 2017          | 2016          | Tax base                                    |
|---------------------------------------|---------------|---------------|---------------------------------------------|
| Land use tax                          | 20,259        | 6,199         | RMB1.5 - 30 per square meter                |
| City maintenance and construction tax | 16,217        | 14,981        | 7% of the VAT paid                          |
| Educational surcharge                 | 7,359         | 6,567         | 2% or 3% of the VAT paid                    |
| Property tax                          | 6,210         | 5,294         | 70% of its original value, tax rate is 1.2% |
| Local educational surcharge           | 4,445         | 4,378         | 2% of the VAT paid                          |
| Others                                | 2,974         | 8,251         |                                             |
|                                       | <u>57,464</u> | <u>45,670</u> |                                             |

(24) Selling expenses and general and administrative expenses

|                                                         | 2017                                |                      | 2016                                |                  |
|---------------------------------------------------------|-------------------------------------|----------------------|-------------------------------------|------------------|
|                                                         | General and administrative expenses | Selling expenses (i) | General and administrative expenses | Selling expenses |
| Employee benefits                                       | 83,920                              | 5,953                | 77,063                              | 8,828            |
| Consulting service fees                                 | 9,850                               | —                    | 7,652                               | 28               |
| Travelling, meeting and business entertainment expenses | 5,537                               | 416                  | 4,372                               | 542              |
| Expenses of secretary of the board                      | 5,227                               | —                    | 3,905                               | —                |
| Audit fees                                              | 4,200                               | —                    | 4,200                               | —                |
| Depreciation of fixed assets                            | 4,127                               | 16                   | 3,878                               | 22               |
| General office expenses                                 | 4,072                               | 16                   | 2,803                               | 170              |
| Repair and maintenance expenses                         | 3,556                               | —                    | 4,590                               | —                |
| Power and gas fees                                      | 2,841                               | —                    | 2,162                               | —                |
| Other taxes                                             | 1,833                               | —                    | 1,996                               | —                |
| Amortisation of intangible assets                       | 1,066                               | —                    | 1,162                               | —                |
| Others                                                  | 13,520                              | 66                   | 2,698                               | 374              |
|                                                         | <u>139,749</u>                      | <u>6,467</u>         | <u>116,481</u>                      | <u>9,964</u>     |

- (i) In 2017, selling expenses of RMB 6 million incurred for the Group, mainly representing the compensation for employees whose responsibilities are development of the market of deodorization equipment.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) The cost of sales, selling expenses, and general and administrative expenses in the income statement are listed as follows by nature:

|                                                         | 2017             | 2016             |
|---------------------------------------------------------|------------------|------------------|
| Amortisation of intangible assets                       | 296,413          | 279,022          |
| Utilities                                               | 283,834          | 271,632          |
| Employee benefits                                       | 266,877          | 248,897          |
| Repair and maintenance expenses                         | 109,794          | 98,268           |
| Raw materials consumption                               | 96,900           | 63,643           |
| Sewage mud processing expenses                          | 93,258           | 76,914           |
| Recycled water pipeline connection cost                 | 84,528           | 55,669           |
| Depreciation of fixed assets and investment properties  | 43,735           | 44,095           |
| Factory environment, detection and fire prevention fee  | 29,022           | 27,485           |
| Consulting service fees                                 | 19,043           | 19,177           |
| Network maintenance expenses                            | 19,175           | 14,116           |
| Travelling, meeting and business entertainment expenses | 17,892           | 12,619           |
| Construction cost of environmental equipments           | 7,120            | 7,120            |
| General office expenses                                 | 6,811            | 5,722            |
| Expenses of secretary of the board                      | 5,227            | 3,905            |
| Audit fees                                              | 4,200            | 4,200            |
| Construction cost of environmental equipments           | 2,762            | 7,706            |
| Other taxes                                             | 2,183            | 4,766            |
| Others                                                  | 48,613           | 31,501           |
|                                                         | <u>1,437,387</u> | <u>1,276,457</u> |

(26) Financial expenses - net

|                                               | 2017           | 2016           |
|-----------------------------------------------|----------------|----------------|
| Interest expenses                             | 131,714        | 146,959        |
| Less: Amount capitalized on qualifying assets | (282)          | (735)          |
| Interest expenses                             | 131,432        | 146,224        |
| Less: Interest income                         | (19,293)       | (23,457)       |
| Including: From long-term receivables         | (10,511)       | (10,860)       |
| From bank deposits                            | (8,782)        | (12,597)       |
| Exchange losses (note (a))                    | (14,902)       | 24,582         |
| Others                                        | 3,102          | 4,317          |
|                                               | <u>100,339</u> | <u>151,666</u> |

(a) For the year ended 31 December 2017, the exchange loss on the long-term payables denominated in JPY and US dollar were RMB15 million (2016: RMB 25 million of the exchange loss).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Asset impairment losses

|                                                          | 2017          | 2016          |
|----------------------------------------------------------|---------------|---------------|
| Provision for bad debts                                  | 11,698        | 12,904        |
| Provision for impairment of other current assets         | 10,230        | —             |
| Provisions for impairment of long-term equity investment | —             | 22,358        |
| Provision for impairment of intangible assets            | —             | 16,795        |
|                                                          | <u>21,928</u> | <u>52,057</u> |

(28) Investment Income/Loss

|                                                                         | 2017       | 2016           |
|-------------------------------------------------------------------------|------------|----------------|
| Dividends from available-for-sale equity instruments                    | 400        | —              |
| Investment income from long-term equity investments under equity method | —          | (3,640)        |
|                                                                         | <u>400</u> | <u>(3,640)</u> |

(29) Gains on disposal of fixed assets

|                                   | 2017     | 2016      | Amount<br>recognized in<br>non-recurring<br>profit or loss<br>in 2017 |
|-----------------------------------|----------|-----------|-----------------------------------------------------------------------|
| Gains on disposal of fixed assets | <u>—</u> | <u>17</u> | <u>—</u>                                                              |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Other Income

|                              | 2017           | 2016     | Related to<br>assets/incomes |
|------------------------------|----------------|----------|------------------------------|
| VAT refund                   | 134,540        | —        | Incomes                      |
| Government Grants (note (a)) | 50,730         | —        | Assets/Incomes               |
|                              | <u>185,270</u> | <u>—</u> |                              |

(a) Details of government grants

|                                                                                       | 2017          | 2016     | Related to<br>assets/incomes |
|---------------------------------------------------------------------------------------|---------------|----------|------------------------------|
| Compensation for relocation and Construction of<br>Jizhuangzi sewage processing plant | 31,362        | —        | Assets                       |
| Capital Alternative cooling and heating subsidy                                       | 6,051         | —        | Assets/Incomes               |
| Compensation for relocation and construction of<br>Jizhuangzi Recycling Water Plant   | 4,301         | —        | Assets                       |
| Special Construction Fund of Xianyanglu<br>upgrading project                          | 2,363         | —        | Assets                       |
| Special Construction Fund of Dongjiao sewage water<br>processing plant                | 1,658         | —        | Assets                       |
| Municipal sludge allowance of Xi'an company                                           | 1,200         | —        | Incomes                      |
| Others                                                                                | 3,795         | —        | Assets/Incomes               |
|                                                                                       | <u>50,730</u> | <u>—</u> |                              |

(31) Non-operating income

|                              | 2017         | 2016           | Amount<br>recognized in<br>non-recurring<br>profit or loss<br>in 2017 |
|------------------------------|--------------|----------------|-----------------------------------------------------------------------|
| Government Grants (note (a)) | 2,703        | 43,360         | 2,703                                                                 |
| VAT refund                   | —            | 142,637        | —                                                                     |
| Others                       | 1,167        | 8,298          | 1,167                                                                 |
|                              | <u>3,870</u> | <u>194,295</u> | <u>3,870</u>                                                          |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Non-operating income (Continued)

(a) Details of government grants

|                                                                            | 2017         | 2016          | Related to assets/incomes |
|----------------------------------------------------------------------------|--------------|---------------|---------------------------|
| Subsidiary's listing subsidy for National Equities Exchange And Quotations | 1,000        | —             | Incomes                   |
| Construction subsidy of sewage water processing plant                      | —            | 32,416        | Assets                    |
| Construction subsidy of water recycling plant                              | —            | 5,310         | Assets                    |
| Construction subsidy of heating and cooling supply services                | —            | 4,308         | Assets                    |
| Others                                                                     | 1,703        | 1,326         | Incomes                   |
|                                                                            | <u>2,703</u> | <u>43,360</u> |                           |

(32) Non-operating expenses

|                                    | 2017         | 2016         | Amount recognized in non-recurring profit or loss in 2017 |
|------------------------------------|--------------|--------------|-----------------------------------------------------------|
| Losses on disposal of fixed assets | 82           | 698          | 82                                                        |
| Others                             | 1,893        | 562          | 1,893                                                     |
|                                    | <u>1,975</u> | <u>1,260</u> | <u>1,975</u>                                              |

(33) Income tax expenses

|                                                                        | 2017           | 2016           |
|------------------------------------------------------------------------|----------------|----------------|
| Current income tax calculated based on tax law and related regulations | 205,442        | 134,024        |
| Deferred income tax                                                    | (5,849)        | 20,298         |
|                                                                        | <u>199,593</u> | <u>154,322</u> |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(33) Income tax expenses (Continued)

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:

|                                                                                                 | 2017           | 2016           |
|-------------------------------------------------------------------------------------------------|----------------|----------------|
| Total profit                                                                                    | 718,788        | 622,228        |
| Calculated at applicable income tax rates (25%)                                                 | 179,697        | 155,557        |
| Effect of favourable tax rates                                                                  | (2,391)        | (6,588)        |
| Income not subject to tax                                                                       | (11,086)       | (11,461)       |
| Costs, expenses and losses not deductible for tax purposes                                      | 31,087         | 7,646          |
| Utilization of previously deductible tax losses for which no deferred income tax was recognized | (4,063)        | (5,127)        |
| Tax temporary differences for which no deferred income tax asset was recognized                 | 5,482          | 13,014         |
| Tax deferred from prior year                                                                    | 867            | 1,281          |
| Income tax expenses                                                                             | <u>199,593</u> | <u>154,322</u> |

(34) 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 508 million (2016: RMB 443 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2016: 1,427 million shares).

|                                                                              | 2017             | 2016             |
|------------------------------------------------------------------------------|------------------|------------------|
| Consolidated net profit attributable to ordinary shareholders of the Company | 508,251          | 443,168          |
| 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)                                          | <u>0.36</u>      | <u>0.31</u>      |
| Including:                                                                   |                  |                  |
| – Basic earnings per share for operations on a going concern                 | 0.36             | 0.31             |
| – Basic earnings per share for discontinued operations                       | —                | —                |

(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 2017 (2016: nil), diluted earnings per share equal to basic earnings per share.



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Notes to the cash flow statements and supplementary information

(a) Reconciliation of net profit to cash flows from operating activities

|                                                          | 2017        | 2016        |
|----------------------------------------------------------|-------------|-------------|
| Net profit                                               | 519,195     | 467,906     |
| Add:                                                     |             |             |
| Provision for asset impairments                          | 21,928      | 52,057      |
| Depreciation of fixed assets and investment properties   | 43,735      | 44,095      |
| Amortisation of intangible assets                        | 296,413     | 279,022     |
| Net losses/(gains) from disposal of fixed assets         | 82          | 681         |
| Net financial expenses                                   | 116,530     | 170,806     |
| Investment (gains)/losses                                | (400)       | 3,640       |
| Amortisation of deferred income                          | (46,576)    | (42,034)    |
| Decrease/(increase) Increase in deferred tax liabilities | (5,849)     | 20,298      |
| Decrease in inventories                                  | 6,379       | 2,660       |
| Increase in operating receivables                        | (75,925)    | (694,356)   |
| Increase in operating payables                           | 36,540      | 98,895      |
| Net cash flows from operating activities                 | 912,052     | 403,670     |
| Net increase/(decrease) in cash                          |             |             |
| Cash at the end of the year                              | 1,893,689   | 1,181,120   |
| Less: Cash at the beginning of the year                  | (1,181,120) | (1,328,575) |
| Net increase/(decrease) in cash                          | 712,569     | (147,455)   |

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

|                                    | 2017      | 2016      |
|------------------------------------|-----------|-----------|
| Cash                               |           |           |
| Including: Cash on hand            | 144       | 173       |
| Cash at bank                       | 1,893,545 | 1,180,947 |
| Cash listed in cash flow statement | 1,893,689 | 1,181,120 |

(c) Cash received relating to other operating activities

|                                    | 2017    | 2016   |
|------------------------------------|---------|--------|
| Deposit on project bids retrieved  | 284,021 | 52,587 |
| Interest income from bank deposits | 8,782   | 12,597 |
| Subsidies received                 | 3,026   | 3,707  |
| Out-of-pocket expenses retrieved   | —       | 5,262  |
| Others                             | 6,807   | 8,300  |
|                                    | 302,636 | 82,453 |

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Notes to the cash flow statements and supplementary information (Continued)

(d) Cash paid relating to other operating activities

|                                                         | 2017    | 2016    |
|---------------------------------------------------------|---------|---------|
| Deposit on project bids paid                            | 238,139 | 163,452 |
| Consulting service fees                                 | 18,250  | 11,880  |
| Travelling, meeting and business entertainment expenses | 5,953   | 4,914   |
| Expenses of secretary of the board                      | 5,227   | 3,905   |
| Repair and maintenance expenses                         | 3,556   | 4,590   |
| Others                                                  | 35,691  | 13,936  |
|                                                         | 306,816 | 202,677 |

(e) Net cash received from disposals of fixed assets

|                                                  | 2017 | 2016  |
|--------------------------------------------------|------|-------|
| Carrying amount of disposals of fixed assets     | 613  | 770   |
| Net (losses)/gains from disposal of fixed assets | (82) | (681) |
|                                                  | 531  | 89    |

(f) Other cash paid relating to investing activities

|                     | 2017 | 2016   |
|---------------------|------|--------|
| Demolition expenses | —    | 25,715 |
|                     | —    | 25,715 |

5 CHANGE IN THE SCOPE OF THE MERGER

In 2017 the Group set up new subsidiary Anhui Tianchuang Capital Water Co., Ltd., Linxia Capital Water Co., Ltd. and Dalian Oriental Chunliuhe Water Purification Co., Ltd in cash. See Note 6 and Note 14(3).

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

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES

(a) Subsidiaries

| Name of subsidiaries                                                       | Type of subsidiary | Major business location | Place of registration | Nature of business and business activity                                                                                                                  | Shareholding(%) |          | Establishment        |
|----------------------------------------------------------------------------|--------------------|-------------------------|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------|----------------------|
|                                                                            |                    |                         |                       |                                                                                                                                                           | Direct          | Indirect |                      |
| Qijing Capital Water Co., Ltd.                                             | A                  | Qijing                  | Qijing                | Processing of sewage water, tap water supply                                                                                                              | 87              | —        | Capital contribution |
| Guizhou Capital Water Co., Ltd.                                            | A                  | Guizhou                 | Guizhou               | Processing of sewage water                                                                                                                                | 95              | —        | Capital contribution |
| Baoying Capital Water Co., Ltd.                                            | A                  | Baoying                 | Baoying               | Processing of sewage water                                                                                                                                | 70              | —        | Capital contribution |
| Hangzhou Tianchuang Capital Water Co., Ltd.                                | A                  | Hangzhou                | Hangzhou              | Processing of sewage water                                                                                                                                | 70              | —        | Capital contribution |
| Tianjin Capital New Materials Co., Ltd.                                    | A                  | Tianjin                 | Tianjin               | Manufacturing and sale of new building materials                                                                                                          | 71              | —        | Capital contribution |
| Fuyang Capital Water Co., Ltd.                                             | B                  | Fuyang                  | Fuyang                | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.             | B                  | Hong Kong               | Hong Kong             | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Wendeng Capital Water Co., Ltd.                                            | B                  | Wendeng                 | Wendeng               | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Tianjin Jing Hai Capital Water Co., Ltd.                                   | B                  | Tianjin                 | Tianjin               | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| 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             | —        | Capital contribution |
| Xi'an Capital Water Co., Ltd.                                              | B                  | Xi'an                   | Xi'an                 | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Tianjin Caring Technology Development Co., Ltd.                            | B                  | Tianjin                 | Tianjin               | Environment governance, technical consulting, etc.                                                                                                        | 80              | 20       | Capital contribution |
| Anguo Capital Water Co., Ltd.                                              | B                  | Anguo                   | Anguo                 | Tap water supply and drain off for urban area and processing of sewage                                                                                    | 100             | —        | Capital contribution |
| Wuhan Tianchuang Capital Water Co., Ltd.                                   | B                  | Wuhan                   | Wuhan                 | Processing of sewage water, tap water supply                                                                                                              | 100             | —        | Capital contribution |
| Tianjin Capital Water Co., Ltd.                                            | B                  | Tianjin                 | Tianjin               | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Tianjin Zichuang Project Investment Co., Ltd.                              | B                  | Tianjin                 | Tianjin               | Construction project investment                                                                                                                           | 100             | —        | Capital contribution |
| Tianjin Jinning Capital Water Co., Ltd.                                    | B                  | Tianjin                 | Tianjin               | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Tianjin Capital Alternative Energy Technology Co., Ltd.                    | B                  | Tianjin                 | Tianjin               | Energy saving, innovative energy research, consulting and transfer services, property management                                                          | 100             | —        | Capital contribution |
| Yingshang Capital Water Co., Ltd.                                          | B                  | Yingshang               | Yingshang             | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Shandong Capital Environmental Protection Technology Development Co., Ltd. | B                  | Shandong                | Shandong              | Investment in and construction of sewage water processing facilities                                                                                      | 100             | —        | Capital contribution |
| Changsha Tianchuang Environmental Protection Co., Ltd.                     | A                  | Changsha                | Changsha              | Processing of sewage water                                                                                                                                | 81              | —        | Capital contribution |
| Karamay Tianchuang Capital Water Co., Ltd.                                 | A                  | Karamay                 | Karamay               | Processing of sewage water                                                                                                                                | 90              | —        | Capital contribution |
| Anhui Tianchuang Capital Water Co., Ltd.                                   | B                  | Hefei                   | Hefei                 | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Linxia Capital Water Co., Ltd.                                             | B                  | Linxia                  | Linxia                | Processing of sewage water                                                                                                                                | 100             | —        | Capital contribution |
| Dalian Oriental Chunliuhe Water Purification Co., Ltd.                     | A                  | Dalian                  | Dalian                | Processing of sewage water                                                                                                                                | 64              | —        | Capital contribution |
| Changsha Tianchuang Capital Water Co., Ltd.                                | A                  | Changsha                | Changsha              | Processing of sewage water                                                                                                                                | 80              | —        | Capital contribution |

A: Holding subsidiary

B: Wholly-owned subsidiary

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests

| Name                                                                      | Minority interests ratio | Minority interests in 2017 | Declared distribution of cash dividends in 2017 | Minority interests as at 31 December 2017 |
|---------------------------------------------------------------------------|--------------------------|----------------------------|-------------------------------------------------|-------------------------------------------|
| Hangzhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")          | 30.00%                   | 11,363                     | —                                               | 186,733                                   |
| Qujing Capital Water Co., Ltd. ("Qujing Company")                         | 13.44%                   | 2,140                      | —                                               | 34,892                                    |
| Dalian Dongfang Chunliuhe Water Purification Co., Ltd. ("Dalian Company") | 36.12%                   | (3,379)                    | —                                               | 23,753                                    |

The major financial information of the significant non-wholly-owned subsidiaries of the Group is listed below:

*Balance Sheet*

|                  | 31 December 2017 |                    |                  |                     |                         |                   |
|------------------|------------------|--------------------|------------------|---------------------|-------------------------|-------------------|
|                  | Current assets   | Non-current assets | Total assets     | Current liabilities | Non-current liabilities | Total liabilities |
| Hangzhou Company | 317,850          | 844,299            | 1,162,149        | 171,972             | 367,734                 | 539,706           |
| Qujing Company   | 121,223          | 280,004            | 401,227          | 89,487              | 56,621                  | 146,108           |
| Dalian Company   | 18,599           | 83,555             | 102,154          | 36,739              | —                       | 36,739            |
|                  | <u>457,672</u>   | <u>1,207,858</u>   | <u>1,665,530</u> | <u>298,198</u>      | <u>424,355</u>          | <u>722,553</u>    |
|                  | 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>    |

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

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests (Continued)

*Income Statement*

|                  | 2017           |                |                     |               | Total comprehensive income |
|------------------|----------------|----------------|---------------------|---------------|----------------------------|
|                  | Revenue        | Total profit   | Income tax expenses | Net profit    |                            |
| Hangzhou Company | 252,381        | 68,312         | (30,435)            | 37,877        | 37,877                     |
| Qijing Company   | 103,002        | 22,385         | (6,462)             | 15,923        | 15,923                     |
| Dalian Company   | 115            | (9,699)        | —                   | (9,699)       | (9,699)                    |
|                  | <u>355,498</u> | <u>80,998</u>  | <u>(36,897)</u>     | <u>44,101</u> | <u>44,101</u>              |
| 2016             |                |                |                     |               |                            |
|                  | Revenue        | Total profit   | Income tax expenses | Net profit    | Total comprehensive income |
| 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>              |

*Cash Flow Statement*

|                  | 2017                                 |                                      |                                      |                                   |                             |
|------------------|--------------------------------------|--------------------------------------|--------------------------------------|-----------------------------------|-----------------------------|
|                  | 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 | 153,338                              | (19,100)                             | 20,782                               | 101,618                           | 256,638                     |
| Qijing Company   | 33,551                               | (2,113)                              | (25,160)                             | 7,922                             | 14,200                      |
| Dalian Company   | (13,080)                             | (49,889)                             | 75,113                               | —                                 | 12,144                      |
|                  | <u>173,809</u>                       | <u>(71,102)</u>                      | <u>70,735</u>                        | <u>109,540</u>                    | <u>282,982</u>              |
| 2016             |                                      |                                      |                                      |                                   |                             |
|                  | 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 | 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>              |

Information presented above is the amounts before inter-company netting off.

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

## 7 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  
Notes to the Financial Statements

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT INFORMATION (Continued)

(a) Segment information as at and for the year ended 31 December 2017 is as follows:

|                                                 | Processing of sewage and construction of related facility |           |           | Recycled water | Heating and cooling supply | Tap water | Sale of environmental protection equipment | All other segments | Group       |
|-------------------------------------------------|-----------------------------------------------------------|-----------|-----------|----------------|----------------------------|-----------|--------------------------------------------|--------------------|-------------|
|                                                 | Tianjin                                                   | Hangzhou  | Others    |                |                            |           |                                            |                    |             |
| Revenue from external customers (Note 4(22))    | 798,592                                                   | 252,000   | 361,897   | 300,897        | 71,250                     | 67,401    | 16,200                                     | 280,104            | 2,148,341   |
| Cost for operations                             | (424,062)                                                 | (177,408) | (259,333) | (181,881)      | (48,857)                   | (49,002)  | (19,195)                                   | (131,433)          | (1,291,171) |
| Interest income (Note 4(26))                    | 13,504                                                    | 1,389     | 1,566     | 1,769          | 682                        | 20        | —                                          | 363                | 19,293      |
| Interest expenses (Note 4(26))                  | (77,589)                                                  | (18,458)  | (26,997)  | (194)          | (2,785)                    | (3,345)   | —                                          | (2,064)            | (131,432)   |
| Results before share of profits of an associate | 320,925                                                   | 67,969    | 64,507    | 113,637        | 23,117                     | 11,173    | (6,805)                                    | 124,265            | 718,788     |
| Loss from investment in associate               | —                                                         | —         | —         | —              | —                          | —         | —                                          | —                  | —           |
| Depreciation expenses                           | (120)                                                     | —         | (343)     | (37,206)       | (127)                      | —         | (776)                                      | (5,163)            | (43,735)    |
| Amortization                                    | (126,851)                                                 | (57,448)  | (86,167)  | (212)          | (14,889)                   | (9,815)   | —                                          | (1,031)            | (296,413)   |
| Total profit                                    | 320,925                                                   | 67,969    | 64,507    | 113,637        | 23,117                     | 11,173    | (6,805)                                    | 124,265            | 718,788     |
| Income tax expenses                             | (93,053)                                                  | (30,435)  | (20,638)  | (28,209)       | (6,220)                    | (4,228)   | —                                          | (16,810)           | (199,593)   |
| Net profit                                      | 227,872                                                   | 37,534    | 43,869    | 85,428         | 16,897                     | 6,945     | (6,805)                                    | 107,455            | 519,195     |
| Total assets                                    | 5,679,104                                                 | 1,147,042 | 2,690,885 | 1,549,175      | 593,280                    | 215,711   | 13,508                                     | 564,185            | 12,452,890  |
| Total liabilities                               | 4,262,871                                                 | 424,806   | 791,116   | 1,099,796      | 240,864                    | 42,317    | 3,583                                      | 173,761            | 7,039,114   |
| Long-term equity investment in associate        | —                                                         | —         | —         | —              | —                          | —         | —                                          | —                  | —           |
| Non-current assets addition (i)                 | 54,723                                                    | 47,713    | 700,929   | 1,720          | 141,813                    | —         | —                                          | 42,130             | 989,028     |

(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**

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

**7 SEGMENT INFORMATION (Continued)**

(b) Segment information as at and for the year ended 31 December 2016 is as follows:

|                                                 | Processing of sewage and construction of related facility |           |           | Recycled water | Heating and cooling supply | Tap water | Sale of environmental protection equipment | All other segments | Group       |
|-------------------------------------------------|-----------------------------------------------------------|-----------|-----------|----------------|----------------------------|-----------|--------------------------------------------|--------------------|-------------|
|                                                 | Tianjin                                                   | Hangzhou  | Others    |                |                            |           |                                            |                    |             |
| Revenue from external customers (Note 4(22))    | 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(26))                    | 16,685                                                    | 529       | 2,047     | 3,953          | 60                         | 18        | —                                          | 165                | 23,457      |
| Interest expenses (Note 4(26))                  | (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))   | —                                                         | —         | —         | —              | —                          | —         | —                                          | (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.

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 792 million is derived from a single customer, accounting for 37% of the Group's total revenue (2016: RMB 769 million, 39%).



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

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8 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<br>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 2016 | Increase in the current year | Decrease in the current year | 31 December 2017 |
|----------------------|------------------|------------------------------|------------------------------|------------------|
| 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 2017  |                   | 31 December 2016  |                   |
|----------------------|-------------------|-------------------|-------------------|-------------------|
|                      | 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 6.

(3) Information of associates

The general information and other related information of the associates is set out in Note 4(9) (a).

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

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

8 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 Jinrongcheng Property Management Co. Ltd.                      | Controlled by the same ultimate holding company |
| Tianjin Ruiding Real Estate Co. Ltd.                                   | Controlled by the same ultimate holding company |
| Tianjin Metro Construction and Development Co. Ltd.                    | Controlled by the same ultimate holding company |
| Tianjin Metro Group Co. Ltd.                                           | Controlled by the same ultimate holding company |
| Tianjin City Investment Property Management Co. Ltd.                   | Controlled by the same ultimate holding company |
| Tianjin City Road & Network Supporting Construction 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 or sale of goods, provide or receive of services

Purchase of goods, receive of services:

| Related party name                                               | Nature of transaction                   | 2017          | 2016         |
|------------------------------------------------------------------|-----------------------------------------|---------------|--------------|
| Tianjin Machinery & Electric Equipment Import & Export Co., Ltd. | Purchase of equipment                   | 73,150        | 1,179        |
| Tianjin City Property Management Co. Ltd.                        | Receive of property management services | 6,722         | —            |
|                                                                  |                                         | <u>79,872</u> | <u>1,179</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 2017  
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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(a) Purchase or sale of goods, provide or receive of services (Continued)

Rendering of services

| Related party name                                         | Nature of transaction                               | 2017          | 2016          |
|------------------------------------------------------------|-----------------------------------------------------|---------------|---------------|
| City Infrastructure Construction and Investment            | Commission income from contract operation           | 54,685        | 57,113        |
| Tianjin Lecheng Properties Co., Ltd.                       | Income from heating and cooling supply              | 38,488        | 38,996        |
| Tianjin Metro Resources Investment Co., Ltd.               | Income from heating and cooling supply              | 905           | 2,317         |
| Tianjin Metro Construction and Development Co. Ltd.        | Income from construction of recycled water pipeline | 579           | —             |
| Tianjin Haihe Construction Developing Investment Co., Ltd. | Income from sewage plant construction               | 421           | 332           |
| City Infrastructure Construction and Investment            | Commission income from construction agent service   | —             | 396           |
|                                                            |                                                     | <u>95,078</u> | <u>99,154</u> |

Pricing on heating supply service with related parties is based on the reference price stipulated by government. Pricing on other services from related parties is negotiated by counter parties and referred to the market price.

(b) Guarantee:

The Group serves as guarantee.

| Guarantor                                       | Guarantee                     | Amount  | Starting date     | Due date          | Fully performed or not |
|-------------------------------------------------|-------------------------------|---------|-------------------|-------------------|------------------------|
| City Infrastructure Construction and Investment | Xi'an Capital Water Co., Ltd. | 174,000 | 28 September 2008 | 27 September 2022 | No                     |

(c) Key management compensation

|                             | 2017          | 2016          |
|-----------------------------|---------------|---------------|
| Key management compensation | <u>13,020</u> | <u>13,373</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 2017  
(All amounts in RMB thousand unless otherwise stated)

8 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<br>2017 | 31 December<br>2016 |
|------------------|-------------------------------------------------|---------------------|---------------------|
| Trade receivable | Tianjin Lecheng Properties Co., Ltd.            | 38,171              | 35,139              |
|                  | City Infrastructure Construction and Investment | 28,570              | 29,337              |
|                  | Tianjin Metro Resources Investment Co., Ltd.    | 1,673               | 6,495               |
|                  | Tianjin City Resource Operation Co., Ltd.       | 401                 | 401                 |
|                  |                                                 | <u>68,815</u>       | <u>71,372</u>       |

Payables to related parties

| Project name                  | Related party name                                   | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------|------------------------------------------------------|---------------------|---------------------|
| Accounts payables             | City Infrastructure Construction and Investment      | 8,723               | —                   |
| Other payables                | Tianjin Machinery & Electric Equipment               |                     |                     |
|                               | Import & Export Co., Ltd                             | 15,523              | 1,179               |
| Advances from related parties | Tianjin Ruiding Real Estate Co. Ltd.                 | 3,046               | —                   |
|                               | Tianjin Underground Railway Group Co. Ltd.           | 839                 | —                   |
|                               | Tianjin City Investment Property Management Co. Ltd. | 592                 | —                   |
|                               | Tianjin City Road & Network Supporting               | 484                 | —                   |
|                               |                                                      | <u>4,961</u>        | <u>—</u>            |

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 construction of recycled water pipe are due within one year after the date of purchase. The payables bear no interest.

12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(7) Related parties' 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:

|                                                 | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------------------------|---------------------|---------------------|
| Guarantee received                              |                     |                     |
| City Infrastructure Construction and Investment | <u>174,000</u>      | <u>200,000</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 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.

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## 9 COMMITMENTS

### (1) 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<br>2017<br>RMB million | 31 December<br>2016<br>RMB million | 31 December<br>2017<br>RMB million | 31 December<br>2016<br>RMB million |
| Sewage water processing plant projects:                      |                                    |                                    |                                    |                                    |
| – Tianjin Jingu upgrading project                            | 463                                | —                                  | 333                                | —                                  |
| – Bayannur projects                                          | 397                                | —                                  | —                                  | —                                  |
| – Tianjin Beichen upgrading project                          | 224                                | —                                  | 217                                | —                                  |
| – Karamy project                                             | 179                                | —                                  | 263                                | 318                                |
| – Dalian Chunliuhe project                                   | 136                                | —                                  | —                                  | 221                                |
| – Jieshou upgrading project                                  | 122                                | —                                  | 105                                | —                                  |
| – Hefei Yuwan project                                        | 71                                 | —                                  | 158                                | —                                  |
| – Yingshang project                                          | 14                                 | 71                                 | 63                                 | 101                                |
| – Linxia project                                             | 13                                 | —                                  | 81                                 | —                                  |
| – Changsha Tianchuang<br>Ningxiang project                   | 9                                  | 1                                  | 67                                 | 199                                |
| – Hangzhou plant upgrading project                           | —                                  | —                                  | —                                  | 26                                 |
| – Dengjiacun plant and Beishiqiao plant<br>upgrading project | —                                  | —                                  | —                                  | 4                                  |
| Solid wastes treatment projects:                             |                                    |                                    |                                    |                                    |
| – Shandong Yishui project                                    | 13                                 | —                                  | 262                                | —                                  |
| – Shandong Tancheng project                                  | 9                                  | —                                  | 337                                | —                                  |
| Energy station projects:                                     |                                    |                                    |                                    |                                    |
| – Heiniu Urban Roads energy<br>station project               | 49                                 | 62                                 | 109                                | 156                                |
| – Cultural Center energy station project                     | 6                                  | 4                                  | 20                                 | 101                                |
| – Houtai energy station project                              | 3                                  | —                                  | 108                                | —                                  |
|                                                              | 1,708                              | 138                                | 2,123                              | 1,126                              |
|                                                              | 1,708                              | 138                                | 2,123                              | 1,126                              |

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

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### 9 COMMITMENTS (Continued)

#### (2) Investment commitments

- (a) According to the joint venture agreement signed by the Company, Tianjin No.2 Municipal Highway Engineering Co., Ltd. and Tianjin MOTIMO Membrane Technology Co., Ltd. on June 5, 2017, the Company promises to contribute RMB15.3 million to the subsidiary, Changsha Tianchuang Capital Water Co., Ltd., which equals to 80% equity interests of this subsidiary. As at 31 December 2017, the Company has not yet to paid.
- (b) According to the equity transaction contract signed by the Company and Bayannur Hetao Water Group Co. Ltd. on 8 December 2017, the Company promises to pay RMB777 million to Bayannur Hetao Water Group Co. Ltd. to purchase 70% share of Bayannur Jinshengyuan Water Supply and Drainage Co. Ltd.. As at 31 December 2017, the Company prepaid the equity investments of RMB380 million, and RMB397 million was not paid.
- (c) According to the resolution of the 32th meeting of the Company's seventh Board of Directors on April 26 2017, the Company promises to contribute RMB110 million to the subsidiary, Shandong Capital Environmental Protection Technology Consultant Co., Ltd.. The contribution was planned to invest in the construction of Tancheng hazardous waste comprehensive disposal project and the development of related business in the future. As at 31 December 2017, RMB64 million was not paid.

### 10 IMPACT OF EVENTS AFTER THE BALANCE SHEET DATE

- (1) As at 1 February 2018, the Company got official approval from China Securities Regulatory Commission for non-public offering shares of common stock ("A shares"). As at the release date of this report, the non-public offering of A shares has not yet to be completed.
- (2) On March 15, 2018, Beijing OriginWater Technology Co., Ltd. subscribed in cash for the additional shares issued Tianjin Caring Technology Development Co., Ltd. (hereafter referred to as "Caring Technology"), with a total of 13,333,333 shares subscribed. The subscription amount is 60,066,667 yuan. After the completion of the subscription, the company's direct shareholding ration of Caring Technology changes to 48% and indirect shareholding ratio changes to 12%.

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## 11 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 2017, 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 3 million (2016: RMB 4 million) higher/lower. 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 (2016: RMB 8 million) higher/lower.

(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.



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11 FINANCIAL RISKS

(a) Market risk: (Continued)

(ii) Interest rate risk: (Continued)

|                                                    | Fixed            | Floating         | Total            |
|----------------------------------------------------|------------------|------------------|------------------|
| At 31 December 2017                                |                  |                  |                  |
| Short-term borrowings:                             | 199,000          | 300,000          | 499,000          |
| Other non-current liabilities due within one year: |                  |                  |                  |
| Current portion of long-term borrowings            | —                | 145,643          | 145,643          |
| Current portion of debentures payable              | 698,957          | —                | 698,957          |
| Current portion of long-term payables              | 15,688           | 9,804            | 25,492           |
| Long-term borrowings                               | —                | 581,517          | 581,517          |
| Long-term payables                                 | 182,031          | 81,856           | 263,887          |
| Debentures payable                                 | 697,984          | —                | 697,984          |
| Total                                              | <u>1,793,660</u> | <u>1,118,820</u> | <u>2,912,480</u> |
|                                                    | Fixed            | 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           |
| Long-term borrowings                               | —                | 510,428          | 510,428          |
| Long-term payables                                 | 193,119          | 92,089           | 285,208          |
| Debentures payable                                 | 1,394,313        | —                | 1,394,313        |
| Total                                              | <u>1,603,724</u> | <u>798,552</u>   | <u>2,402,276</u> |

At 31 December 2017, 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 8 million (2016: RMB 6 million).

The Group analyses its interest rate exposure by considering refinancing, renewal of existing positions and alternative financing resolution.

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## 11 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 2017, the Company had given guarantees of approximately RMB 1,126 million (2016: RMB 1,210 million) to banks of certain subsidiaries in respect of their banking facilities, of which RMB 528 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.

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11 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<br>1 year | 1-2 years      | 2-5 years        | Over<br>5 years  | Total            | Carrying<br>amount |
|-----------------------|------------------|----------------|------------------|------------------|------------------|--------------------|
| At 31 December 2017   |                  |                |                  |                  |                  |                    |
| Short-term borrowings | 519,489          | —              | —                | —                | 519,489          | 499,000            |
| Long-term borrowings  | 176,508          | 172,314        | 366,598          | 130,229          | 845,649          | 727,160            |
| Long-term payables    | 27,849           | 28,582         | 91,095           | 314,596          | 462,122          | 289,379            |
| Trade payables        | 128,254          | —              | —                | —                | 128,254          | 128,254            |
| Other payables        | 627,209          | —              | —                | —                | 627,209          | 627,209            |
| Debentures payable    | 760,060          | 21,910         | 718,258          | —                | 1,500,228        | 1,396,941          |
| Dividends payable     | 1,912            | —              | —                | —                | 1,912            | 1,912              |
| Other liabilities     | 1,409            | —              | —                | —                | 1,409            | 1,364              |
|                       | <u>2,242,690</u> | <u>222,806</u> | <u>1,175,951</u> | <u>444,825</u>   | <u>4,086,272</u> | <u>3,671,219</u>   |
|                       | Within<br>1 year | 1-2 years      | 2-5 years        | Over 5 years     | Total            | Carrying<br>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>   |

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## 12 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, short-term borrowings, 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.

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13 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 below 40%. The gearing ratio of the Group is as follows:

|                                                       | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------------------------------|---------------------|---------------------|
| Total borrowings                                      | 2,913,844           | 2,406,822           |
| Short-term borrowings                                 | 499,000             | —                   |
| Long-term borrowings                                  | 727,160             | 696,828             |
| Current portion of debentures payable                 | 698,957             | —                   |
| Debentures payable                                    | 697,984             | 1,394,313           |
| Long-term payables                                    | 289,379             | 311,135             |
| Other non-current assets - Government loan and others | 1,364               | 4,546               |
| Less: Cash                                            | (1,893,689)         | (1,181,120)         |
| Net debt                                              | <u>1,022,155</u>    | <u>1,225,702</u>    |
| Total equity                                          | 5,413,776           | 5,003,817           |
| Total capital                                         | <u>6,433,931</u>    | <u>6,229,519</u>    |
| Gearing ratio                                         | <u>16%</u>          | <u>20%</u>          |

As at 31 December 2017, the gearing ratio of the Group declines slightly.

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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS

(1) Trade receivables

|                               | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------|---------------------|---------------------|
| Trade receivables             | 1,663,178           | 1,489,342           |
| Less: Provision for bad debts | —                   | —                   |
|                               | <u>1,663,178</u>    | <u>1,489,342</u>    |

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

|               | 31 December 2017 |                    | 31 December 2016 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 1,015,278        | 61%                | 967,622          | 65%                |
| 1-2 years     | 625,238          | 38%                | 511,349          | 34%                |
| Over 2 years  | 22,662           | 1%                 | 10,371           | 1%                 |
| Total         | <u>1,663,178</u> | <u>100%</u>        | <u>1,489,342</u> | <u>100%</u>        |

As at 31 December 2017, trade receivables of RMB1,496 million (31 December 2016: RMB1,351 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:

|                          | 31 December<br>2017 | 31 December<br>2016 |
|--------------------------|---------------------|---------------------|
| Overdue within 1 year    | 848,285             | 900,574             |
| Overdue for 1-2 years    | 625,238             | 439,836             |
| Overdue for 2-3 years    | 14,040              | 10,371              |
| Overdue for over 3 years | 8,622               | —                   |
|                          | <u>1,496,185</u>    | <u>1,350,781</u>    |

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

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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(1) Trade receivables (Continued)

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

|                                                                                                                                 | 31 December 2017 |                    |                         |                    | 31 December 2016 |                    |                         |                    |
|---------------------------------------------------------------------------------------------------------------------------------|------------------|--------------------|-------------------------|--------------------|------------------|--------------------|-------------------------|--------------------|
|                                                                                                                                 | 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 | 1,534,573        | 92%                | —                       | —                  | 1,397,293        | 94%                | —                       | —                  |
| General credit portfolio                                                                                                        | 128,605          | 8%                 | —                       | —                  | 92,049           | 6%                 | —                       | —                  |
| <b>Total</b>                                                                                                                    | <b>1,663,178</b> | <b>100%</b>        | <b>—</b>                | <b>—</b>           | <b>1,489,342</b> | <b>100%</b>        | <b>—</b>                | <b>—</b>           |

(c) As at 31 December 2017, 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   | Ending balance | Bad debts | % of ending balance |
|-----------------|----------------|-----------|---------------------|
| TWAB (note (i)) | 1,534,573      | —         | —                   |

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

(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 2017 |                         |                     | 31 December 2016 |                         |                     |
|---------------|------------------|-------------------------|---------------------|------------------|-------------------------|---------------------|
|               | Ending balance   | Provision for bad debts |                     | Ending balance   | Provision for bad debts |                     |
|               | Amount           | Amount                  | % of ending balance | Amount           | Amount                  | % of ending balance |
| Within 1 year | 88,057           | —                       | —                   | 67,518           | —                       | —                   |
| 1-2 years     | 17,886           | —                       | —                   | 14,160           | —                       | —                   |
| Over 2 years  | 22,662           | —                       | —                   | 10,371           | —                       | —                   |
| <b>Total</b>  | <b>128,605</b>   | <b>—</b>                | <b>—</b>            | <b>92,049</b>    | <b>—</b>                | <b>—</b>            |

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

(1) 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<br>2017 | 31 December<br>2016 |
|-------------------------------------------------|---------------------|---------------------|
| City Infrastructure Construction and Investment | 28,750              | 29,337              |

- (f) As at 31 December 2017, the trade receivables from the top five debtors in respect of outstanding balance are analyzed as below:

| Name of debtor                                                              | Relationship<br>with the Group | Amount    | Aging         | Provision<br>for bad debts | % of<br>total balance |
|-----------------------------------------------------------------------------|--------------------------------|-----------|---------------|----------------------------|-----------------------|
| TWAB                                                                        | Third party                    | 927,221   | Within 1 year | —                          | 56%                   |
|                                                                             |                                | 607,352   | 1-2 years     | —                          | 37%                   |
| Tianjin Water Recycling<br>Co., Ltd.                                        | Subsidiary                     | 14,040    | Within 1 year | —                          | 1%                    |
|                                                                             |                                | 14,040    | 1-2 years     | —                          | 1%                    |
|                                                                             |                                | 14,040    | 2-3 years     | —                          | 1%                    |
|                                                                             |                                | 7,020     | Over 3 years  | —                          | —                     |
| City Infrastructure<br>Construction and<br>Investment                       | Ultimate<br>holding company    | 28,570    | Within 1 year | —                          | 2%                    |
| Tianjin Shuangkou<br>Municipal solid waste<br>Sanitary Landfill             | Third party                    | 11,674    | Within 1 year | —                          | 1%                    |
|                                                                             |                                | 3,625     | 1-2 years     | —                          | —                     |
| Tianjin City appearance<br>Sanitation Construction<br>Development Co., Ltd. | Third party                    | 11,496    | Within 1 year | —                          | —                     |
| Total                                                                       |                                | 1,639,078 |               | —                          | 99%                   |



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

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14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables

|                               | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------|---------------------|---------------------|
| Receivables from subsidiaries | 152,146             | 159,039             |
| Project deposits              | 68,847              | 116,213             |
| VAT refund receivable         | 5,343               | 11,204              |
| Others                        | 1,743               | 1,241               |
| Less: Provision for bad debts | —                   | —                   |
|                               | <u>228,079</u>      | <u>287,697</u>      |

As at 31 December 2017, there were no other receivables overdue but unimpaired (31 December 2016: Nil).

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

|               | 31 December 2017 |                    | 31 December 2016 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 204,065          | 89%                | 286,251          | 100%               |
| 1-2 years     | 22,480           | 10%                | 113              | 0%                 |
| 2-3 years     | 65               | 0%                 | 3                | 0%                 |
| Over 3 years  | 1,465            | 1%                 | 1,330            | 0%                 |
|               | <u>228,079</u>   | <u>100%</u>        | <u>287,697</u>   | <u>100%</u>        |

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

|                                                        | 31 December 2017 |                    |                         |                    | 31 December 2016 |                    |                         |                    |
|--------------------------------------------------------|------------------|--------------------|-------------------------|--------------------|------------------|--------------------|-------------------------|--------------------|
|                                                        | 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 |                  |                    |                         |                    |                  |                    |                         |                    |
| Receivables from subsidiaries                          | 152,146          | 67%                | —                       | —                  | 159,039          | 55%                | —                       | —                  |
| Project deposits                                       | 68,847           | 30%                | —                       | —                  | 116,213          | 40%                | —                       | —                  |
| VAT refunds                                            | 5,343            | 2%                 | —                       | —                  | 11,204           | 4%                 | —                       | —                  |
| Others                                                 | 1,743            | 1%                 | —                       | —                  | 1,241            | 1%                 | —                       | —                  |
| Total                                                  | <u>228,079</u>   | <u>100%</u>        | <u>—</u>                | <u>—</u>           | <u>287,697</u>   | <u>100%</u>        | <u>—</u>                | <u>—</u>           |

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

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**14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)**

(2) **Other receivables** (Continued)

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

|               | 31 December 2017 |                    |                         |                    | 31 December 2016 |                    |                         |                    |
|---------------|------------------|--------------------|-------------------------|--------------------|------------------|--------------------|-------------------------|--------------------|
|               | 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 | 1,743            | 1%                 | —                       | —                  | 1,241            | 1%                 | —                       | —                  |

- (d) As at 31 December 2017, there were no balances of other receivables due from shareholders holding 5% or more of voting shares of the Company (31 December 2016: Nil), and there were no receivables from any of the related parties of the Group (31 December 2016: Nil).
- (e) As at 31 December 2017, other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

|                                                            | Nature                           | Amount         | Aging         | % of total balance |
|------------------------------------------------------------|----------------------------------|----------------|---------------|--------------------|
| Linxia Capital Water Co., Ltd.                             | Receivable due from subsidiaries | 75,000         | Within 1 year | 33%                |
| Changsha Wangcheng District Public Resource Trading Center | Project deposits                 | 35,000         | Within 1 year | 15%                |
| Linxia water supply and drainage company                   | Project deposits                 | 30,000         | Within 1 year | 13%                |
| Xi'an Capital Water Co., Ltd.                              | Receivable due from subsidiaries | 25,000         | Within 1 year | 11%                |
| Changsha Tianchuang Environmental Protection Co., Ltd.     | Receivable due from subsidiaries | 14,955         | Within 1 year | 7%                 |
|                                                            |                                  | <u>179,955</u> |               | <u>79%</u>         |

- (f) As at 31 December 2017, the amount of receivables from government grants (VAT refunds) was RMB 5 million with aging within 1 year. This amount was collected in the first quarter of 2018.

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

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments

|                                                            | 31 December<br>2017 | 31 December<br>2016 |
|------------------------------------------------------------|---------------------|---------------------|
| Investment in subsidiaries (note (a))                      | 2,218,623           | 1,879,130           |
| Less: Impairment of Long-term equity investments (note(b)) | (137,321)           | (132,781)           |
|                                                            | <u>2,081,302</u>    | <u>1,746,349</u>    |

(a) Subsidiaries

| Name of subsidiaries                                           | Investment<br>cost | 31<br>December<br>2016 | Additions     | Disposals | Provision | 31<br>December<br>2017 | Provision<br>for<br>impairment | Cash dividends<br>declared/<br>Investment<br>income in the<br>current year |
|----------------------------------------------------------------|--------------------|------------------------|---------------|-----------|-----------|------------------------|--------------------------------|----------------------------------------------------------------------------|
| Xi'an Capital Water Co., Ltd.                                  | 334,000            | 334,000                | —             | —         | —         | 334,000                | —                              | —                                                                          |
| Hangzhou Tianchuang Capital Water Co., Ltd.                    | 264,212            | 264,212                | —             | —         | —         | 264,212                | —                              | —                                                                          |
| Qujing Capital Water Co., Ltd.                                 | 154,918            | 154,918                | —             | —         | —         | 154,918                | —                              | —                                                                          |
| Guizhou Capital Water Co., Ltd.                                | 114,000            | 114,000                | —             | —         | —         | 114,000                | —                              | —                                                                          |
| Fuyang Capital Water Co., Ltd.                                 | 107,302            | 107,302                | —             | —         | —         | 107,302                | —                              | 6,847                                                                      |
| Tianjin Water Recycling Co., Ltd.                              | 100,436            | 100,436                | —             | —         | —         | 100,436                | —                              | 30,000                                                                     |
| Wuhan Tianchuang Capital Water Co., Ltd. (note (i))            | 135,229            | 98,500                 | 36,729        | —         | —         | 135,229                | —                              | —                                                                          |
| Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd. | 62,987             | 12,706                 | —             | —         | —         | 12,706                 | (50,281)                       | —                                                                          |
| Wendeng Capital Water Co., Ltd.                                | 61,400             | 61,400                 | —             | —         | —         | 61,400                 | —                              | 6,000                                                                      |
| Tianjin Capital Alternative Energy Technology Co., Ltd.        | 191,600            | 191,600                | —             | —         | —         | 191,600                | —                              | —                                                                          |
| Anguo Capital Water Co., Ltd.                                  | 41,000             | —                      | —             | —         | —         | —                      | (41,000)                       | —                                                                          |
| Baoying Capital Water Co., Ltd.                                | 37,100             | 37,100                 | —             | —         | —         | 37,100                 | —                              | 1,820                                                                      |
| Tianjin Capital New Materials Co., Ltd.                        | 26,500             | —                      | —             | —         | —         | —                      | (26,500)                       | —                                                                          |
| Tianjin Zichuang Project Investment Co., Ltd.                  | 23,400             | 23,400                 | —             | —         | —         | 23,400                 | —                              | —                                                                          |
| Subtotal                                                       | <u>1,654,084</u>   | <u>1,499,574</u>       | <u>36,729</u> | <u>—</u>  | <u>—</u>  | <u>1,536,303</u>       | <u>(117,781)</u>               | <u>44,667</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 2017  
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

| Name of subsidiaries                                                                   | Investment cost | 31 December 2016 | Additions | Disposals | Provision | 31 December 2017 | Provision for impairment | Cash dividends declared/<br>Investment income in the current year |
|----------------------------------------------------------------------------------------|-----------------|------------------|-----------|-----------|-----------|------------------|--------------------------|-------------------------------------------------------------------|
| Tianjin Caring Technology Development Co., Ltd                                         | 16,000          | 16,000           | —         | —         | —         | 16,000           | —                        | —                                                                 |
| Tianjin Jinning Capital Water Co., Ltd. (note (i))                                     | 22,560          | —                | 7,560     | —         | —         | 7,560            | (15,000)                 | —                                                                 |
| Tianjin Jing Hai Capital Water Co., Ltd (note (i))                                     | 37,553          | 12,000           | 25,553    | —         | —         | 37,553           | —                        | —                                                                 |
| Tianjin Capital Water Co., Ltd.                                                        | 10,000          | 10,000           | —         | —         | (4,540)   | 5,460            | (4,540)                  | —                                                                 |
| Yingshang Capital Water Co., Ltd.                                                      | 53,000          | 53,000           | —         | —         | —         | 53,000           | —                        | —                                                                 |
| Shangdong Capital Environmental Protection Technology Development Co., Ltd. (note (i)) | 128,000         | 15,000           | 113,000   | —         | —         | 128,000          | —                        | —                                                                 |
| Changsha Tianchuang Environmental Protection Co., Ltd.                                 | 32,775          | 32,775           | —         | —         | —         | 32,775           | —                        | —                                                                 |
| Karamay Tianchuang Capital Water Co., Ltd.                                             | 108,000         | 108,000          | —         | —         | —         | 108,000          | —                        | —                                                                 |
| Anhui Tianchuang Capital Water Co., Ltd. (note (ii))                                   | 63,670          | —                | 63,670    | —         | —         | 63,670           | —                        | —                                                                 |
| Linxia Capital Water Co., Ltd. (note (ii))                                             | 45,000          | —                | 45,000    | —         | —         | 45,000           | —                        | —                                                                 |
| Dalian Dongfang Chunliuhe Water Purification Co., Ltd. (note (ii))                     | 47,981          | —                | 47,981    | —         | —         | 47,981           | —                        | —                                                                 |
| Changsha Tianchuang Capital Water Co., Ltd.                                            | —               | —                | —         | —         | —         | —                | —                        | —                                                                 |
| Honghu Capital Water Co., Ltd.                                                         | —               | —                | —         | —         | —         | —                | —                        | —                                                                 |
| Sino Legend Industries Limited                                                         | —               | —                | —         | —         | —         | —                | —                        | —                                                                 |
| Subtotal                                                                               | 564,539         | 246,775          | 302,764   | —         | (4,540)   | 544,999          | (19,540)                 | —                                                                 |
| Total                                                                                  | 2,218,623       | 1,746,349        | 339,493   | —         | (4,540)   | 2,081,302        | (137,321)                | 44,667                                                            |

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

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

- (i) In this year, the Company increased capital of 36.7 million yuan to its subsidiary Wuhan Tianchuang Capital Water Co., Ltd. for the construction and operation of the upgrading project of Huhu sewage water treatment plant and Xianning Yongan sewage water treatment plant. And in this year, the Company increased capital of 7.6 million yuan to its subsidiary Tianjin Jinning Capital Water Co., Ltd. for the construction and operation of the first stage of the upgrading project of Tianjin Ninghe Modern Industrial District sewage treatment plant. And in this year the Company increased capital of 113 million yuan to the subsidiary Shangdong Capital Environmental Protection Technology Development Co., Ltd., it will invest in the construction and operation of two hazardous waste disposal centers in Shandong Yishui and Tancheng City, and expand the hazardous waste business in the future. This year, the Company also increased capital of 25.6 million yuan to its subsidiary Tianjin Jinghai Capital Water Co., Ltd. for the construction of Tianyu Science and Technology Park sewage treatment plant upgrading project.
- (ii) In 2017, the Company contributed 45 million yuan to set up Linxia Capital Water Co., Ltd. and 63.67 million yuan to set up Anhui Tianchuang Capital Water Co., Ltd. And 47.98 million yuan to set up Dalian Chunliuhe Water Purification Co., Ltd. (“Dalian Company”); the shareholding ratio is 100%,100%and 64% respectively

The shareholding ratio of the Company to Dalian Company is 64%. The Company has 3/5 voting rights and other rights in the board of directors of Dalian Company. According to the articles of association, Resolution of the Board of Directors approved by more than half shall take effect. Therefore, the Company has control over Dalian Company.

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

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

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

|                                                                | 31December<br>2016 | Additions    | Disposals | 31December<br>2017 |
|----------------------------------------------------------------|--------------------|--------------|-----------|--------------------|
| Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd. | 50,281             | —            | —         | 50,281             |
| Anguo Capital Water Co., Ltd.                                  | 41,000             | —            | —         | 41,000             |
| Tianjin Capital New Materials Co., Ltd.                        | 26,500             | —            | —         | 26,500             |
| Tianjin Jinning Capital Water Co., Ltd.                        | 15,000             | —            | —         | 15,000             |
| Tianjin Capital Water Co., Ltd.                                | —                  | 4,540        | —         | 4,540              |
|                                                                | <u>132,781</u>     | <u>4,540</u> | <u>—</u>  | <u>137,321</u>     |

(4) Revenue and cost of sales

|                                   | 2017           |                | 2016           |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | Revenue        | Cost of sales  | Revenue        | Cost of sales  |
| Revenue from principal operations | 855,156        | 437,016        | 835,987        | 424,674        |
| Revenue from other operations     | 144,081        | 80,037         | 122,996        | 81,407         |
|                                   | <u>999,237</u> | <u>517,053</u> | <u>958,983</u> | <u>506,081</u> |

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

|                                                                 | 2017                                    |                | 2016                                    |                |
|-----------------------------------------------------------------|-----------------------------------------|----------------|-----------------------------------------|----------------|
|                                                                 | Revenue from<br>principal<br>operations | Cost of sales  | Revenue from<br>principal<br>operations | Cost of sales  |
| Processing of sewage water and construction of related facility | 792,497                                 | 429,896        | 772,110                                 | 417,554        |
| Road tolls                                                      | 62,659                                  | 7,120          | 63,877                                  | 7,120          |
|                                                                 | <u>855,156</u>                          | <u>437,016</u> | <u>835,987</u>                          | <u>424,674</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 2017  
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales

(b) Revenue from other operations and cost of sales

|                           | 2017                          |               | 2016                          |               |
|---------------------------|-------------------------------|---------------|-------------------------------|---------------|
|                           | Revenue from other operations | Cost of sales | Revenue from other operations | Cost of sales |
| Contract operation income | 74,450                        | 59,840        | 72,486                        | 60,669        |
| Technical service fee     | 42,664                        | 2,494         | 29,139                        | 2,117         |
| Rental                    | 18,241                        | 17,208        | 17,632                        | 18,032        |
| Others                    | 8,726                         | 495           | 3,739                         | 589           |
|                           | <u>144,081</u>                | <u>80,037</u> | <u>122,996</u>                | <u>81,407</u> |

(5) Investment income

|                                                                         | 31 December 2017 | 31 December 2016 |
|-------------------------------------------------------------------------|------------------|------------------|
| Investment income from long-term equity investments under cost method   | 44,667           | 92,185           |
| Investment income from long-term equity investments under equity method | 400              | —                |
| Investment income from disposal of long-term equity investments         | —                | 1,545            |
|                                                                         | <u>45,067</u>    | <u>93,730</u>    |

# 12. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Supplement of the Financial Statements

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

## 1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

|                                                    | 2017     | 2016     |
|----------------------------------------------------|----------|----------|
| (Profits)/losses on disposal of non-current assets | (82)     | (681)    |
| Government Grants                                  | 53,433   | 43,360   |
| Other non-operating income and expenses — net      | (726)    | 7,736    |
|                                                    | 52,625   | 50,415   |
| Effect of income tax                               | (13,156) | (12,604) |
| Effect of minority interests (after tax)           | (95)     | (1,476)  |
| Total                                              | 39,374   | 36,335   |

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<br>of net assets (%) |      | Basic/Diluted earnings per share |      |
|--------------------------------------------------------------------------------------------------------------|---------------------------------------------------|------|----------------------------------|------|
|                                                                                                              | 2017                                              | 2016 | 2017                             | 2016 |
| Net profit attributable to ordinary shareholders of the Company                                              | 10.33                                             | 9.71 | 0.36                             | 0.31 |
| Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss | 9.53                                              | 8.91 | 0.33                             | 0.29 |



# 13. Independent Auditor's Report



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 221 to 299, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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.

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*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## 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.

## 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 2017, RMB 1,634,604 thousand out of the total trade receivables of RMB 1,932,058 thousand was overdue, and RMB 665,614 thousand was overdue for more than one year. The trade receivables overdue for more than one year accounts for 5% 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 2017 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 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.

## 13. Independent Auditor's Report

### 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 HKSAAs 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 HKSAAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

### 13. Independent Auditor's Report

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, 27 March 2018

# 14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Balance Sheet

As at 31 December 2017

(All amounts in RMB thousand unless otherwise stated)

|                                                   | Note | As at 31 December |                   |
|---------------------------------------------------|------|-------------------|-------------------|
|                                                   |      | 2017              | 2016              |
| <b>ASSETS</b>                                     |      |                   |                   |
| <b>Non-current assets</b>                         |      |                   |                   |
| Land use rights                                   | 8    | 36,717            | 14,986            |
| Property, plant and equipment                     | 6    | 404,488           | 417,882           |
| Intangible assets                                 | 7    | 6,869,701         | 6,219,001         |
| Investment properties                             | 9    | 86,820            | 97,590            |
| Investments accounted for using the equity method | 10b  | —                 | —                 |
| Available-for-sale financial assets               | 11   | 2,000             | 2,000             |
| Long-term receivables                             | 12   | 294,956           | 309,148           |
| Other non-current assets                          | 13   | 598,433           | 187,744           |
|                                                   |      | <b>8,293,115</b>  | <b>7,248,351</b>  |
| <b>Current assets</b>                             |      |                   |                   |
| Inventories                                       | 14   | 18,112            | 24,491            |
| Trade receivables                                 | 15   | 1,932,058         | 1,815,820         |
| Prepayments                                       | 16   | 124,770           | 153,198           |
| Other receivables                                 | 17   | 93,708            | 150,872           |
| Other current assets                              | 13   | 85,449            | 49,107            |
| Restricted cash                                   | 18   | 11,989            | 17,938            |
| Cash and cash equivalents                         | 18   | 1,893,689         | 1,181,120         |
|                                                   |      | <b>4,159,775</b>  | <b>3,392,546</b>  |
| <b>Total assets</b>                               |      | <b>12,452,890</b> | <b>10,640,897</b> |

14. Financial Statements prepared in accordance with Hong Kong  
Financial Reporting Standards  
Consolidated Balance Sheet

As at 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

|                                                     | Note | As at 31 December        |                          |
|-----------------------------------------------------|------|--------------------------|--------------------------|
|                                                     |      | 2016                     | 2015                     |
| <b>EQUITY</b>                                       |      |                          |                          |
| <b>Equity attributable to owners of the Company</b> |      |                          |                          |
| Share capital                                       | 19   | 1,427,228                | 1,427,228                |
| Other reserves                                      | 20   | 879,022                  | 844,040                  |
| Retained earnings                                   | 21   | 2,810,790                | 2,473,109                |
|                                                     |      | <u>5,117,040</u>         | <u>4,744,377</u>         |
| <b>Non-controlling interests</b>                    |      | <u>296,736</u>           | <u>259,440</u>           |
| <b>Total equity</b>                                 |      | <u><u>5,413,776</u></u>  | <u><u>5,003,817</u></u>  |
| <b>LIABILITIES</b>                                  |      |                          |                          |
| <b>Non-current liabilities</b>                      |      |                          |                          |
| Borrowings                                          | 22   | 1,543,388                | 2,191,313                |
| Deferred revenue                                    | 24   | 2,129,064                | 1,446,971                |
| Deferred income tax liabilities                     | 25   | 120,259                  | 126,108                  |
| Other non-current liabilities                       | 23   | 40,000                   | 42,000                   |
| Provisions for other liabilities and charges        | 27   | 32,930                   | 32,930                   |
|                                                     |      | <u>3,865,641</u>         | <u>3,839,322</u>         |
| <b>Current liabilities</b>                          |      |                          |                          |
| Trade payables                                      | 26   | 128,254                  | 107,239                  |
| Advances from customers                             | 26   | 930,888                  | 955,507                  |
| Employee benefit obligations                        |      | 44,550                   | 34,411                   |
| Income tax and other taxes payables                 | 26   | 63,741                   | 69,080                   |
| Dividend payable                                    |      | 1,912                    | 1,438                    |
| Other payables and others                           | 26   | 633,672                  | 414,574                  |
| Borrowings                                          | 22   | 1,370,456                | 215,509                  |
|                                                     |      | <u>3,173,473</u>         | <u>1,797,758</u>         |
| <b>Total liabilities</b>                            |      | <u><u>7,039,114</u></u>  | <u><u>5,637,080</u></u>  |
| <b>Total equity and liabilities</b>                 |      | <u><u>12,452,890</u></u> | <u><u>10,640,897</u></u> |

The notes on pages 226 to 299 are integral part of these consolidated financial statements.

The financial statements on page 221 to 225 were approved by the Board of Directors on 27 March 2018 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 2017  
(All amounts in RMB thousand unless otherwise stated)

|                                                                                          | Note | Year ended 31 December<br>2017 | 2016               |
|------------------------------------------------------------------------------------------|------|--------------------------------|--------------------|
| <b>Continuing operations</b>                                                             |      |                                |                    |
| Revenue                                                                                  | 5(a) | 1,931,928                      | 1,773,814          |
| Tax expense and surcharge                                                                | 28   | (57,464)                       | (45,670)           |
| Cost of sales                                                                            | 29   | <u>(1,167,688)</u>             | <u>(1,060,624)</u> |
| <b>Gross profit</b>                                                                      |      | <b>706,776</b>                 | <b>667,520</b>     |
| Selling expenses                                                                         | 29   | (6,467)                        | (9,964)            |
| Administrative expenses                                                                  | 29   | (151,447)                      | (129,343)          |
| Other income                                                                             | 5(b) | 278,600                        | 78,627             |
| Other (losses)/gains - net                                                               | 33   | <u>(8,335)</u>                 | <u>170,694</u>     |
| <b>Operating profit</b>                                                                  |      | <b>819,127</b>                 | <b>777,534</b>     |
| Finance income                                                                           |      | 34,195                         | 23,457             |
| Finance expenses                                                                         |      | <u>(134,534)</u>               | <u>(175,123)</u>   |
| Finance expenses - net                                                                   | 31   | (100,339)                      | (151,666)          |
| Share of net loss of associates and joint ventures accounted for using the equity method |      | <u>—</u>                       | <u>(3,640)</u>     |
| <b>Profit before income tax</b>                                                          |      | <b>718,788</b>                 | <b>622,228</b>     |
| Income tax expense                                                                       | 32   | <u>(199,593)</u>               | <u>(154,322)</u>   |
| <b>Profit from continuing operations</b>                                                 |      | <b>519,195</b>                 | <b>467,906</b>     |
| <b>Profit from discontinued operation</b>                                                |      | <u>—</u>                       | <u>—</u>           |
| <b>Profit for the year</b>                                                               |      | <b>519,195</b>                 | <b>467,906</b>     |
| Profit and total comprehensive income for the year are attributable to:                  |      |                                |                    |
| Owners of the Company                                                                    |      | 508,251                        | 443,168            |
| Non-controlling interests                                                                |      | <u>10,944</u>                  | <u>24,738</u>      |
|                                                                                          |      | <u>519,195</u>                 | <u>467,906</u>     |
| <b>Earnings per share for profit from continuing operations</b>                          |      |                                |                    |
| <b>attributable to the owners of the Company (in RMB Yuan)</b>                           |      |                                |                    |
| Basic earnings per share                                                                 |      | <u>0.36</u>                    | <u>0.31</u>        |
| Diluted earnings per share                                                               |      | <u>0.36</u>                    | <u>0.31</u>        |
| <b>Earnings per share for profit attributable to the owners</b>                          |      |                                |                    |
| <b>of the Company (in RMB Yuan)</b>                                                      |      |                                |                    |
| Basic earnings per share                                                                 | 34   | <u>0.36</u>                    | <u>0.31</u>        |
| Diluted earnings per share                                                               | 34   | <u>0.36</u>                    | <u>0.31</u>        |

The notes on pages 226 to 299 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 2017  
(All amounts in RMB thousand unless otherwise stated)

|                                                       | Note | Attributable to owners of the Company |                |                   | Non-controlling interests | Total          |                  |
|-------------------------------------------------------|------|---------------------------------------|----------------|-------------------|---------------------------|----------------|------------------|
|                                                       |      | Share capital                         | Other reserves | Retained earnings |                           |                | Sub-total        |
| Balance at 1 January 2016                             |      | 1,427,228                             | 796,687        | 2,177,200         | 4,401,115                 | 217,638        | 4,618,753        |
| <b>Comprehensive income</b>                           |      |                                       |                |                   |                           |                |                  |
| – Profit for the year                                 |      | —                                     | —              | 443,168           | 443,168                   | 24,738         | 467,906          |
| <b>Transactions with owners</b>                       |      |                                       |                |                   |                           |                |                  |
| – 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)        |
| <b>Total transactions with owners</b>                 |      | —                                     | 47,353         | (147,259)         | (99,906)                  | 17,064         | (82,842)         |
| <b>Balance at 31 December 2016</b>                    |      | <u>1,427,228</u>                      | <u>844,040</u> | <u>2,473,109</u>  | <u>4,744,377</u>          | <u>259,440</u> | <u>5,003,817</u> |
| <b>Comprehensive income</b>                           |      |                                       |                |                   |                           |                |                  |
| – Profit for the year                                 |      | —                                     | —              | 508,251           | 508,251                   | 10,944         | 519,195          |
| <b>Transactions with owners</b>                       |      |                                       |                |                   |                           |                |                  |
| – Capital contribution from non-controlling interests |      | —                                     | —              | —                 | —                         | 27,132         | 27,132           |
| – Profit appropriation to statutory reserves          |      | —                                     | 34,982         | (34,982)          | —                         | —              | —                |
| – Dividends relating to 2016                          |      | —                                     | —              | (135,588)         | (135,588)                 | (780)          | (136,368)        |
| <b>Total transactions with owners</b>                 |      | —                                     | 34,982         | (170,570)         | (135,588)                 | 26,352         | (109,236)        |
| <b>Balance at 31 December 2017</b>                    |      | <u>1,427,228</u>                      | <u>879,022</u> | <u>2,810,790</u>  | <u>5,117,040</u>          | <u>296,736</u> | <u>5,413,776</u> |

The notes on pages 226 to 299 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 2017  
(All amounts in RMB thousand unless otherwise stated)

|                                                                                                        | Note      | Year ended 31 December  |                         |
|--------------------------------------------------------------------------------------------------------|-----------|-------------------------|-------------------------|
|                                                                                                        |           | 2017                    | 2016                    |
| <b>Cash flows from operating activities</b>                                                            |           |                         |                         |
| Cash generated from operations                                                                         | 36        | 1,112,494               | 484,739                 |
| Income tax paid                                                                                        |           | (209,224)               | (93,666)                |
| Bank deposit interest received                                                                         | 31        | 8,782                   | 12,597                  |
|                                                                                                        |           | <u>912,052</u>          | <u>403,670</u>          |
| Net cash inflows from operating activities                                                             |           |                         |                         |
| <b>Cash flows from investing activities</b>                                                            |           |                         |                         |
| Payments for property, plant and equipment and intangible assets                                       |           | (860,892)               | (461,166)               |
| Payments for investment                                                                                |           | (380,000)               | —                       |
| Payment of relocation costs                                                                            |           | —                       | (25,715)                |
| Proceeds from dividend income from<br>available-for-sale financial assets – unquoted equity investment |           | 400                     | —                       |
| Proceeds from disposal of property, plant and equipment                                                | 36        | 531                     | 89                      |
| Decrease in restricted cash                                                                            |           | 5,949                   | 3,362                   |
| Government grants received                                                                             |           | 726,861                 | 340,950                 |
|                                                                                                        |           | <u>(507,151)</u>        | <u>(142,480)</u>        |
| Net cash outflows in investing activities                                                              |           |                         |                         |
| <b>Cash flows from financing activities</b>                                                            |           |                         |                         |
| Repayments of borrowings                                                                               |           | (201,482)               | (1,067,925)             |
| Dividends paid to Company's shareholders                                                               |           | (135,114)               | (130,894)               |
| Interest paid                                                                                          |           | (109,720)               | (129,833)               |
| Dividends paid to non-controlling interests in subsidiaries                                            |           | (780)                   | (2,410)                 |
| Proceeds from borrowings                                                                               |           | 727,632                 | 902,943                 |
| Capital contributions by non-controlling interests                                                     |           | 27,132                  | 19,474                  |
|                                                                                                        |           | <u>307,668</u>          | <u>(408,645)</u>        |
| Net cash inflows/(outflows) in financing activities                                                    |           |                         |                         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                            |           | <b>712,569</b>          | <b>(147,455)</b>        |
| Cash and cash equivalents at beginning of year                                                         |           | <u>1,181,120</u>        | <u>1,328,575</u>        |
| <b>Cash and cash equivalents at end of year</b>                                                        | <b>18</b> | <b><u>1,893,689</u></b> | <b><u>1,181,120</u></b> |

The notes on pages 226 to 299 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 2017  
(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 Construction Bureau (Renamed as “QuJing Housing and Urban Construction Bureau”)           |
| 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                                                  |
| Karamay    | Xinjiang | 4 November 2016   | Karamay Construction Bureau                                                                      |
| Linxia     | Gansu    | 13 May 2017       | Linxia Housing and Urban Construction Bureau                                                     |
| Changsha   | Hunan    | 5 June 2017       | Ningxiang Economic & Technology Development zone Management Committee                            |
| Hefei      | Anhui    | 16 June 2017      | Hefei Urban Construction Committee                                                               |
| Dalian     | Liaoning | 1 November 2017   | Dalian Construction Bureau                                                                       |

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

**1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)**

**(a) Processing of sewage water (Continued)**

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.

**(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 2017  
(All amounts in RMB thousand unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

### 2.1 Basis of preparation

#### (a) *Compliance with HKFRS and HKCO*

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

#### (b) *Historical cost convention*

The consolidated financial statements have been prepared under the historical cost convention.

#### (c) *New and amended standards adopted by the Group*

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

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to HKAS 12, and
- Disclosure initiative – amendments to HKAS 7.

The adoption of these amendments did not have any impact on the current period or any prior periods and is not likely to affect future periods.

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### (d) *New standards and interpretations not yet adopted*

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

HKFRS 9, 'Financial instruments'

#### *Nature of change*

HKFRS 9 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.

#### *Impact*

The Group has reviewed its financial assets and liabilities and does not expect the adoption of new standard on 1 January 2018 to affect the classification and measurement of these 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 fair value through other comprehensive income (FVOCI), contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. There is no significant impact on the Group's accounting for financial assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. There will be no significant impact on the Group's disclosure.

#### *Date of adoption by group*

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

14. Financial Statements prepared in accordance with Hong Kong  
Financial Reporting Standards  
Notes to the Consolidated Financial Statements

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(d) *New standards and interpretations not yet adopted* (Continued)

HKFRS 15, 'Revenue from contracts with customers'

*Nature of change*

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.

*Impact*

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Revenue from sales of pipeline connection for recycled water - the application of HKFRS 15 requires 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. This will result in an earlier recognition of portion of the revenue than the current standard, which stipulates to recognise revenue when the connection is finished. As a consequence, the management estimates that advance from customers and prepayments will decrease by RMB342 million and RMB91 millions, trade payables and retained earnings will increase by RMB9 million and RMB171 million on 1 January 2018 due to the adoption of HKFRS 15.

*Date of adoption by group*

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation (Continued)

#### (d) *New standards and interpretations not yet adopted* (Continued)

HKFRS 16, 'Leases'

##### *Nature of change*

HKFRS 16 was issued in January 2016. It 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.

##### *Impact*

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

##### *Date of adoption by group*

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. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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



14. Financial Statements prepared in accordance with Hong Kong  
Financial Reporting Standards  
Notes to the Consolidated Financial Statements

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Principles of consolidation and equity accounting

(a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.3).

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(b) *Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Principles of consolidation and equity accounting

#### (c) *Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes 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 or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

# 14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

For the year ended 31 December 2017  
(All amounts in RMB thousand unless otherwise stated)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 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.

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Group has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the chief executive officer, the chief financial officer and the manager for corporate planning.

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation (Continued)

(b) *Transactions and balances* (Continued)

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

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

(c) *Group companies*

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

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

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

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

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 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 are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

|                           | Estimated<br>useful lives | Estimated rate<br>of residual value | Annual rate<br>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.

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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 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.

2.9 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.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 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.

### 2.11 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.

### 2.12 Financial assets

#### 2.12.1 Classification

The Group classifies its financial assets in the following categories:

- loans and receivables,
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial.

#### (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 and other receivables' and 'cash and cash equivalents' in the consolidated balance sheet (Note 2.16 and 2.17).



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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

2.12.1 Classification (Continued)

(b) Available-for-sale financial assets (Continued)

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

2.12.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

2.12.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has 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 Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

### 2.14 Impairment of financial assets

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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

#### (a) *Assets carried at amortised cost*

For loans and receivables, 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 profit or loss. 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 profit or loss.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Impairment of financial assets (Continued)

(b) *Assets classified as available for sale*

If there is objective evidence of impairment for available-for-sale financial assets, 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.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period 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 profit or loss.

2.15 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.

2.16 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within one year and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 2.12 for further information about the Group's accounting for trade receivables and note 2.14 for a description of the Group's impairment policies.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.18 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.

### 2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within one year of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### 2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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 reporting period.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 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.

Other borrowing costs are expensed in the period in which they are incurred.

2.22 Government grants

Government grants refer to the monetary or non-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. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

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 are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deducted against related costs, expenses or losses directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

For the policy loans with favourable interest rates, the Group records the loans at the actual amounts and calculates the interests by loan principals and the favourable interest rates. The interest subsidies directly received from government are recorded as a reduction of interest expenses.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### (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.

#### (b) Deferred income tax

Deferred income tax is provided in full, 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. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax (Continued)

(b) *Deferred income tax* (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.24 Employee benefits

(a) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(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)

### 2.25 Provisions

Provisions for legal claims, service warranties and other obligations 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 can be reliably estimated. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### 2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates 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*

**Timing of recognition:** Revenues from sewage water processing and heating and cooling supply services are recognised when services are rendered.

**Measurement of revenue:** The Group recognises the revenue from sewage water processing and heating and cooling supply according to the Service concession right agreements signed by the customers.



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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

(b) *Sales of environmental protection equipment*

**Timing of recognition:** The environmental protection equipment mainly relates to the achievement of technology research. 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.

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. 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.

**Measurement of revenue:** Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

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*

**Timing of recognition:** 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.

**Measurement of revenue:** The Group recognises the revenue according to the contracts signed by the customers.

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

**Timing of recognition:** 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.

**Measurement of revenue:** The revenue is recognised according to the contracts signed by the customers.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.26 Revenue recognition (Continued)

#### (e) Contract operation income

**Timing of recognition:** Revenue from contract operation income is recognised in the accounting period in which the services are rendered.

**Measurement of revenue:** Revenue from contract operation income is recognised under the accrual basis according to the service agreements.

#### (f) Technical services income

**Timing of recognition:** 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.

**Measurement of revenue:** Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

### 2.27 Interest income

Interest income is recognised using the effective interest method. When 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 is recognised using the original effective interest rate.

### 2.28 Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

### 2.29 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 2017, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, post-tax profit for the year would have been 3 million (2016: 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 (2016: RMB8 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            |
|------------------------------------------------|------------------|------------------|------------------|
| <b>At 31 December 2017</b>                     |                  |                  |                  |
| Short-term bank borrowings                     | 199,000          | 300,000          | 499,000          |
| Other current liabilities                      |                  |                  |                  |
| – Current portion of long-term bank borrowings | —                | 145,643          | 145,643          |
| – Current portion of debentures                | 698,957          | —                | 698,957          |
| – Current portion of long-term payables        | 15,688           | 9,804            | 25,492           |
| – Current portion of national debt refunds     | —                | 1,364            | 1,364            |
| Long-term borrowings                           | —                | 581,517          | 581,517          |
| Long-term payables                             | 182,031          | 81,856           | 263,887          |
| Debentures                                     | 697,984          | —                | 697,984          |
| <b>Total</b>                                   | <b>1,793,660</b> | <b>1,120,184</b> | <b>2,913,844</b> |
| <b>At 31 December 2016</b>                     |                  |                  |                  |
| Other current liabilities                      |                  |                  |                  |
| – Current portion of long-term bank borrowings | —                | 186,400          | 186,400          |
| – Current portion of long-term payables        | 16,292           | 9,635            | 25,927           |
| – Current portion of national debt refunds     | —                | 3,182            | 3,182            |
| Long-term borrowings                           | —                | 510,428          | 510,428          |
| Long-term payables                             | 193,119          | 92,089           | 285,208          |
| Debentures                                     | 1,394,313        | —                | 1,394,313        |
| National debt refunds                          | —                | 1,364            | 1,364            |
| <b>Total</b>                                   | <b>1,603,724</b> | <b>803,098</b>   | <b>2,406,822</b> |

As at 31 December 2017, 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 RMB8 million (2016: RMB6 million).

The Group analyses its interest rate exposure monthly by considering refinancing, renewal of existing positions and alternative financing.

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

|                               | 2017             | % of total loans | 2016           | % of total loans |
|-------------------------------|------------------|------------------|----------------|------------------|
| Borrowings – repricing dates: |                  |                  |                |                  |
| 6 months or less              | 93,024           | 8                | 106,270        | 13               |
| 6 – 12 months                 | 1,027,160        | 92               | 696,828        | 87               |
|                               | <u>1,120,184</u> | <u>100</u>       | <u>803,098</u> | <u>100</u>       |

(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.

(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 22). 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.

(i) Financing arrangements

The Group had access to the undrawn borrowing facilities at the end of the reporting period. Please refer to note 22(f) for detail information.

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(ii) Maturities of financial liabilities

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<br>1 year | Between<br>1 and 2 years | Between<br>2 and 5 years | Over<br>5 years  | Total            | Carrying value   |
|--------------------------------------------------|---------------------|--------------------------|--------------------------|------------------|------------------|------------------|
| <b>At 31 December 2017</b>                       |                     |                          |                          |                  |                  |                  |
| <i>Long-term bank borrowings</i>                 | 176,508             | 172,314                  | 366,598                  | 130,229          | 845,649          | 727,160          |
| <i>Long-term payables</i>                        | 27,849              | 28,582                   | 91,095                   | 314,596          | 462,122          | 289,379          |
| <i>Other current and non-current liabilities</i> | 1,409               | —                        | —                        | —                | 1,409            | 1,364            |
| <i>Trade payables</i>                            | 128,254             | —                        | —                        | —                | 128,254          | 128,254          |
| <i>Other payables</i>                            | 627,209             | —                        | —                        | —                | 627,209          | 627,209          |
| <i>Short-term bank borrowings</i>                | 519,489             | —                        | —                        | —                | 519,489          | 499,000          |
| <i>Long-term bonds</i>                           | 760,060             | 21,910                   | 718,258                  | —                | 1,500,228        | 1,396,941        |
| <i>Dividend payable</i>                          | 1,912               | —                        | —                        | —                | 1,912            | 1,912            |
|                                                  | <u>2,242,690</u>    | <u>222,806</u>           | <u>1,175,951</u>         | <u>444,825</u>   | <u>4,086,272</u> | <u>3,671,219</u> |
|                                                  | Less than<br>1 year | Between<br>1 and 2 years | Between<br>2 and 5 years | Over<br>5 years  | Total            | Carrying value   |
| <b>At 31 December 2016</b>                       |                     |                          |                          |                  |                  |                  |
| <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 payables</i>                            | 107,239             | —                        | —                        | —                | 107,239          | 107,239          |
| <i>Other payables</i>                            | 408,111             | —                        | —                        | —                | 408,111          | 408,111          |
| <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> |

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management (Continued)

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 2017, the Group's strategy is to maintain a gearing ratio below 40%. The gearing ratio of the Group is as follows:

|                                           | As at 31 December |             |
|-------------------------------------------|-------------------|-------------|
|                                           | 2017              | 2016        |
| Total borrowings                          | 2,913,844         | 2,406,822   |
| Less: Cash and cash equivalents (Note 18) | (1,893,689)       | (1,181,120) |
| Net debt                                  | 1,020,155         | 1,225,702   |
| Total equity                              | 5,413,776         | 5,003,817   |
| Total capital                             | 6,433,931         | 6,229,519   |
| Gearing ratio                             | 16%               | 20%         |

As at 31 December 2017, the gearing ratio of the Group declines slightly compared to last year.

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### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Capital management (Continued)

##### (a) Loan covenants

Under the terms of the major borrowing facilities, the group is required to comply with the following financial covenants:

- The borrower's gearing ratio must be not more than 65%, and
- The borrower shall not provide guarantee to third party before the approval of the lender in certain circumstances.

The Group has complied with these covenants through the reporting period.

#### 3.3 Fair value estimation

Financial instruments carried at fair value as at 31 December 2017 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:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in 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).

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The Group has no assets or liabilities measured at fair value as at 31 December 2017.

The carrying values of financial assets and financial liabilities approximate their fair values.



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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(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.

(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.

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## 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

|                    | 2017             | 2016             |
|--------------------|------------------|------------------|
| Revenue            | 1,931,928        | 1,773,814        |
| Other income - net | 278,600          | 78,627           |
| Total              | <u>2,210,528</u> | <u>1,852,441</u> |

(b) Analysis of other income - net

|                            | 2017           |                  | 2016           |                  |
|----------------------------|----------------|------------------|----------------|------------------|
|                            | Income         | Cost             | Income         | Cost             |
| Contract operation service | 147,706        | (111,286)        | 138,707        | (95,597)         |
| VAT refund                 | 134,540        | —                | —              | —                |
| Technical services         | 56,802         | (5,491)          | 36,099         | (4,403)          |
| Government grants          | 50,730         | —                | —              | —                |
| Rental                     | 7,695          | (4,266)          | 6,953          | (4,884)          |
| Others                     | 4,610          | (2,440)          | 3,093          | (1,341)          |
|                            | <u>402,083</u> | <u>(123,483)</u> | <u>184,852</u> | <u>(106,225)</u> |

(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.

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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

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.

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2017 and 2016 respectively is as follows:

(i) For the year ended 31 December 2017

|                                                                           | Sewage processing and<br>facility construction services |                   |                 | Recycled water<br>and pipeline<br>connection | Heating<br>and cooling<br>services | Tap water<br>operations | Sale of<br>environmental<br>protection<br>equipment | All other<br>segments | Group       |
|---------------------------------------------------------------------------|---------------------------------------------------------|-------------------|-----------------|----------------------------------------------|------------------------------------|-------------------------|-----------------------------------------------------|-----------------------|-------------|
|                                                                           | Tianjin<br>plants                                       | Hangzhou<br>plant | Other<br>plants |                                              |                                    |                         |                                                     |                       |             |
| Segment revenue                                                           | 798,592                                                 | 252,000           | 361,897         | 300,897                                      | 71,250                             | 67,401                  | 16,200                                              | 342,291               | 2,210,528   |
| Segment expense                                                           | (477,667)                                               | (184,031)         | (297,390)       | (187,260)                                    | (48,133)                           | (56,228)                | (23,005)                                            | (218,026)             | (1,491,740) |
| Results before share<br>of profits of an<br>associate                     | 320,925                                                 | 67,969            | 64,507          | 113,637                                      | 23,117                             | 11,173                  | (6,805)                                             | 124,265               | 718,788     |
| Share of investment<br>accounted for<br>using the equity<br>method        |                                                         |                   |                 |                                              |                                    |                         |                                                     |                       | —           |
| Profit before tax                                                         |                                                         |                   |                 |                                              |                                    |                         |                                                     |                       | 718,788     |
| Income tax expense                                                        |                                                         |                   |                 |                                              |                                    |                         |                                                     |                       | (199,593)   |
| Profit for the year                                                       |                                                         |                   |                 |                                              |                                    |                         |                                                     |                       | 519,195     |
| Segment assets                                                            | 5,679,104                                               | 1,147,042         | 2,690,885       | 1,549,175                                    | 593,280                            | 215,711                 | 13,508                                              | 564,185               | 12,452,890  |
| Investment<br>accounted for<br>using the equity<br>method<br>(Note 10(b)) | —                                                       | —                 | —               | —                                            | —                                  | —                       | —                                                   | —                     | —           |
| Total assets                                                              | 5,679,104                                               | 1,147,042         | 2,690,885       | 1,549,175                                    | 593,280                            | 215,711                 | 13,508                                              | 564,185               | 12,452,890  |
| Total liabilities                                                         | 4,262,871                                               | 424,806           | 791,116         | 1,099,796                                    | 240,864                            | 42,317                  | 3,583                                               | 173,761               | 7,039,114   |
| Other information                                                         |                                                         |                   |                 |                                              |                                    |                         |                                                     |                       |             |
| – Interest income<br>(Note 31)                                            | 13,504                                                  | 1,389             | 1,566           | 1,769                                        | 682                                | 20                      | —                                                   | 363                   | 19,293      |
| – Interest expenses<br>(Note 31)                                          | (77,589)                                                | (18,458)          | (26,997)        | (194)                                        | (2,785)                            | (3,345)                 | —                                                   | (2,064)               | (131,432)   |
| – Depreciation                                                            | (120)                                                   | —                 | (343)           | (37,206)                                     | (127)                              | —                       | (776)                                               | (5,163)               | (43,735)    |
| – Amortization                                                            | (126,851)                                               | (57,448)          | (86,167)        | (212)                                        | (14,889)                           | (9,815)                 | —                                                   | (1,031)               | (296,413)   |
| – Capital<br>expenditures                                                 | (54,723)                                                | (47,713)          | (700,929)       | (1,720)                                      | (141,813)                          | —                       | —                                                   | (42,130)              | (989,028)   |

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**5 SEGMENT INFORMATION (Continued)**

**(c) Operating segment analysis (Continued)**

*(ii) For the year ended 31 December 2016*

|                                                                                    | Sewage processing and<br>facility construction services |                   |                 | Recycled water<br>and pipeline<br>connection | Heating<br>and cooling<br>services | Tap water<br>operations | Sale of<br>environmental<br>protection<br>equipment | All other<br>segments | Group       |
|------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------|-----------------|----------------------------------------------|------------------------------------|-------------------------|-----------------------------------------------------|-----------------------|-------------|
|                                                                                    | Tianjin<br>plants                                       | Hangzhou<br>plant | Other<br>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<br>of profits of an<br>associate                              | 268,155                                                 | 88,438            | 91,495          | 54,323                                       | 24,599                             | 10,443                  | (3,334)                                             | 91,749                | 625,868     |
| Share of investment<br>accounted for<br>using the equity<br>method<br>(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<br>accounted for<br>using the equity<br>method<br>(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<br>(Note 31)                                                     | 16,685                                                  | 529               | 2,047           | 3,953                                        | 60                                 | 18                      | —                                                   | 165                   | 23,457      |
| – Interest expenses<br>(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<br>expenditures                                                          | (8,251)                                                 | (209,355)         | (18,832)        | (1,134)                                      | (35,187)                           | —                       | —                                                   | (1,490)               | (274,249)   |

*(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 792 million and RMB252 million is derived from two customers respectively, accounting for 36% and 11% of the Group's segment revenue (2016:RMB769 million and RMB222 million, 42% and 12%).

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6 PROPERTY, PLANT AND EQUIPMENT

|                                        | Buildings and<br>constructions<br>(note (ii)) | Machinery and<br>equipment | Motor vehicles<br>and others | Construction<br>in progress<br>(note (iii)) | Total     |
|----------------------------------------|-----------------------------------------------|----------------------------|------------------------------|---------------------------------------------|-----------|
| <i>Cost</i>                            |                                               |                            |                              |                                             |           |
| At 1 January 2016                      | 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) |
| Disposals                              | —                                             | (2,275)                    | (877)                        | —                                           | (3,152)   |
| At 31 December 2016                    | 280,859                                       | 319,111                    | 66,505                       | 4,396                                       | 670,871   |
| Transfer from investment properties    | 18,966                                        | —                          | —                            | —                                           | 18,966    |
| Additions                              | —                                             | 615                        | 2,903                        | 675,592                                     | 679,110   |
| Transfers                              | —                                             | 405                        | —                            | (405)                                       | —         |
| Transfer to intangible assets (Note 7) | —                                             | —                          | —                            | (658,926)                                   | (658,926) |
| Disposals                              | —                                             | —                          | (1,869)                      | —                                           | (1,869)   |
| At 31 December 2017                    | 299,825                                       | 320,131                    | 67,539                       | 20,657                                      | 708,152   |
| <i>Accumulated depreciation</i>        |                                               |                            |                              |                                             |           |
| At 1 January 2016                      | (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) |
| Transfer from investment properties    | (11,869)                                      | —                          | —                            | —                                           | (11,869)  |
| Charges for the year (Note (i))        | (18,819)                                      | (19,325)                   | (1,918)                      | —                                           | (40,062)  |
| Disposals                              | —                                             | —                          | 1,256                        | —                                           | 1,256     |
| At 31 December 2017                    | (102,832)                                     | (148,349)                  | (52,483)                     | —                                           | (303,664) |
| <i>Net book value</i>                  |                                               |                            |                              |                                             |           |
| At 31 December 2017                    | 196,993                                       | 171,782                    | 15,056                       | 20,657                                      | 404,488   |
| At 31 December 2016                    | 208,715                                       | 190,087                    | 14,684                       | 4,396                                       | 417,882   |

- (i) The Group's depreciation expense of property, plant and equipment of RMB36 million (2016: RMB36 million) has been charged in 'cost of sales' and RMB4 million (2016: RMB4 million) in 'administrative expenses' and 'selling expenses'.
- (ii) As at 31 December 2017, 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 RMB118 million (cost of RMB175 million) (31 December 2016: carrying amount of RMB123 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 (Continued)

(iii) Construction in progress

a Movement of significant projects of construction in progress

| Name                                                   | Budgeted amount | 31 December 2016 | Increase in current year | Transfer to property, plant and equipment | Transfer to intangible assets | 31 December 2017 | Proportion of expenditures incurred to budgeted amount | Construction Progress | Source of funds                   |
|--------------------------------------------------------|-----------------|------------------|--------------------------|-------------------------------------------|-------------------------------|------------------|--------------------------------------------------------|-----------------------|-----------------------------------|
| Tianjin                                                |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Jingu sewage water plants upgrading project          | 835,590         | —                | 34,814                   | —                                         | (34,814)                      | —                | 5%                                                     | 5%                    | Self-raised fund                  |
| Tianjin                                                |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Beichen sewage water plants upgrading project        | 462,880         | —                | 19,022                   | —                                         | (19,022)                      | —                | 5%                                                     | 5%                    | Self-raised fund                  |
| Tianjin                                                |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Jiayuan Heiniucheng Road energy station project      | 247,270         | —                | 59,546                   | —                                         | (59,546)                      | —                | 36%                                                    | 36%                   | Self-raised fund                  |
| Tianjin                                                |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Jiayuan binhai culture centre energy station project | 109,111         | 3,690            | 76,875                   | —                                         | (80,565)                      | —                | 74%                                                    | 74%                   | Self-raised fund                  |
| Fuyang                                                 |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Jieshou sewage water disposal PPP project            | 279,945         | 91               | 29,986                   | —                                         | (30,077)                      | —                | 11%                                                    | 11%                   | Self-raised fund                  |
| Shandong                                               |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Yishui and Tancheng solid waste treatment project    | 640,000         | 456              | 18,954                   | —                                         | —                             | 19,410           | 3%                                                     | 3%                    | Self-raised fund                  |
| Yingshang                                              |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Chengnan sewage water disposal project               | 176,000         | —                | 94,770                   | —                                         | (94,770)                      | —                | 34%                                                    | 34%                   | Special loan/<br>Self-raised fund |
| Changsha                                               |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Ningxiang sewage water disposal project              | 200,000         | 71               | 110,452                  | —                                         | (110,523)                     | —                | 55%                                                    | 55%                   | Special loan/<br>Self-raised fund |
| Anhui                                                  |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Yuwan sewage water disposal project                  | 277,000         | —                | 35,620                   | —                                         | (35,620)                      | —                | 13%                                                    | 13%                   | Special loan/<br>Self-raised fund |
| Xinjiang                                               |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Karamay sewage water disposal PPP project            | 497,915         | —                | 54,482                   | —                                         | (54,482)                      | —                | 11%                                                    | 11%                   | Self-raised fund                  |
| Linxia                                                 |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Linxia sewage water disposal PPP project             | 220,000         | —                | 47,631                   | —                                         | (47,631)                      | —                | 22%                                                    | 22%                   | Self-raised fund                  |
| Dalian                                                 |                 |                  |                          |                                           |                               |                  |                                                        |                       |                                   |
| – Chunliuhe sewage water disposal project              | 220,730         | —                | 83,426                   | —                                         | (83,426)                      | —                | 38%                                                    | 38%                   | Self-raised fund                  |
| Other projects                                         |                 | 88               | 10,014                   | (405)                                     | (8,450)                       | 1,247            |                                                        |                       |                                   |
| <b>Total</b>                                           |                 | <b>4,396</b>     | <b>675,592</b>           | <b>(405)</b>                              | <b>(658,926)</b>              | <b>20,657</b>    |                                                        |                       |                                   |

In 2017, borrowing costs of RMB0.3 million was capitalised in the construction in progress (2016: RMB1 million).

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7 INTANGIBLE ASSETS

|                                                 | Concession<br>rights | Technical<br>know-how<br>and software | Total       |
|-------------------------------------------------|----------------------|---------------------------------------|-------------|
| <b>Cost</b>                                     |                      |                                       |             |
| At 1 January 2016                               | 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   |
| Transfer from construction in progress (Note 6) | 658,926              | —                                     | 658,926     |
| Additions                                       | 287,574              | 23                                    | 287,597     |
| At 31 December 2017                             | 8,649,998            | 11,541                                | 8,661,539   |
| <b>Amortisation</b>                             |                      |                                       |             |
| At 1 January 2016                               | (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) |
| Charges for the year                            | (295,349)            | (474)                                 | (295,823)   |
| At 31 December 2017                             | (1,733,319)          | (6,436)                               | (1,739,755) |
| <b>Impairment</b>                               |                      |                                       |             |
| At 31 December 2016                             | (52,083)             | —                                     | (52,083)    |
| Charges for the year                            | —                    | —                                     | —           |
| At 31 December 2017                             | (52,083)             | —                                     | (52,083)    |
| <b>Net book value</b>                           |                      |                                       |             |
| At 31 December 2017                             | 6,864,596            | 5,105                                 | 6,869,701   |
| At 31 December 2016                             | 6,213,445            | 5,556                                 | 6,219,001   |

- (i) On 31 December 2017, certain concession right with a carrying amount of approximately RMB181 million (a cost of RMB302 million) (31 December 2016: carrying amount of RMB191 million with cost of RMB302 million) has been used as collateral for the loan of RMB25 million (31 December 2016: RMB50 million) (Note 22(a) (i)).
- (ii) The remaining amortisation period of concession rights ranges from 12 to 30 years.
- (iii) Amortisation of RMB295 million (2016: RMB278 million) has been charged to the 'cost of sales' and RMB1 million (2016: RMB1 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:

|                                        |                |
|----------------------------------------|----------------|
| <b>Cost</b>                            |                |
| At 1 January 2016 and 31 December 2016 | 17,841         |
| Additions                              | 22,321         |
| At 31 December 2017                    | <u>40,162</u>  |
| <b>Amortisation</b>                    |                |
| At 1 January 2016                      | (2,415)        |
| Charges for the year                   | (440)          |
| At 31 December 2016                    | (2,855)        |
| Charges for the year                   | (590)          |
| At 31 December 2017                    | <u>(3,445)</u> |
| <b>Net book value</b>                  |                |
| At 31 December 2017                    | <u>36,717</u>  |
| At 31 December 2016                    | <u>14,986</u>  |



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9 INVESTMENT PROPERTIES

**Cost**

|                                           |                 |
|-------------------------------------------|-----------------|
| At 1 January 2016 and 31 December 2016    | 137,374         |
| Additions                                 | —               |
| Transfer to property, plant and equipment | (18,966)        |
| At 31 December 2017                       | <u>118,408</u>  |
| <b>Depreciation</b>                       |                 |
| At 1 January 2016                         | (36,111)        |
| Charges for the year                      | (3,673)         |
| Decrease                                  | —               |
| At 31 December 2016                       | (39,784)        |
| Charges for the year                      | (3,673)         |
| Transfer to property, plant and equipment | 11,869          |
| At 31 December 2017                       | <u>(31,588)</u> |
| <b>Net book value</b>                     |                 |
| At 31 December 2017                       | <u>86,820</u>   |
| At 31 December 2016                       | <u>97,590</u>   |

As at 31 December 2017, the Group's investment properties include the part for rent of two office buildings which belong to the Company and Tianjin Water Recycling Co., Ltd ('the Water Recycling Company'). According to the valuation of the Group management, the fair value of the Company office building's part used for rent is about RMB122 million(2016: RMB260 million), its book value is about RMB66 million. The fair value of the Water Recycling Company office building's part used for rent is about RMB117 million(2016: RMB70 million), its book value is about RMB21 million.

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10A SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2017:

| Name                                                                      | Place of registration and operation | Nature of business and business scope                                                          | Registered capital | Equity interest held by the Group (%) 2017/2016 | Equity interest held by the non-controlling interest(%) 2017/2016 |
|---------------------------------------------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------|--------------------|-------------------------------------------------|-------------------------------------------------------------------|
| Qujing Capital Water Co., Ltd.                                            | Qujing, PRC                         | Sewage processing, tap water supply                                                            | 178,983            | 87                                              | 13                                                                |
| Guizhou Capital Water Co., Ltd.                                           | Guizhou, PRC                        | Sewage processing                                                                              | 120,000            | 95                                              | 5                                                                 |
| Baoying Capital Water Co., Ltd.                                           | Baoying, PRC                        | Sewage processing                                                                              | 53,000             | 70                                              | 30                                                                |
| Hang Zhou Tianchuang Capital Water Co., Ltd.                              | Hangzhou, PRC                       | Sewage processing                                                                              | 377,445            | 70                                              | 30                                                                |
| Tianjin Capital New Materials Co., Ltd.                                   | Tianjin, PRC                        | Production and sales of new types of construction                                              | 37,500             | 71                                              | 29                                                                |
| Fuyang Capital Water Co., Ltd.                                            | Fuyang, PRC                         | Sewage processing                                                                              | 107,100            | 100                                             | —                                                                 |
| Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.            | Hong Kong, PRC                      | Sewage processing                                                                              | 62,987             | 100                                             | —                                                                 |
| Wendeng Capital Water Co., Ltd.                                           | Wendeng, PRC                        | Sewage processing                                                                              | 61,400             | 100                                             | —                                                                 |
| Tianjin Jinghai Capital Water Co., Ltd                                    | Tianjin, PRC                        | Sewage processing                                                                              | 12,000             | 100                                             | —                                                                 |
| Tianjin Water Recycling Co., Ltd.                                         | Tianjin, PRC                        | Production and sales of recycled water and technical consulting for water recycling business   | 100,000            | 100                                             | —                                                                 |
| Xi'an Capital Water Co., Ltd.                                             | Xi'an, PRC                          | Sewage processing                                                                              | 334,000            | 100                                             | —                                                                 |
| Tianjin Caring Technology Development Co., Ltd. ("Caring")                | Tianjin, PRC                        | Environmental engineering, protection and technical consultation material                      | 20,000             | 100                                             | —                                                                 |
| Anguo Capital Water Co., Ltd.                                             | Anguo, PRC                          | Sewage and tap water                                                                           | 41,000             | 100                                             | —                                                                 |
| Wuhan Tianchuang Environmental Protection Co., Ltd                        | Wuhan, PRC                          | Sewage and tap water processing                                                                | 98,500             | 100                                             | —                                                                 |
| Tianjin Capital Water Co., Ltd                                            | Tianjin, PRC                        | Sewage processing                                                                              | 10,000             | 100                                             | —                                                                 |
| Tianjin Zichuang Project Investment Co., Ltd.                             | Tianjin, PRC                        | Construction project investment                                                                | 23,400             | 100                                             | —                                                                 |
| Tianjin Jinning Capital Water Co., Ltd.                                   | Tianjin, PRC                        | Sewage processing                                                                              | 15,000             | 100                                             | —                                                                 |
| Tianjin Capital Alternative Energy Technology Co., Ltd.                   | Tianjin, PRC                        | Energy saving, innovative energy research, consulting and transfer service property management | 191,951            | 100                                             | —                                                                 |
| Yingshang Capital Water Co., Ltd.                                         | Yingshang, PRC                      | Sewage processing                                                                              | 53,000             | 100                                             | —                                                                 |
| Shandong Capital Environmental Protection Technology Consultant Co., Ltd. | Shandong, PRC                       | Sewage processing engineering                                                                  | 192,000            | 100                                             | —                                                                 |
| Changsha Tianchuang Capital Environmental Protection Co., Ltd.            | Changsha, PRC                       | Sewage processing                                                                              | 40,250             | 81                                              | 19                                                                |
| Karamay Tianchuang Capital Water Co., Ltd.                                | Karamay, PRC                        | Sewage processing                                                                              | 120,000            | 90                                              | 10                                                                |
| Anhui Tianchuang Capital water Co., Ltd.                                  | Hefei, PRC                          | Sewage processing                                                                              | 63,670             | 100                                             | —                                                                 |
| Linxia Capital Water Co., Ltd.                                            | Linxia, PRC                         | Sewage processing                                                                              | 45,000             | 100                                             | —                                                                 |
| Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.            | Dalian, PRC                         | Sewage processing                                                                              | 94,079             | 64                                              | 36                                                                |
| Changsha Tianchuang Capital water Co., Ltd.                               | Changsha, PRC                       | Sewage processing                                                                              | 19,148             | 80                                              | 20                                                                |

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10A SUBSIDIARIES (Continued)

(i) Material non-controlling interests

The total non-controlling interests as at 31 December 2017 are RMB297 million (2016: RMB259 million), of which RMB187 million (2016: RMB175 million) is for Hang Zhou Tianchuang Capital Water Co., Ltd., RMB35 million (2016: RMB33 million) is attributed to Qujing Capital Water Co., Ltd. and RMB24 million (2016: Nil) is attributed to Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.. The non-controlling interests in respect of other subsidiaries are not material.

Summarised financial information on subsidiaries with material non-controlling interests is set out as below:

*Summarised balance sheet*

|                              | Hang Zhou Tianchuang<br>Capital Water Co., Ltd. |           | Qujing<br>Capital Water Co., Ltd. |          | Dalian Oriental Chunliuhe<br>Water Quality Purification<br>Co., Ltd. |      |
|------------------------------|-------------------------------------------------|-----------|-----------------------------------|----------|----------------------------------------------------------------------|------|
|                              | 2017                                            | 2016      | 2017                              | 2016     | 2017                                                                 | 2016 |
| Current assets               | 317,850                                         | 205,659   | 121,223                           | 108,149  | 18,599                                                               | —    |
| Current liabilities          | (171,972)                                       | (135,253) | (89,487)                          | (83,356) | (36,739)                                                             | —    |
| Total current net assets     | 145,878                                         | 70,406    | 31,736                            | 24,793   | (18,140)                                                             | —    |
| Non-current assets           | 844,299                                         | 853,169   | 280,004                           | 295,004  | 83,555                                                               | —    |
| Non-current liabilities      | (367,734)                                       | (339,010) | (56,621)                          | (80,602) | —                                                                    | —    |
| Total non-current net assets | 476,565                                         | 514,159   | 223,383                           | 214,402  | 83,555                                                               | —    |
| Net assets                   | 622,443                                         | 584,565   | 255,119                           | 239,195  | 65,415                                                               | —    |

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**10A SUBSIDIARIES (Continued)**

(i) **Material non-controlling interests (Continued)**

*Summarised income statement*

|                                                                      | Hang Zhou Tianchuang<br>Capital Water Co., Ltd. |          | Qujing Capital Water Co., Ltd. |         | Dalian Oriental Chunliuhe<br>Water Quality Purification<br>Co., Ltd. |      |
|----------------------------------------------------------------------|-------------------------------------------------|----------|--------------------------------|---------|----------------------------------------------------------------------|------|
|                                                                      | 2017                                            | 2016     | 2017                           | 2016    | 2017                                                                 | 2016 |
| Revenue                                                              | 252,381                                         | 222,941  | 103,002                        | 101,437 | 115                                                                  | —    |
| Profit before income tax                                             | 68,312                                          | 88,857   | 22,385                         | 14,718  | (9,699)                                                              | —    |
| Income tax expense                                                   | (30,435)                                        | (15,670) | (6,462)                        | (5,633) | —                                                                    | —    |
| Net profit                                                           | 37,877                                          | 73,187   | 15,923                         | 9,085   | (9,699)                                                              | —    |
| Total comprehensive income                                           | 37,877                                          | 73,187   | 15,923                         | 9,085   | (9,699)                                                              | —    |
| Total comprehensive income allocated<br>to Non-controlling Interests | 11,363                                          | 21,956   | 2,140                          | 1,221   | (3,379)                                                              | —    |
| Profit allocated to Non-controlling Interests                        | 11,363                                          | 21,956   | 2,140                          | 1,221   | (3,379)                                                              | —    |
| Dividends paid to Non-Controlling Interests                          | —                                               | —        | —                              | —       | —                                                                    | —    |

*Summarised cash flows*

|                                                | Hang Zhou Tianchuang<br>Capital Water Co., Ltd. |           | Qujing Capital Water Co., Ltd. |          | Dalian Oriental Chunliuhe<br>Water Quality Purification<br>Co., Ltd. |      |
|------------------------------------------------|-------------------------------------------------|-----------|--------------------------------|----------|----------------------------------------------------------------------|------|
|                                                | 2017                                            | 2016      | 2017                           | 2016     | 2017                                                                 | 2016 |
| Cash flows from operating activities           | 153,338                                         | 76,536    | 33,551                         | 33,846   | (13,080)                                                             | —    |
| Cash flows from investing activities           | (19,100)                                        | (126,900) | (2,113)                        | (1,296)  | (49,889)                                                             | —    |
| Cash flows from financing activities           | 20,782                                          | 71,281    | (25,160)                       | (32,041) | 75,113                                                               | —    |
| Net increase in cash and cash equivalents      | 155,020                                         | 20,917    | 6,278                          | 509      | 12,144                                                               | —    |
| Cash and cash equivalents at beginning of year | 101,618                                         | 80,701    | 7,922                          | 7,413    | —                                                                    | —    |
| Cash and cash equivalents at end of year       | 256,638                                         | 101,618   | 14,200                         | 7,922    | 12,144                                                               | —    |

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10B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

|                   | 2017     | 2016            |
|-------------------|----------|-----------------|
| Beginning of year | —        | 25,998          |
| Share of loss     | —        | (3,640)         |
| Impairment        | —        | (22,358)        |
|                   | <u>—</u> | <u>(22,358)</u> |
| End of year       | <u>—</u> | <u>—</u>        |

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.

As at 31 December 2017, the associate of the Group is immaterial to the Group in the opinion of the directors.

Summarised financial information for International Machinery

|                                                 | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------------------------|---------------------|---------------------|
| Net book value of investments                   | <u>—</u>            | <u>—</u>            |
| Attributable comprehensive income for the year: |                     |                     |
| – Net loss                                      | —                   | (3,640)             |
| – Other comprehensive income                    | —                   | —                   |
| <b>Total comprehensive income</b>               | <u>—</u>            | <u>(3,640)</u>      |

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                            | 31 December<br>2017 | 31 December<br>2016 |
|----------------------------|---------------------|---------------------|
| Unquoted equity investment | <u>2,000</u>        | <u>2,000</u>        |

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## 12 LONG-TERM RECEIVABLES

|                                        | 31 December<br>2017 | 31 December<br>2016 |
|----------------------------------------|---------------------|---------------------|
| Receivables from toll concession right | <u>294,956</u>      | <u>309,148</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<br>2017 | 31 December<br>2016 |
|-----------------------------------------------------------------|---------------------|---------------------|
| Other current assets:                                           |                     |                     |
| Input tax of VAT                                                | 47,257              | —                   |
| Concession right of a subsidiary (note(i))                      | 36,913              | 47,143              |
| Others                                                          | <u>1,279</u>        | <u>1,964</u>        |
|                                                                 | <u>85,449</u>       | <u>49,107</u>       |
| Other non-current assets:                                       |                     |                     |
| Prepayments for equity investments-Bayannur project (note(ii))  | 380,000             | —                   |
| Prepayments for construction projects                           | 209,824             | —                   |
| Acquisition of Karamay Sewage Treatment Plant Concession rights | —                   | 180,145             |
| Others                                                          | <u>8,609</u>        | <u>7,599</u>        |
|                                                                 | <u>598,433</u>      | <u>187,744</u>      |

- (i) The concession right is attributed to Anguo Capital Water Co., Ltd. In 2017, the Group provided a further impairment of RMB10 million based on the progression of negotiation with local government.
- (ii) According to the equity transaction contract signed by the Company and Bayannur Hetao Water Group Co. Ltd. on 8 December 2017, the Company agreed to pay RMB777 million to Bayannur Hetao Water Group Co. Ltd. to acquire 70% equity interests of Bayannur Jinshengyuan Water Supply and Drainage Co. Ltd.. As at 31 December 2017, the Company prepaid the equity investments of RMB380 million.

## 14 INVENTORIES

|                                       | 31 December<br>2017 | 31 December<br>2016 |
|---------------------------------------|---------------------|---------------------|
| Raw materials                         | 8,251               | 10,114              |
| Construction contract costs           | 6,249               | 10,423              |
| Finished goods                        | 3,198               | 3,766               |
| Spare parts and low value consumables | <u>414</u>          | <u>188</u>          |
|                                       | <u>18,112</u>       | <u>24,491</u>       |

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15 TRADE RECEIVABLES

|                                                               | 31 December<br>2017     | 31 December<br>2016     |
|---------------------------------------------------------------|-------------------------|-------------------------|
| Receivables from third parties                                | 1,897,344               | 1,766,851               |
| – Trade receivables                                           | 1,895,444               | 1,766,451               |
| – Notes receivable                                            | 1,900                   | 400                     |
| Receivables from related parties                              | <u>68,815</u>           | <u>71,372</u>           |
|                                                               | 1,966,159               | 1,838,223               |
| Less: allowance for impairment of trade receivables (note(b)) | <u>(34,101)</u>         | <u>(22,403)</u>         |
|                                                               | <u><u>1,932,058</u></u> | <u><u>1,815,820</u></u> |

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

|               | 31 December 2017        |                    | 31 December 2016        |                    |
|---------------|-------------------------|--------------------|-------------------------|--------------------|
|               | Amount                  | % of total balance | Amount                  | % of total balance |
| Within 1 year | 1,268,394               | 65                 | 1,275,071               | 69                 |
| 1 to 2 years  | 666,168                 | 34                 | 533,389                 | 29                 |
| 2 to 3 years  | <u>31,597</u>           | <u>1</u>           | <u>29,763</u>           | <u>2</u>           |
| Total         | <u><u>1,966,159</u></u> | <u><u>100</u></u>  | <u><u>1,838,223</u></u> | <u><u>100</u></u>  |

As at 31 December 2017, trade receivables of RMB1,635 million (31 December 2016: RMB1,485 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 2017        |                    | 31 December 2016        |                    |
|------------------------|-------------------------|--------------------|-------------------------|--------------------|
|                        | Amount                  | % of total balance | Amount                  | % of total balance |
| Over due within 1 year | 968,990                 | 59                 | 1,019,083               | 69                 |
| Over due 1 to 2 years  | 660,209                 | 40                 | 458,992                 | 31                 |
| Over due 2 to 3 years  | <u>5,405</u>            | <u>1</u>           | <u>7,360</u>            | <u>0</u>           |
| Total                  | <u><u>1,634,604</u></u> | <u><u>100</u></u>  | <u><u>1,485,435</u></u> | <u><u>100</u></u>  |

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15 TRADE RECEIVABLES (Continued)

(b) Impaired trade receivables

The aging of impaired trade receivables is analysed below:

|               | 31 December 2017 |                    | 31 December 2016 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 1,950            | 6                  | —                | —                  |
| 1 to 2 years  | 5,959            | 17                 | —                | —                  |
| 2 to 3 years  | 3,926            | 12                 | 16,992           | 76                 |
| Over 3 years  | 22,266           | 65                 | 5,411            | 24                 |
| Total         | <u>34,101</u>    | <u>100</u>         | <u>22,403</u>    | <u>100</u>         |

As at 31 December 2017, the total amount of trade receivables due from Qujing City Water General Company in respect of sewage processing fee and tap water fee was RMB20 million. The management estimated and provided RMB20 million (31 December 2016: RMB17 million) bad debt provision for those foreseeable uncollectible receivables with aging over 2 years.

As at 31 December 2017, the total amount of trade receivables due from Caring's customers in respect of sales of environmental protection equipment and contract operation was RMB10 million. The management estimated and provided RMB6 million (31 December 2016: RMB5 million) bad debt provision for those foreseeable uncollectible receivables.

As at 31 December 2017, Tianjin Capital Alternative Energy Technology Co., Ltd. provided RMB8 million (31 December 2016: Nil) of bad debt provision for one of its customers, the relevant receivables is aged within 2 years and is currently in process of litigation.

Movements on the Group's allowance for impaired trade receivables are as follows:

|                | 2017                   | 2016                   |
|----------------|------------------------|------------------------|
| At 1 January   | (22,403)               | (9,499)                |
| Additions      | <u>(11,698)</u>        | <u>(12,904)</u>        |
| At 31 December | <u><u>(34,101)</u></u> | <u><u>(22,403)</u></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.



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16 PREPAYMENTS

The aging of prepayments is analysed below:

|               | 31 December 2017 |                    | 31 December 2016 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 43,069           | 35                 | 73,690           | 48                 |
| 1 to 2 years  | 71,489           | 57                 | 51,623           | 34                 |
| Over 2 years  | 10,212           | 8                  | 27,885           | 18                 |
|               | <u>124,770</u>   | <u>100</u>         | <u>153,198</u>   | <u>100</u>         |

As at 31 December 2017, the prepayments with aging over one year amounting to RMB82 million (2016:RMB80 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.

17 OTHER RECEIVABLES

|                        | 31 December<br>2017 | 31 December<br>2016 |
|------------------------|---------------------|---------------------|
| Deposits               | 74,284              | 120,149             |
| VAT refund receivables | 9,525               | 27,810              |
| Others                 | 9,899               | 2,913               |
|                        | <u>93,708</u>       | <u>150,872</u>      |

The aging of the Group's other receivables is analysed below:

|               | 31 December 2017 |                    | 31 December 2016 |                    |
|---------------|------------------|--------------------|------------------|--------------------|
|               | Amount           | % of total balance | Amount           | % of total balance |
| Within 1 year | 66,515           | 71                 | 145,235          | 96                 |
| 1 to 2 years  | 22,850           | 24                 | 1,586            | 1                  |
| 2 to 3 years  | 1,413            | 2                  | 1,445            | 1                  |
| Over 3 years  | 2,930            | 3                  | 2,606            | 2                  |
|               | <u>93,708</u>    | <u>100</u>         | <u>150,872</u>   | <u>100</u>         |

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18 CASH AND CASH EQUIVALENTS

|                                  | 31 December<br>2017            | 31 December<br>2016            |
|----------------------------------|--------------------------------|--------------------------------|
| Cash in hand                     | 144                            | 173                            |
| Cash at bank                     | <u>1,905,534</u>               | <u>1,198,885</u>               |
|                                  | 1,905,678                      | 1,199,058                      |
| Less: Restricted cash (note (a)) | <u>(11,989)</u>                | <u>(17,938)</u>                |
| <b>Cash and cash equivalents</b> | <b><u><u>1,893,689</u></u></b> | <b><u><u>1,181,120</u></u></b> |

(a) As at 31 December 2017, RMB12 million (2016: RMB18 million) are restricted guarantee deposits.

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<br>A-shares<br>(thousands) | Circulating<br>H-shares<br>(thousands) | Total number<br>of shares<br>(thousands) | Share Capital    |
|------------------------------|----------------------------------------|----------------------------------------|------------------------------------------|------------------|
| At 31 December 2016 and 2017 | <u>1,087,228</u>                       | <u>340,000</u>                         | <u>1,427,228</u>                         | <u>1,427,228</u> |

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.

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20 OTHER RESERVES

|                                                                   | Capital<br>reserve (note(i)) | Statutory<br>reserve | Total          |
|-------------------------------------------------------------------|------------------------------|----------------------|----------------|
| Balance at 1 January 2016                                         | 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         |
|                                                                   | <hr/>                        | <hr/>                | <hr/>          |
| Balance at 31 December 2016                                       | 399,115                      | 444,925              | 844,040        |
| Profit appropriation to statutory reserve (note(ii))              | —                            | 34,982               | 34,982         |
|                                                                   | <hr/>                        | <hr/>                | <hr/>          |
| <b>Balance at 31 December 2017</b>                                | <b>399,115</b>               | <b>479,907</b>       | <b>879,022</b> |

- (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 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) Caring, 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<br>2017 | 31 December<br>2016 |
|-----------------------------------------------------|---------------------|---------------------|
| Balance at the beginning of the year                | 2,473,109           | 2,177,200           |
| Profit for the year                                 | 508,251             | 443,168             |
| Profit appropriation to statutory reserve (Note 20) | (34,982)            | (30,549)            |
| A subsidiary reorganized as a stock limited company | —                   | (16,804)            |
| Dividends declared                                  | (135,588)           | (99,906)            |
|                                                     | <u>2,810,790</u>    | <u>2,473,109</u>    |

## 22 BORROWINGS

|                                                        | 31 December<br>2017 | 31 December<br>2016 |
|--------------------------------------------------------|---------------------|---------------------|
| <i>Non-current:</i>                                    |                     |                     |
| Long-term bank borrowings (note(a))                    | 727,160             | 696,828             |
| Less: Current portion (note(a))                        | (145,643)           | (186,400)           |
|                                                        | <u>581,517</u>      | <u>510,428</u>      |
| Debentures (note(b))                                   | 1,396,941           | 1,394,313           |
| Less: Current portion (note(b))                        | (698,957)           | —                   |
|                                                        | <u>697,984</u>      | <u>1,394,313</u>    |
| Long-term payables (note(c))                           | 289,379             | 311,135             |
| Less: Current portion (note(c))                        | (25,492)            | (25,927)            |
|                                                        | <u>263,887</u>      | <u>285,208</u>      |
| Other liabilities (note(e))                            | —                   | 1,364               |
| <i>Total non-current borrowings</i>                    | <u>1,543,388</u>    | <u>2,191,313</u>    |
| <i>Current:</i>                                        |                     |                     |
| Short-term bank borrowings(note(d))                    | 499,000             | —                   |
| Current portion of long-term bank borrowings (note(a)) | 145,643             | 186,400             |
| Current portion of debentures (note(b))                | 698,957             | —                   |
| Current portion of long-term payables (note(c))        | 25,492              | 25,927              |
|                                                        | <u>1,369,092</u>    | <u>212,327</u>      |
| Current portion of other liabilities (note(e))         | 1,364               | 3,182               |
| <i>Total current borrowings</i>                        | <u>1,370,456</u>    | <u>215,509</u>      |

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22 BORROWINGS (Continued)

(a) Long-term bank borrowings

The long-term bank borrowings are summarised as below:

|                                         | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------|---------------------|---------------------|
| Borrowings from:                        |                     |                     |
| China Construction Bank                 | 199,000             | 250,000             |
| Industrial and Commercial Bank of China | 168,517             | 134,078             |
| China Minsheng Bank                     | 124,000             | 144,900             |
| Bank of China                           | 67,372              | 10,000              |
| China Development Bank                  | 64,100              | 78,600              |
| Industrial Bank                         | 46,571              | 40,250              |
| Bank of Communications                  | 30,000              | —                   |
| Agriculture Bank of China               | 27,600              | 39,000              |
|                                         | <u>727,160</u>      | <u>696,828</u>      |

Summary of terms of bank borrowings:

|                      | 31 December<br>2017 | 31 December<br>2016 |
|----------------------|---------------------|---------------------|
| Pledged (note(i))    | 25,000              | 50,000              |
| Guarantee (note(ii)) | 174,000             | 200,000             |
| Unsecured            | <u>528,160</u>      | <u>446,828</u>      |
|                      | <u>727,160</u>      | <u>696,828</u>      |

- (i) As at 31 December 2017, bank borrowing of RMB25 million (31 December 2016: RMB50 million) is secured by the Group's concession services right (Note 7).
- (ii) As at 31 December 2017, bank borrowing of RMB174 million (31 December 2016: RMB200 million) is guaranteed by City Infrastructure Construction and Investment (Note 38(6)).
- (iii) The interest rates of the long-term bank borrowings range from 4.275% to 7.830% as at 31 December 2017 (31 December 2016: 4.275% to 5.460%).
- (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) As at 31 December 2017, the Group's borrowings were repayable as follows:

|               | 31 December<br>2017 | 31 December<br>2016 |
|---------------|---------------------|---------------------|
| Within 1 year | 145,643             | 186,400             |
| 1 to 2 years  | 142,332             | 131,053             |
| 2 to 5 years  | 316,488             | 287,975             |
| Over 5 years  | 122,697             | 91,400              |
|               | <u>727,160</u>      | <u>696,828</u>      |

(vi) The carrying amounts of long-term bank borrowings approximate their fair values as at 31 December 2017 because they bear interest at prevailing market rates throughout their maturity period.

(b) **Debentures**

|                  | 31 December<br>2016 | Due<br>within 1 year | Additions | Repayment/<br>Amortization | 31 December<br>2017 |
|------------------|---------------------|----------------------|-----------|----------------------------|---------------------|
| Par value        | 1,400,000           | (700,000)            | —         | —                          | 700,000             |
| Transaction cost | (5,687)             | 1,043                | —         | 2,628                      | (2,016)             |
|                  | <u>1,394,313</u>    | <u>(698,957)</u>     | <u>—</u>  | <u>2,628</u>               | <u>697,984</u>      |

Debentures are analysed as follows:

|                  | Par value | Issue date      | Duration | Issue amount |
|------------------|-----------|-----------------|----------|--------------|
| Debenture I(i)   | 700,000   | 29 May 2013     | 5 years  | 700,000      |
| Debenture II(ii) | 700,000   | 25 October 2016 | 5 years  | 700,000      |

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22 BORROWINGS (Continued)

(b) Debentures (Continued)

Interest accrued/paid for the debentures is analysed as follows:

|                  | Interest accrued/paid |                                     |                                  | 31 December<br>2017 |
|------------------|-----------------------|-------------------------------------|----------------------------------|---------------------|
|                  | 31 December<br>2016   | Interest accrued<br>in current year | Interest paid<br>in current year |                     |
| Debenture I(i)   | 22,554                | 3,815                               | (3,815)                          | 22,554              |
| Debenture II(ii) | 4,021                 | 2,191                               | (2,191)                          | 4,021               |
|                  | <u>26,575</u>         | <u>6,006</u>                        | <u>(6,006)</u>                   | <u>26,575</u>       |

- (i) On 29 May 2013, the Company issued a debenture 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 debenture will be due for repayment on 30 May 2018. Thus it was reclassified as current portion of debentures.
- (ii) On 25 October 2016, the Company issued a debenture 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 debenture will be due for repayment on 25 October 2021. The principal will be repaid on maturity.

(c) Long-term payables

|                                                     | 31 December 2017 |                                      |                | 31 December 2016 |                                      |                |
|-----------------------------------------------------|------------------|--------------------------------------|----------------|------------------|--------------------------------------|----------------|
|                                                     | Payable          | Unrecognised<br>financing<br>charges | Total          | Payable          | Unrecognised<br>financing<br>charges | Total          |
| Payable to Sewage Company for<br>assets acquisition | <u>462,123</u>   | <u>(172,744)</u>                     | <u>289,379</u> | <u>507,827</u>   | <u>(196,692)</u>                     | <u>311,135</u> |

- (i) Summary of terms of long-term payables above:

|                   | Maturity date | Original balance | Effective<br>interest rate | Ending balance | Current portion |
|-------------------|---------------|------------------|----------------------------|----------------|-----------------|
| Sewage<br>Company | 20 March 2041 | <u>430,314</u>   | <u>5.94%</u>               | <u>289,379</u> | <u>25,492</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 was 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 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<br>2017 | 31 December<br>2016 |
|-----------|---------------------|---------------------|
| JPY       | 345,507             | 373,437             |
| US dollar | 116,616             | 134,390             |
|           | <u>462,123</u>      | <u>507,827</u>      |

(ii) The long-term payables mature as follows, and as at 31 December 2017, the current portion of long-term payables of RMB25 million was classified as current liabilities (31 December 2016: RMB26 million).

|               | 31 December<br>2017 | 31 December<br>2016 |
|---------------|---------------------|---------------------|
| Within 1 year | 25,492              | 25,927              |
| 1 to 2 years  | 24,691              | 25,070              |
| 2 to 5 years  | 70,080              | 70,901              |
| Over 5 years  | 169,116             | 189,237             |
|               | <u>289,379</u>      | <u>311,135</u>      |



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22 BORROWINGS (Continued)

(d) Short-term bank borrowings

The short-term bank borrowings are summarised as below:

|                                         | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------|---------------------|---------------------|
| Borrowings from:                        |                     |                     |
| Industrial and Commercial Bank of China | 200,000             | —                   |
| Tianjin Rutal Commercial Bank           | 150,000             | —                   |
| Bank of China                           | 100,000             | —                   |
| China Everbright Bank                   | 49,000              | —                   |
|                                         | <u>499,000</u>      | <u>—</u>            |

Summary of terms of bank borrowings:

|           | 31 December<br>2017 | 31 December<br>2016 |
|-----------|---------------------|---------------------|
| Unsecured | <u>499,000</u>      | <u>—</u>            |
|           | <u>499,000</u>      | <u>—</u>            |

(i) The carrying amounts of the Group's borrowings are denominated in RMB.

(e) Other liabilities

|                                                                                        | 31 December<br>2017 | 31 December<br>2016 |
|----------------------------------------------------------------------------------------|---------------------|---------------------|
| <i>Non-current:</i>                                                                    |                     |                     |
| – Government loan for water recycling plants construction (note(i))                    | <u>—</u>            | <u>1,364</u>        |
| <i>Current:</i>                                                                        |                     |                     |
| – Current portion of government loan for water recycling plants construction (note(i)) | <u>1,364</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 RMB1 million as at 31 December 2017 (31 December 2016: 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.

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## 22 BORROWINGS (Continued)

(f) As at the balance sheet dates the Group had the following committed undrawn borrowing facilities:

|                                         | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------|---------------------|---------------------|
| At floating rate expiring within 1 year | 3,228,000           | 1,900,000           |
| At floating rate expiring beyond 1 year | 700,000             | 1,879,800           |
|                                         | <u>3,928,000</u>    | <u>3,779,800</u>    |
| Total                                   | <u>3,928,000</u>    | <u>3,779,800</u>    |

## 23 OTHER NON-CURRENT LIABILITIES

|                             | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------|---------------------|---------------------|
| Advance for cooling service | 40,000              | 42,000              |
|                             | <u>40,000</u>       | <u>42,000</u>       |

## 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<br>2016 | Additions      | Recognised in<br>other income | 31 December<br>2017 | Relating to<br>assets/costs |
|-----------------------------------------------------------------|---------------------|----------------|-------------------------------|---------------------|-----------------------------|
| Sewage water processing plants:                                 |                     |                |                               |                     |                             |
| – Jingu                                                         | 717,306             | 625,589        | (31,362)                      | 1,311,533           | assets                      |
| – Jingu upgrading project                                       | 163,000             | —              | —                             | 163,000             | assets                      |
| – Beichen upgrading project                                     | 90,000              | —              | —                             | 90,000              | assets                      |
| – Xianyanglu-upgrading project                                  | 63,805              | —              | (2,363)                       | 61,442              | assets                      |
| – Dongjiao-upgrading project                                    | 44,772              | —              | (1,658)                       | 43,114              | assets                      |
| – Beishiqiao-upgrading project                                  | 11,792              | —              | (719)                         | 11,073              | assets                      |
| – Project of the solution and maintainess<br>of water pollution | 6,659               | —              | (82)                          | 6,577               | costs                       |
| Water recycling plants:                                         |                     |                |                               |                     |                             |
| – Jingu                                                         | 156,628             | 58,351         | (4,301)                       | 210,678             | assets                      |
| – Dongjiao                                                      | 22,431              | —              | (675)                         | 21,756              | assets                      |
| – Beichen                                                       | 19,162              | —              | (525)                         | 18,637              | assets                      |
| – Xianyanglu-water recycling project                            | 13,668              | —              | (441)                         | 13,227              | assets                      |
| Heating and cooling supply service project                      | 133,281             | 42,921         | (4,532)                       | 171,670             | assets                      |
| Others                                                          | 4,467               | 3,026          | (1,136)                       | 6,357               | costs                       |
|                                                                 | <u>1,446,971</u>    | <u>729,887</u> | <u>(47,794)</u>               | <u>2,129,064</u>    |                             |
| Total                                                           | <u>1,446,971</u>    | <u>729,887</u> | <u>(47,794)</u>               | <u>2,129,064</u>    |                             |

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25 DEFERRED TAX LIABILITIES

|                                                                       | 31 December 2017                   |                                  | 31 December 2016                   |                                  |
|-----------------------------------------------------------------------|------------------------------------|----------------------------------|------------------------------------|----------------------------------|
|                                                                       | Deferred income<br>tax liabilities | Taxable temporary<br>differences | Deferred income<br>tax liabilities | Taxable temporary<br>differences |
| Depreciation of property, plant and equipment                         | <u>120,259</u>                     | <u>481,036</u>                   | <u>126,108</u>                     | <u>504,432</u>                   |
| Deferred tax liabilities to be recovered after<br>more than 12 months | <u>120,259</u>                     |                                  | <u>126,108</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:

|                                       | 2017           | 2016           |
|---------------------------------------|----------------|----------------|
| At 1 January                          | 126,108        | 105,810        |
| Charged to income statement (Note 32) | <u>(5,849)</u> | <u>20,298</u>  |
| At 31 December                        | <u>120,259</u> | <u>126,108</u> |

(c) Unrecognised temporary differences

The unrecognised deductible temporary difference of deferred income tax assets are analyzed as follows:

|                                                               | 2017           | 2016           |
|---------------------------------------------------------------|----------------|----------------|
| Impairment of assets                                          | 147,977        | 126,049        |
| Major overhauls for the assets of concession right (note(27)) | <u>39,393</u>  | <u>39,393</u>  |
|                                                               | <u>187,370</u> | <u>165,442</u> |

(d) Unrecognised deferred income tax assets of tax losses

(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 RMB11 million (2016: RMB14 million) in respect of losses amounting to RMB43 million (2016: RMB58 million).

(ii) The amount of tax loss will expire in the following years:

| Year | 2017          | 2016          |
|------|---------------|---------------|
| 2017 | —             | 18,204        |
| 2018 | 10,372        | 10,372        |
| 2019 | 18,056        | 18,056        |
| 2020 | 6,243         | 6,243         |
| 2021 | 5,124         | 5,124         |
| 2022 | <u>3,466</u>  | —             |
|      | <u>43,261</u> | <u>57,999</u> |

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**26 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND INCOME TAX AND OTHER TAXES PAYABLES**

|                                               | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------------------------|---------------------|---------------------|
| Trade payables (note(a))                      | 128,254             | 107,239             |
| Advances from customers (note(b))             | 930,888             | 955,507             |
| Other payables and others (note(c))           | 633,672             | 414,574             |
| Income tax and other taxes payables (note(d)) | 63,741              | 69,080              |
|                                               | <u>1,756,555</u>    | <u>1,546,400</u>    |

- (a) As at 31 December 2017, 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<br>2017 | 31 December<br>2016 |
|---------------|---------------------|---------------------|
| Within 1 year | 98,128              | 95,336              |
| 1 to 2 years  | 30,126              | 11,903              |
|               | <u>128,254</u>      | <u>107,239</u>      |

- (b) Advances from customers

|                                  | 31 December<br>2017 | 31 December<br>2016 |
|----------------------------------|---------------------|---------------------|
| For pipeline connection services | 916,513             | 941,081             |
| For heating supply service       | 4,749               | 3,069               |
| For project Hangu                | 4,467               | 4,467               |
| Others                           | 5,159               | 6,890               |
|                                  | <u>930,888</u>      | <u>955,507</u>      |

As at 31 December 2017, advances of RMB701 million (31 December 2016: RMB723 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<br>2017 | 31 December<br>2016 |
|-----------------------------------------------------------------------------|---------------------|---------------------|
| Construction costs payable                                                  | 525,603             | 300,161             |
| Interest payable                                                            | 26,586              | 26,575              |
| Payable for purchases of property, plant and equipment and concession right | 13,892              | 13,892              |
| Provisions (Note 27)                                                        | 6,463               | 6,463               |
| Others                                                                      | 61,128              | 67,483              |
|                                                                             | <u>633,672</u>      | <u>414,574</u>      |

As at 31 December 2017, other payables of RMB226 million (31 December 2016: RMB123 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<br>2017 | 31 December<br>2016 |
|---------------------|---------------------|---------------------|
| Income tax payables | 39,477              | 42,589              |
| VAT payables        | 15,463              | 22,011              |
| Others              | 8,801               | 4,480               |
|                     | <u>63,741</u>       | <u>69,080</u>       |

27 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

|                                    | Major overhauls<br>for the assets of<br>concession right |
|------------------------------------|----------------------------------------------------------|
| At 1 January 2017                  | 39,393                                                   |
| Additional provisions              | —                                                        |
| Used during the year               | —                                                        |
| <b>Balance at 31 December 2017</b> | <u><u>39,393</u></u>                                     |

Analysis of total provisions:

|                     | 31 December<br>2017 | 31 December<br>2016 |
|---------------------|---------------------|---------------------|
| Non-current         | 32,930              | 32,930              |
| Current(Note 26(c)) | 6,463               | 6,463               |
|                     | <u>39,393</u>       | <u>39,393</u>       |

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## 28 TAX EXPENSES AND SURCHARGES

|                                       | 2017          | 2016          | Measurement standards             |
|---------------------------------------|---------------|---------------|-----------------------------------|
| Land use tax                          | 20,259        | 6,199         | RMB1.5-30 per square meter        |
| City construction and maintenance tax | 16,217        | 14,981        | 7% of the VAT paid                |
| Educational surcharge                 | 7,359         | 6,567         | 2%/3% of the VAT paid             |
| The property tax                      | 6,210         | 5,294         | 1.2% of 70% of its original value |
| Local educational surcharge           | 4,445         | 4,378         | 2% of the VAT paid                |
| Others                                | 2,974         | 8,251         |                                   |
|                                       | <u>57,464</u> | <u>45,670</u> |                                   |

## 29 EXPENSES BY NATURE

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

|                                                                         | 2017             | 2016             |
|-------------------------------------------------------------------------|------------------|------------------|
| Amortisation of intangible assets and land use rights                   | 296,413          | 279,022          |
| Employee benefit expenses (Note 30)                                     | 266,877          | 234,074          |
| Utilities                                                               | 254,272          | 240,200          |
| Repair and maintenance expenses                                         | 91,088           | 82,197           |
| Cost of recycling water pipeline connection service                     | 84,528           | 55,669           |
| Raw materials and consumables used                                      | 80,659           | 62,371           |
| Sewage mud processing fee                                               | 75,220           | 65,495           |
| Depreciation of property, plant and equipment and investment properties | 43,735           | 44,095           |
| Factory environment, detection and fire prevention expenses             | 26,144           | 23,793           |
| Network maintenance costs                                               | 19,175           | 14,116           |
| Consulting service expenses                                             | 12,434           | 9,588            |
| Provision of trade receivables (Note 15)                                | 11,698           | 12,904           |
| Travel, meeting and business entertainment expenses                     | 10,174           | 11,835           |
| Toll road management fee                                                | 7,120            | 7,120            |
| Office expenses                                                         | 6,458            | 5,173            |
| Expenses of secretary of the board                                      | 5,227            | 3,905            |
| Auditors' remuneration - audit                                          | 4,200            | 4,200            |
| Construction cost of environmental equipments                           | 2,762            | 7,131            |
| Other taxes                                                             | 2,021            | 3,264            |
| Impairment of intangible assets                                         | —                | 16,795           |
| Others                                                                  | 25,397           | 16,984           |
|                                                                         | <u>1,325,602</u> | <u>1,199,931</u> |

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30 EMPLOYEE BENEFIT EXPENSES

|                                            | 2017           | 2016           |
|--------------------------------------------|----------------|----------------|
| Wages and salaries                         | 175,807        | 157,421        |
| Social security costs                      | 46,204         | 43,558         |
| Pension costs – defined contribution plans | 30,910         | 20,570         |
| Other benefits                             | 13,956         | 12,525         |
|                                            | <u>266,877</u> | <u>234,074</u> |

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2016: two) director whose emoluments are reflected in the analysis shown in Note 41. The emoluments to the remaining four (2016: three) individuals during the year are as follows:

|                                                        | 2017         | 2016         |
|--------------------------------------------------------|--------------|--------------|
| Salary                                                 | 2,103        | 1,187        |
| Discretionary bonuses                                  | 505          | 790          |
| Employer's contribution to a retirement benefit scheme | 226          | 159          |
| Housing fund and other social security contributions   | 428          | 300          |
| Total                                                  | <u>3,262</u> | <u>2,436</u> |

The emoluments fell within the following bands:

|                                | 2017     | 2016     |
|--------------------------------|----------|----------|
| Emolument bands (in HK dollar) |          |          |
| HK\$500,000 – HK\$1,000,000    | 2        | 3        |
| HK\$1,000,000 – HK\$1,500,000  | <u>2</u> | <u>—</u> |

31 FINANCE EXPENSES – NET

|                                 | 2017            | 2016            |
|---------------------------------|-----------------|-----------------|
| Interest expenses of borrowings | 131,714         | 146,959         |
| Less: Capitalised interest      | <u>(282)</u>    | <u>(735)</u>    |
| Net interest expenses           | 131,432         | 146,224         |
| Less: Interest income           | <u>(19,293)</u> | <u>(23,457)</u> |
| – long-term receivables         | (10,511)        | (10,860)        |
| – bank deposits                 | <u>(8,782)</u>  | <u>(12,597)</u> |
| Exchange (gain)/loss (note(a))  | (14,902)        | 24,582          |
| Others                          | <u>3,102</u>    | <u>4,317</u>    |
|                                 | <u>100,339</u>  | <u>151,666</u>  |

- (a) For the year ended 31 December 2017, the exchange gain on the long-term payables denominated in JPY and US dollar were RMB15 million (2016: RMB25 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% (2016:16.5%) 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.

|                                                           | 2017           | 2016           |
|-----------------------------------------------------------|----------------|----------------|
| Current income tax                                        | 205,442        | 134,024        |
| (Decrease)/increase in deferred tax liabilities (Note 25) | (5,849)        | 20,298         |
|                                                           | <u>199,593</u> | <u>154,322</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:

|                                                                                                     | 2017           | 2016           |
|-----------------------------------------------------------------------------------------------------|----------------|----------------|
| Profit before tax                                                                                   | <u>718,788</u> | <u>622,228</u> |
| Tax at PRC tax rate of 25% (2016 - 25%)                                                             | 179,697        | 155,557        |
| Effect of favourable tax rates                                                                      | (2,391)        | (6,588)        |
| Income not subject to tax                                                                           | (11,086)       | (11,461)       |
| Expenses not deductible for taxation purposes                                                       | 31,087         | 7,646          |
| – Revenue recognition differences from VAT filing                                                   | 15,494         | —              |
| – Depreciation not deductible                                                                       | 15,479         | 17,791         |
| – Difference from prior year tax filing                                                             | 6,744          | (4,099)        |
| – Amortisation of tax-free government grants                                                        | (10,221)       | (9,163)        |
| – Expenses without tax invoices                                                                     | 2,475          | —              |
| – Accrued repair and maintenance expenses                                                           | 1,985          | 1,842          |
| – Research and development fee                                                                      | (1,589)        | (568)          |
| – Other                                                                                             | 720            | 1,843          |
| Utilisation of previously unrecognised tax losses                                                   | (4,063)        | (5,127)        |
| Current year deductible temporary differences for which no deferred income tax asset was recognised | 5,482          | 13,014         |
| Current year tax losses for which no deferred income tax asset was recognised                       | 867            | 1,281          |
| Income tax expense                                                                                  | <u>199,593</u> | <u>154,322</u> |
| Income tax expense is attributable to:                                                              |                |                |
| Profit from continuing operations                                                                   | <u>199,593</u> | <u>154,322</u> |
| Profit from discontinued operations                                                                 | <u>—</u>       | <u>—</u>       |



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33 OTHER (LOSSES)/GAINS - NET

|                                                                 | 2017           | 2016           |
|-----------------------------------------------------------------|----------------|----------------|
| Government grants                                               | 2,703          | 43,360         |
| Impairment of other current assets                              | (10,230)       | —              |
| Loss on disposal of property, plant and equipment               | (82)           | (681)          |
| VAT refund                                                      | —              | 142,637        |
| Impairment of investments accounted for using the equity method | —              | (22,358)       |
| Others                                                          | (726)          | 7,736          |
|                                                                 | <u>(8,335)</u> | <u>170,694</u> |

34 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the Company of RMB508 million (2016: RMB443 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2016: 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.

|                                                                      | 2017           | 2016           |
|----------------------------------------------------------------------|----------------|----------------|
| Profit attributable to owners of the Company                         | <u>508,251</u> | <u>443,168</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>0.36</u>    | <u>0.31</u>    |

35 DIVIDENDS

The dividend paid in 2017 and 2016 were RMB136 million (RMB0.095 per share) and RMB133 million (RMB0.07 per share) respectively.

A dividend in respect of the year ended 31 December 2017 will be determined after the completion of non-public offering of A shares.

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36 CASH FLOW INFORMATION

(a) Cash generated from operations

|                                                                         | 2017           | 2016           |
|-------------------------------------------------------------------------|----------------|----------------|
| Profit before income tax from                                           |                |                |
| – Continuing operations                                                 | 718,788        | 622,228        |
| – Discontinued operations                                               | —              | —              |
|                                                                         | 718,788        | 622,228        |
| <b>Profit before income tax</b>                                         | <b>718,788</b> | <b>622,228</b> |
| Adjustments for:                                                        |                |                |
| – Amortisation of deferred revenue (Note 24)                            | (46,576)       | (42,034)       |
| – Depreciation and amortisation                                         | 340,148        | 323,117        |
| – Dividends income                                                      | (400)          | —              |
| – Share of loss of investment accounted for using equity method         | —              | 3,640          |
| – Loss on disposal of property, plant and equipment (Note 33)           | 82             | 681            |
| – Impairment of intangible assets                                       | —              | 16,795         |
| – Impairment of investments accounted for using the equity method       | —              | 22,358         |
| – Impairment of other current assets                                    | 10,230         | —              |
| – Provision of trade receivables                                        | 11,698         | 12,904         |
| – Interest income on bank deposit (Note 31)                             | (8,782)        | (12,597)       |
| – Interest expense of borrowings (Note 31)                              | 131,432        | 146,224        |
| – Exchange (gain)/loss (Note 31)                                        | (14,902)       | 24,582         |
|                                                                         | 1,112,494      | 484,739        |
| Changes in working capital                                              |                |                |
| – Decrease in inventories                                               | 6,379          | 2,660          |
| – Increase in trade receivables, other receivables and prepayments      | (75,788)       | (694,355)      |
| – Increase in trade payables, advance from customers and other payables | 40,185         | 58,536         |
|                                                                         | 1,112,494      | 484,739        |

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

|                                                               | 2017 | 2016  |
|---------------------------------------------------------------|------|-------|
| Net book amount                                               | 613  | 770   |
| (Loss) on disposal of property, plant and equipment (Note 33) | (82) | (681) |
|                                                               | 531  | 89    |
| Proceeds from disposal of property, plant and equipment       | 531  | 89    |

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36 CASH FLOW INFORMATION (Continued)

(b) Net debt reconciliation

This section sets out an analysis of net debts and the movements in net debts for each of the periods presented.

|                                        |                    |                    |
|----------------------------------------|--------------------|--------------------|
| Net debts                              | 2017               | 2016               |
| Cash and cash equivalents              | 1,893,689          | 1,181,120          |
| Borrowings – repayable within one year | (1,370,456)        | (215,509)          |
| Borrowings – repayable after one year  | (1,543,388)        | (2,191,313)        |
| Net debts                              | <u>(1,020,155)</u> | <u>(1,225,702)</u> |
| Cash and cash equivalents              | 1,893,689          | 1,181,120          |
| Gross debts – fixed interest rates     | (1,793,660)        | (1,603,724)        |
| Gross debts – variable interest rates  | (1,120,184)        | (803,098)          |
| Net debts                              | <u>(1,020,155)</u> | <u>(1,225,702)</u> |

|                                  | Cash and cash<br>equivalents | Liabilities from financing activities |                               | Total              |
|----------------------------------|------------------------------|---------------------------------------|-------------------------------|--------------------|
|                                  |                              | Borrowing due<br>within 1 year        | Borrowing due<br>after 1 year |                    |
| Net debts as at 1 January 2016   | 1,328,575                    | (1,006,998)                           | (1,543,433)                   | (1,221,856)        |
| Cash flows                       | (147,455)                    | 1,008,748                             | (822,642)                     | 38,651             |
| Foreign exchange adjustments     | —                            | (2,436)                               | (26,792)                      | (29,228)           |
| Other non-cash movements         | —                            | (214,823)                             | 201,554                       | (13,269)           |
| Net debts as at 31 December 2016 | <u>1,181,120</u>             | <u>(215,509)</u>                      | <u>(2,191,313)</u>            | <u>(1,225,702)</u> |
| Cash flows                       | 712,569                      | (283,491)                             | (216,732)                     | 212,346            |
| Foreign exchange adjustments     | —                            | 835                                   | 8,645                         | 9,480              |
| Other non-cash movements         | —                            | (872,291)                             | 856,012                       | (16,279)           |
| Net debts as at 31 December 2017 | <u>1,893,689</u>             | <u>(1,370,456)</u>                    | <u>(1,543,388)</u>            | <u>(1,020,155)</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<br>2017<br>Rmb' million | 31 December<br>2016<br>Rmb' million | 31 December<br>2017<br>Rmb' million | 31 December<br>2016<br>Rmb' million |
| Sewage Water Processing Plants Project |                                     |                                     |                                     |                                     |
| – Jingu                                | 463                                 | —                                   | 333                                 | —                                   |
| – Bayannur project                     | 397                                 | —                                   | —                                   | —                                   |
| – Beicang                              | 224                                 | —                                   | 217                                 | —                                   |
| – Karamay                              | 179                                 | —                                   | 263                                 | 318                                 |
| – Dalian Chunliuhe project             | 136                                 | —                                   | —                                   | 221                                 |
| – Jieshou                              | 122                                 | —                                   | 105                                 | —                                   |
| – Yuwan project                        | 71                                  | —                                   | 158                                 | —                                   |
| – Yingshang project                    | 14                                  | 71                                  | 63                                  | 101                                 |
| – Linxia project                       | 13                                  | —                                   | 81                                  | —                                   |
| – Ningxiang project                    | 9                                   | 1                                   | 67                                  | 199                                 |
| – Hangzhou Qige                        | —                                   | —                                   | —                                   | 26                                  |
| – Dengjiacun and Beishiqiao            | —                                   | —                                   | —                                   | 4                                   |
| Solid waste Project                    |                                     |                                     |                                     |                                     |
| – Shandong Yishui                      | 13                                  | —                                   | 262                                 | —                                   |
| – Shandong                             |                                     |                                     |                                     |                                     |
| Tancheng                               | 9                                   | —                                   | 337                                 | —                                   |
| Energy Station Project                 |                                     |                                     |                                     |                                     |
| – Heiniucheng Road                     | 49                                  | 62                                  | 109                                 | 156                                 |
| – Tianjin cultural center              | 6                                   | 4                                   | 20                                  | 101                                 |
| – Houtai                               | 3                                   | —                                   | 108                                 | —                                   |
|                                        | 1,708                               | 138                                 | 2,123                               | 1,126                               |
|                                        | 1,708                               | 138                                 | 2,123                               | 1,126                               |

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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 2016 | Increase in current year | Decrease in current year | 31 December 2017 |
|----------------------|------------------|--------------------------|--------------------------|------------------|
| 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 2017 |                   | 31 December 2016 |                   |
|----------------------|------------------|-------------------|------------------|-------------------|
|                      | Shareholding (%) | Voting rights (%) | Shareholding (%) | Voting rights (%) |
| Municipal Investment | 50.14            | 50.14             | 50.14            | 50.14             |

(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

Tianjin Lecheng Properties Limited  
Tianjin City Resource Operation Co., Ltd.  
Tianjin Metro Resources Investment Co., Ltd.  
Tianjin Haihe Construction Developing Investment Co., Ltd.  
Tianjin City Investment Property Management Co. Ltd.  
Tianjin Ruiding Real Estate Co. Ltd.  
Tianjin City Road & Network Supporting Construction Investment Co. Ltd.  
Tianjin Metro Group Co. Ltd.  
Tianjin Metro Construction and Development Co. Ltd.  
Tianjin Jinrongcheng Property Management Co. Ltd.  
Tianjin Machinery & Electric Equipment Imp. & Exp. Co., Ltd.

Relationship with the Group

Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Controlled by the same ultimate holding company  
Subsidiary of the associate

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38 RELATED PARTY TRANSACTIONS (Continued)

(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        | 2017   | 2016  |
|------------------------------------------------------------------|------------------------------|--------|-------|
| Tianjin Machinery & Electric Equipment Import & Export Co., Ltd. | Purchase of equipment        | 73,150 | 1,179 |
| Tianjin Jinrongcheng Property Management Co. Ltd.                | Property management services | 6,722  | —     |
|                                                                  |                              | 79,872 | 1,179 |

Sales of services

| Related party                                              | Nature of transaction                               | 2017   | 2016   |
|------------------------------------------------------------|-----------------------------------------------------|--------|--------|
| City Infrastructure Construction and Investment            | Commission income from contract operation           | 54,685 | 57,113 |
| Tianjin Lecheng Properties Limited                         | Income from heating and cooling supply              | 38,488 | 38,996 |
| Tianjin Metro Resources Investment Co., Ltd.               | Income from heating and cooling supply              | 905    | 2,317  |
| Tianjin Metro Construction and Development Co. Ltd.        | Income from construction of recycled water pipeline | 579    | —      |
| Tianjin Haihe Construction Developing Investment Co., Ltd. | Income from sewage plant construction               | 421    | 332    |
| City Infrastructure Construction and Investment            | Commission income from construction agent service   | —      | 396    |
|                                                            |                                                     | 95,078 | 99,154 |

The Group's pricing on pipeline construction contract service and heating supply service with related parties are based on the reference price stipulated by the local government. Other transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

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38 RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(b) Guarantee:

| Guarantor                                       | Guarantee                     | Amount  | Starting date     | Due date          |
|-------------------------------------------------|-------------------------------|---------|-------------------|-------------------|
| City Infrastructure Construction and Investment | Xi'an Capital Water Co., Ltd. | 174,000 | 28 September 2008 | 27 September 2022 |

(c) Key management compensation:

|                             | 31 December<br>2017 | 31 December<br>2016 |
|-----------------------------|---------------------|---------------------|
| Key management compensation | <u>13,020</u>       | <u>10,263</u>       |

(6) Year-end balances arising from sales/purchases of services/goods

|                                                                          | 31 December<br>2017 | 31 December<br>2016 |
|--------------------------------------------------------------------------|---------------------|---------------------|
| <b>Receivables from related parties:</b>                                 |                     |                     |
| Trade receivables                                                        |                     |                     |
| – Tianjin Lecheng Properties Limited                                     | 38,171              | 35,139              |
| – City Infrastructure Construction and Investment                        | 28,570              | 29,337              |
| – Tianjin Metro Resources Investment Co.,Ltd.                            | 1,673               | 6,495               |
| – Tianjin City Resource Operation Co., Ltd.                              | 401                 | 401                 |
|                                                                          | <u>68,815</u>       | <u>71,372</u>       |
| <b>Payables to related parties:</b>                                      |                     |                     |
| Trade payables                                                           |                     |                     |
| – City Infrastructure Construction and Investment                        | 8,723               | —                   |
| Other payables                                                           |                     |                     |
| – Tianjin Machinery & Electric Equipment Imp.&Exp. Co.,Ltd.              | 15,523              | 1,179               |
|                                                                          | <u>15,523</u>       | <u>1,179</u>        |
| <b>Advances from customers</b>                                           |                     |                     |
| – Tianjin Ruiding Real Estate Co. Ltd.                                   | 3,046               | —                   |
| – Tianjin Metro Group Co. Ltd.                                           | 839                 | —                   |
| – Tianjin City Investment Property Management Co. Ltd.                   | 592                 | —                   |
| – Tianjin City Road & Network Supporting Construction Investment Co. Ltd | 484                 | —                   |
|                                                                          | <u>4,961</u>        | <u>—</u>            |

## 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)

#### (6) Year-end balances arising from sales/purchases of services/goods (Continued)

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 equipments-purchasing transactions and recycled water pipeline construction and are due within one year after the date of purchase. The payables bear no interest.

#### (7) Related parties' commitments

|                                                                         | 31 December<br>2017 | 31 December<br>2016 |
|-------------------------------------------------------------------------|---------------------|---------------------|
| Guarantee received from City Infrastructure Construction and Investment | <u>174,000</u>      | <u>200,000</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 2017, 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 1 February 2018, the Company got official approval from China Securities Regulatory Commission for non-public offering of A shares. As at the release date of this report, the non-public offering of A shares has not yet to be completed.
- (2) As at 15 March 2018, Beijing OriginWater Technology Co.,Ltd. subscribed 13,333,333 shares of Caring in cash and the subscription amount is RMB60,066,667. After the subscription, the direct shareholding ratio of the Company to Caring changed to 48%, and the indirect shareholding ratio changed to 12%.



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40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

|                                                     | As at 31 December |                  |
|-----------------------------------------------------|-------------------|------------------|
|                                                     | 2017              | 2016             |
| <b>ASSETS</b>                                       |                   |                  |
| <b>Non-current assets</b>                           |                   |                  |
| Property, plant and equipment                       | 116,730           | 125,374          |
| Intangible assets                                   | 3,310,401         | 3,382,259        |
| Land use rights                                     | 10,740            | 11,067           |
| Investment properties                               | 65,552            | 75,818           |
| Investments in subsidiaries                         | 2,081,302         | 1,746,349        |
| Available-for-sale financial assets                 | 2,000             | 2,000            |
| Long-term receivables                               | 294,956           | 309,148          |
| Other non-current assets                            | 726,085           | 237,480          |
|                                                     | 6,607,766         | 5,889,495        |
| <b>Current assets</b>                               |                   |                  |
| Inventories                                         | 4,116             | 4,333            |
| Trade receivables                                   | 1,663,178         | 1,489,342        |
| Prepayments                                         | 1,114             | 423              |
| Dividend receivables                                | 13,880            | 8,713            |
| Other receivables                                   | 228,079           | 287,697          |
| Other current assets                                | 173,452           | 103,843          |
| Restricted cash                                     | 5,151             | 5,000            |
| Cash and cash equivalents                           | 779,808           | 454,678          |
|                                                     | 2,868,778         | 2,354,029        |
| <b>Total assets</b>                                 | <b>9,476,544</b>  | <b>8,243,524</b> |
| <b>EQUITY</b>                                       |                   |                  |
| <b>Equity attributable to owners of the Company</b> |                   |                  |
| Share capital                                       | 1,427,228         | 1,427,228        |
| Other reserves                                      | 860,695           | 825,713          |
| Retained earnings                                   | 2,111,266         | 1,932,015        |
|                                                     | 4,399,189         | 4,184,956        |
| <b>Total equity</b>                                 | <b>4,399,189</b>  | <b>4,184,956</b> |

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40 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

|                                              | As at 31 December<br>2017 | 2016                    |
|----------------------------------------------|---------------------------|-------------------------|
| <b>LIABILITIES</b>                           |                           |                         |
| <b>Non-current liabilities</b>               |                           |                         |
| Borrowings                                   | 1,171,871                 | 1,889,521               |
| Deferred revenue                             | 1,719,380                 | 1,129,013               |
| Deferred income tax liabilities              | 61,929                    | 54,224                  |
| Provisions for other liabilities and charges | 32,930                    | 32,930                  |
|                                              | <u>2,986,110</u>          | <u>3,105,688</u>        |
| <b>Current liabilities</b>                   |                           |                         |
| Trade payables                               | 42,027                    | 20,089                  |
| Advances from customers                      | 5,123                     | 5,994                   |
| Employee benefit obligations                 | 26,067                    | 22,920                  |
| Income tax and other taxes payables          | 7,802                     | 38,154                  |
| Dividend payable                             | 1,912                     | 1,438                   |
| Other payables and others                    | 704,865                   | 758,358                 |
| Borrowings                                   | 1,303,449                 | 105,927                 |
|                                              | <u>2,091,245</u>          | <u>952,880</u>          |
| <b>Total liabilities</b>                     | <u>5,077,355</u>          | <u>4,058,568</u>        |
| <b>Total equity and liabilities</b>          | <u><u>9,476,544</u></u>   | <u><u>8,243,524</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 2016                    | 1,427,228        | 795,164        | 1,756,983         | 3,979,375        |
| <b>Comprehensive income</b>                  |                  |                |                   |                  |
| – Profit for the year                        | —                | —              | 305,487           | 305,487          |
| <b>Transactions with owners</b>              |                  |                |                   |                  |
| – Profit appropriation to statutory reserves | —                | 30,549         | (30,549)          | —                |
| – Dividends relating to 2015                 | —                | —              | (99,906)          | (99,906)         |
| <b>Total transactions with owners</b>        | —                | 30,549         | (130,455)         | (99,906)         |
| <b>Balance at 31 December 2016</b>           | <b>1,427,228</b> | <b>825,713</b> | <b>1,932,015</b>  | <b>4,184,956</b> |
| <b>Comprehensive income</b>                  |                  |                |                   |                  |
| – Profit for the year                        | —                | —              | 349,821           | 349,821          |
| <b>Transactions with owners</b>              |                  |                |                   |                  |
| – Profit appropriation to statutory reserves | —                | 34,982         | (34,982)          | —                |
| – Dividends relating to 2016                 | —                | —              | (135,588)         | (135,588)        |
| <b>Total transactions with owners</b>        | —                | 34,982         | (170,570)         | (135,588)        |
| <b>Balance at 31 December 2017</b>           | <b>1,427,228</b> | <b>860,695</b> | <b>2,111,266</b>  | <b>4,399,189</b> |

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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 2017 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 |              |
| <b>Chairman:</b>                            |                                                                              |            |                       |                                                      |                                                        |                                                                                                           |                       |                                                      |                                                        |              |
| Liu Yujun                                   | —                                                                            | 568        | 131                   | 107                                                  | 57                                                     | —                                                                                                         | —                     | —                                                    | —                                                      | 863          |
| <b>Executive directors:</b>                 |                                                                              |            |                       |                                                      |                                                        |                                                                                                           |                       |                                                      |                                                        |              |
| Lin Wenbo                                   | —                                                                            | —          | —                     | —                                                    | —                                                      | 46                                                                                                        | 162                   | 8                                                    | 5                                                      | 221          |
| Tang Fusheng (i)                            | —                                                                            | —          | —                     | —                                                    | —                                                      | 421                                                                                                       | —                     | 82                                                   | 43                                                     | 546          |
| Fu Yana                                     | —                                                                            | —          | —                     | —                                                    | —                                                      | 479                                                                                                       | 99                    | 107                                                  | 56                                                     | 741          |
| Peng Yilin                                  | —                                                                            | —          | —                     | —                                                    | —                                                      | 474                                                                                                       | 123                   | 107                                                  | 56                                                     | 760          |
| <b>Independent non-executive directors:</b> |                                                                              |            |                       |                                                      |                                                        |                                                                                                           |                       |                                                      |                                                        |              |
| Gao Zongze                                  | 220                                                                          | —          | —                     | —                                                    | —                                                      | —                                                                                                         | —                     | —                                                    | —                                                      | 220          |
| Wang Xiangfei                               | 220                                                                          | —          | —                     | —                                                    | —                                                      | —                                                                                                         | —                     | —                                                    | —                                                      | 220          |
| Guo Yongqing                                | 220                                                                          | —          | —                     | —                                                    | —                                                      | —                                                                                                         | —                     | —                                                    | —                                                      | 220          |
|                                             | <u>660</u>                                                                   | <u>568</u> | <u>131</u>            | <u>107</u>                                           | <u>57</u>                                              | <u>1,420</u>                                                                                              | <u>384</u>            | <u>304</u>                                           | <u>160</u>                                             | <u>3,791</u> |

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 |              |
| <b>Chairman:</b>                            |                                                                              |            |                       |                                                      |                                                        |                                                                                                           |                       |                                                      |                                                        |              |
| Liu Yujun                                   | —                                                                            | 389        | 290                   | 100                                                  | 53                                                     | —                                                                                                         | —                     | —                                                    | —                                                      | 832          |
| <b>Executive directors:</b>                 |                                                                              |            |                       |                                                      |                                                        |                                                                                                           |                       |                                                      |                                                        |              |
| 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          |
| <b>Independent non-executive directors:</b> |                                                                              |            |                       |                                                      |                                                        |                                                                                                           |                       |                                                      |                                                        |              |
| 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> |

(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.