



*Interim Report for the six
months ended 30th June 2018*



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 2018 interim report (the “**Interim 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. The Interim Report of the Company for the six months ended 30 June 2018 is unaudited.
- III. Mr. Liu Yujun, the officer in charge of the Company, Ms. Peng Yilin, the officer in charge of the accounting function, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they were responsible for the truthfulness, accuracy and completeness of the financial report contained in this Interim Report.
- IV. The proposal on profit appropriation or transfer of capital reserve fund to share capital for the reporting period as reviewed by the Board
Not applicable
- V. Risk statements for the forward-looking statement
No
- VI. Did the controlling shareholder of the Company and its related parties misappropriate the Company’s funds for non-operating purposes?
No
- VII. Did the Company provide external guarantees in violation of any specified decision-making procedures?
No
- VIII. Significant risks warning
No
- IX. Others
Unless indicated otherwise, financial figures in this Interim Report are denominated in RMB.

1. Definitions

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

“Group”	the Company and its subsidiaries
“Subsidiaries”	subsidiaries of the Company
“Company”	Tianjin Capital Environmental Protection Group Company Limited
“Tianjin Investment Group”	Tianjin City Infrastructure Construction and Investment Group Company Limited
“TCCC”	Tianjin City Construction and Communication Committee
“Jiayuanxing”	Tianjin Jiayuanxing Innovative Energy Technology Company Limited
“Water Recycling Company”	Tianjin Water Recycling Company Limited
“Baoying Company”	Baoying Capital Water Company Limited
“Fuyang Company”	Fuyang Capital Water Company Limited
“Hangzhou Company”	Hangzhou Tianchuang Capital Water Company Limited
“Xi’an Company”	Xi’an Capital Water Company Limited
“Kaiying Company”	Tianjin Kaiying Technology Development Company Limited
“Anguo Company”	Anguo Capital Water Company Limited
“Shandong Company”	Shandong Capital Environmental Protection Technology Consultant Company Limited

2. Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

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

II. CONTACT PERSON AND METHOD

	<u>Company Secretary to the Board</u>	<u>Company Secretary in Hong Kong</u>	<u>Securities Affairs Representative</u>
Name	Niu Bo	Ms. Cho Yee Yung, Mona	Guo Fengxian
Correspondence address	TCEP Building 76 Weijin South Road Nankai District, Tianjin, the People's Republic of China (the "PRC")	22/F, Worldwide House, Central, Hong Kong	TCEP Building 76 Weijin South Road Nankai District, Tianjin, the PRC
Telephone number	86-22-23930128	852-21629620	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
Email address	niu_bo@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

III. BASIC INFORMATION

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

2. Company Profile and Major Financial Indicators

IV. PLACES WHERE THE COMPANY 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 Interim Report	www.sse.com.cn
Place where the Interim Report of the Company is available for inspection	Office of the Board, 18/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC

V. PROFILE OF THE SHARES OF THE COMPANY

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

VI. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS)

(i) Major accounting data

Major accounting data	<i>Unit: 0'000 Currency: RMB</i>		
	During the reporting period (from January to June)	During the same period last year	Increase/decrease for the current reporting period as compared to the same period last year (%)
Operating income	110,779.8	98,663.5	12.28
Net profit attributable to the shareholders of the Company	28,256.5	25,505.8	10.78
Net profit attributable to the shareholders of the Company after deduction of extraordinary items	25,930.9	24,069.5	7.73
Net cash flow from operating activities	33,799.0	32,413.5	4.27
	As at the end of the current reporting period	As at the end of last year	Increase/decrease as at the end of the current reporting period as compared to the end of last year (%)
Net assets attributable to the shareholders of the Company	558,450.9	511,704.0	9.14
Total assets	1,403,480.0	1,245,289.0	12.70

2. Company Profile and Major Financial Indicators

(ii) Major financial indicators

Major financial indicators	During the reporting period (from January to June)	Unit '000	Currency: RMB	Increase/decrease for the current reporting period as compared to the same period last year (%)
Basic earnings per share (RMB/share)	0.20	0.18		11.11
Diluted earnings per share (RMB/share)	0.20	0.18		11.11
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.18	0.17		5.88
				Decreased by
				0.03 percentage
Weighted average return on net assets ratio (%)	5.28	5.31		points
				Decreased by
				0.16 percentage
Weighted average return on net assets ratio after deduction of extraordinary items (%)	4.85	5.01		points

VII. DIFFERENCES IN ACCOUNTING DATA UNDER THE DOMESTIC AND OVER-SEAS ACCOUNTING STANDARDS

Not applicable

VIII. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

Extraordinary Profit And Loss Items	Unit: 0'000	Currency: RMB
	Amount	
Profit/loss from disposal of non-current assets		-11.8
Government grants recognized in current profit and loss, except for those closely relating to business operation of the Company, in compliance with national policy and settled in certain amount which are constantly granted by government		3,085.7
Other non-operating income and expenses (excluding the above items)		100.2
Effect on minority interests		-55.0
Effect on income tax		-793.5
Total		<u>2,325.6</u>

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

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

In the first half of 2018, the principal business of the Company remained to be the water utilities business and new energy cooling and heating supply business.

In respect of the water utilities business, while consolidating the existing traditional sewage treatment, tap water supply and reclaimed water business, the Company further expanded its business scope and moved towards the field of comprehensive management of water environment: the Company has achieved breakthroughs in urban and rural integration as well as plant and network integration business in the field of sewage treatment through the successful bids for the PPP Project for the Honghu Township Sewage Treatment Plant and Pipeline Network and the PPP Project for the Shibing County Urban and Rural Sewage Treatment Plant and Pipeline Network; the Company has also achieved breakthroughs in water environment management business through the participation and the successful bids for the project of sponge city in Jiefang South Road District, Tianjin. The expansion of the above-mentioned areas of business is conducive to the further enhancement of the Company's capability in comprehensive management of water environment.

In the first half of 2018, the Company has 3 wastewater treatment projects under PPP model with total capacity of 128,000 tons per day and pipeline network of 498.1 kilometers, and has participated in and won the bid for the project of sponge city in Jiefang South Road District, Tianjin. By entering into the field of electric heating business, the newly added energy services covered an area of 250,000 m². Saved for the above, there was no material change in the scale and business model of the Company's principal business as compared with the beginning of the period.

As at the end of the reporting period, the total capacity of equity-type water utilities business of the Company amounted to 4.90 million m³ per day, among which the sewage treatment capacity, tap water capacity and recycled water capacity under the PPP model was 4.26 million m³ per day, 285,000 m³ per day, 355,000 m³ per day respectively, the sewage treatment capacity under the commissioned operation model was 543,000 m³ per day. The service areas of new energy business amounted to 2.25 million m².

(II) Explanation of Industry Situation

With increasing emphasis on the construction of ecological civilization, industries such as the environmental protection and new energy industry have huge potential for development. Integrated environmental services have become the mainstream market demand while PPP model has been further regulated and the market competition has become increasingly fierce. Based on existing capabilities, the Company will play safely to solidify existing business on one hand, and on the other hand actively seek changes and develop new businesses, enhance our service capabilities of comprehensive environmental governance and further develop our core competitiveness.

3. Company Business Overview

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

During the reporting period, there was no material change in Group's core competitiveness, which is still mainly reflected in the following four aspects: (1) our ability to operate in a safe, stable, up-to-standard and efficient manner; (2) our practical, leading, flexible and sustainable research and development capabilities; (3) our professional, dedicated, cooperative and innovative staff team; (4) our corporate reputation for being trustworthy, responsible, standardized and reliable. These four core competitiveness complement one another in which corporate integrity, diligent employees and technology innovation provide an ultimate assurance to customers, thereby resulting in the Company's positive brand influence in environmental protection.

4. Operation Discussion and Analysis

I. OPERATION DISCUSSION AND ANALYSIS

1. Analysis on the overall operation condition during the reporting period

During the reporting period, the Group commenced its work in an orderly manner according to the operating plan and strategy for 2018 as formulated by the Board:

- (1) With increasingly stringent requirements of water environment management, the Group deepened management of operation of all water projects to ensure that operation and services are safe, stable and up to standard; and meanwhile promote routine work such as agreement maintenance to ensure revenues of projects.
- (2) Further promotion of the work of market development. During the reporting period, the Group has succeeded in the bid of a total of 5 water projects, including 4 PPP projects for sewage treatment and ancillary pipeline networks distributed over places including Honghu, Baoying and Shibing County. Two of these projects involved the construction and operation of rural sewage treatment and ancillary pipeline networks; the Group has also participated in and won the bid for construction of sponge city in Jiefang South Road District, Tianjin; and acquired the electric heating project of Tianjin Miyun Road Community which covers an area of 250,000 m². The acquisition of the above projects will further enhance the Group's comprehensive service capabilities for environmental governance while increasing the scale of the Group's business and expanding its business scope.
- (3) Deepening management and innovation work. On the basis of linear management, the Group set up regional companies, marketing centers, construction management centers and operation management centers, and combined functional management authorization with business linear management to strengthen capabilities of regional comprehensive management and further enhance the Group's overall management efficiency.
- (4) The successfully issuance of 3+2 years of RMB1.1 billion corporate bonds has ensured the funding requirements of the Group's daily operations.

4. Operation Discussion and Analysis

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

In the first half of 2018, the Group recorded an operating income of RMB1,107.798 million, representing an increase of 12.28% as compared to the same period last year. The operating costs were RMB648.857 million, representing an increase of 13.75% as compared to the same period last year. Net profit attributable to the Company was RMB282.565 million, representing an increase of 10.78% as compared to the same period last year. The increase in net profit was mainly due to an increase in the operating income from sewage treatment and recycled water pipeline network connection business in the principal business as compared to the same period last year.

(1) Analysis of principal business

During the reporting period, the Group's principal business did not change significantly as compared to the previous year and was still engaged in the sewage treatment and construction of sewage treatment plants business, recycled water business, tap water supply business, new energy heating and cooling supply business, toll collection business and transformation of achievements in technology research business. It recorded income from principal business of RMB1,021.838 million, representing 92.24% of operating income of the Group.

- ① Sewage treatment and construction of sewage treatment plants business recorded an income of RMB 748.048 million, representing an increase of 7.93% as compared to the same period last year, which was mainly attributable to the increased volume of sewage water treatment. The Group processed a total of 574.63 million m³ of sewage water, representing an increase of 7.5% as compared to the same period last year. Meanwhile, certain subsidiaries increased the unit price of sewage treatment service fees;
- ② Recycled water business recorded an income of RMB 149.04 million, representing an increase of 50.83% as compared to the same period last year, which was mainly because pursuant to the new revenue standards, the Company has recognized the revenue of the reclaimed water pipeline network connection business according to the progress of project performance since 2018;
- ③ Tap water supply business recorded an income of RMB46.059 million, representing an increase of 37.44% as compared to the same period last year, and water sales volume of 23.0537 million m³, representing an increase of 10.3% as compared to the same period last year, mainly due to the newly-added Bayannaer Industrial Water Supply Project (巴彥淖爾工業供水項目) during the reporting period;
- ④ New energy cooling and heating supply service business recorded an income of RMB 36.574 million, representing an increase of 25.27% as compared with the same period of last year, mainly because the Binhai New Zone Energy Station Project (濱海新區能源站項目) was put into operation at the end of 2017 and obtained income from cooling and heating supply this year;
- ⑤ Transformation of achievements in technology research business recorded an income of RMB10.25 million, and toll collection business recorded an income of RMB31.242 million, both remained more or less the same as the same period last year.

During the reporting period, while the Company strived to expand the market for the Company's principal businesses, the Company put effort in strengthening project operation including cost control and agreement maintenance so as to minimize operating costs, and in timely adjustment of the unit price of sewage treatment service fees so as to secure incomes from projects.

(2) *Other business*

The Group's other business mainly includes the sewage treatment entrusted operation business conducted under the technical service model, as well as the technical and engineering consulting business. During the reporting period, it recorded an income of RMB85.96 million, representing a decrease of 5.14% as compared to the same period last year, which was mainly due to expiry of some project contracts which were not renewed.

(1) **Analysis of principal businesses**

Table of analysis of changes in relevant items in the financial statements

Item	Amount for the current period	Unit: 0'000 Currency: RMB	
		Amount for the same period last year	Percentage change (%)
Income from operations	110,779.8	98,663.5	12.28
Costs of operations	64,885.7	57,041.7	13.75
Sales costs	273.0	419.7	-34.95
Administrative expenses	5,563.1	5,277.3	5.42
Financial costs	7,624.9	5,277.3	44.48
Net cash flows from operating activities	33,799.0	32,413.5	4.27
Net cash flows from investing activities	-108,121.0	-44,411.7	-143.45
Net cash flows from financing activities	112,686.6	43,626.9	158.30
Research and development expenses	97.83	67.82	44.25
Assets impairment loss	0	80.6	-100
Credit impairment loss	-292.3	0	Not applicable
Other income	8,961.5	6,486.4	38.16
Investment gain	20.0	40.0	-50.00
Non-operating income	409.9	1,929.2	-78.75
Non-operating expenses	98.7	12.8	671.09
Profit or loss attributable to minority shareholders	1,892.2	1,436.1	31.76

4. Operation Discussion and Analysis

Explanation of changes in income from operations: It was mainly due to the increase in sewage treatment of existing projects and the commencement of operation of certain new sewage treatment projects and thus the income increased.

Explanation of changes in costs of operations: It was mainly because the business volume of existing and new sewage treatment projects increased and thus the costs increased.

Explanation of changes in sales costs: It was mainly due to the decrease in sales staff and thus staff expense decreased.

Explanation of changes in administrative expenses: It was mainly because business volume increased and thus staff expense increased accordingly.

Explanation of changes in financial costs: It was mainly because debt financing increased and thus interest expense increased.

Explanation of changes in net cash flows from operating activities: It was mainly due to higher operating income than that of the same period of last year.

Explanation of changes in net cash flows from investing activities: It was mainly because the investment expenses of various construction projects of the Company of the current reporting period were higher than those in the same period last year.

Explanation of changes in net cash flows from financing activities: It was mainly because the new debt financing is higher than that in the same period last year.

Explanation of changes in research and development expenses: The expenses increased mainly according to the research and development plan of this year.

Explanation of changes in asset impairment losses: It was mainly because according to the latest Enterprise Accounting Standards of the PRC, the amount of bad debt provided for in the previous years collected in the current reporting period was transferred from “asset impairment loss” account to the “credit impairment loss” account in this period.

Explanation of changes in credit impairment losses: It was mainly because according to the latest Enterprise Accounting Standards of the PRC, the amount of bad debt provided for in the previous years collected in the current reporting period was transferred from “asset impairment loss” account to the “credit impairment loss” account in this period.

Explanation of changes in other incomes: It was mainly because according to the latest Enterprise Accounting Standards of the PRC, government grants relating to daily activities were transferred from “non-operating income” account to the “other income” account in this period.

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

Explanation of changes in non-operating income: It was mainly because according to the latest Enterprise Accounting Standards of the PRC, government grants relating to daily activities were transferred from “non-operating income” account to the “other income” account in this period.

Explanation of changes in non-operating expenses: It was mainly due to asset disposal loss and other support expenses which were higher than those for the same period last year.

Explanation of changes in profit or loss attributable to minority shareholders: It was mainly due to the increase in net profit of non-wholly-owned subsidiaries in this period.

(2) Major changes in profits caused by non principal businesses

Not applicable

(3) Analysis of assets and liabilities

Unit: 0'000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Prepayments	4,528.8	0.32	12,477.0	1.00	-63.70	Mainly due to transfer of the amount for construction of Water Recycling's pipeline network in prepayment to undistributed profit according to "Accounting Standards for Business Enterprises No. 14 -Revenue" promulgated by the Ministry of Finance of the PRC.
Prepayments other receivables	4,015.3	0.29	9,370.8	0.75	-57.15	Mainly due to the recovery of project tender deposit during this period.
Other current assets	12,792.9	0.91	8,544.9	0.69	49.71	Mainly due to the increase in value-added tax to be credited arising from acquisition of assets by the Company.

4. Operation Discussion and Analysis

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Available for sale financial assets	—	—	200.0	0.02	N/A	Mainly due to transfer of the amount invested in available for sale financial assets to other equity instrument investment according to "Accounting Standards for Business Enterprises No. 37-Presentation of financial instruments".
Other equity investment	200.0	0.01	0.0	—	N/A	Mainly due to transfer of the amount invested in available for sale financial assets to other equity instrument investment according to "Accounting Standards for Business Enterprises No. 37-Presentation of financial instruments".
Construction in progress	3,027.9	0.22	2,065.7	0.17	46.58	Mainly due to increased investment in non-franchise projects during this period.
Goodwill	2,965.2	0.21	0.0	—	100.00	Mainly due to the excess of payment over the fair value for the purchase of equity of Bayannur Jinshengyuan Water Supply and Drainage Co., Ltd* (巴彥淖爾市金晟源給排水公司) ("Jinshengyuan Company").
Other non-current assets	28,725.8	2.05	59,843.3	4.81	-52.00	Mainly due to the investment amount divested from Jinshengyuan Company.
Short-term borrowings	20,000.0	1.43	49,900.0	4.01	-59.92	Mainly due to the repayment of short-term loans due.
Advance payment	6,529.0	0.47	93,088.8	7.48	-92.99	Mainly due to the reclassification of the prepayment in relation to the Water Recycling's pipeline connection project into contract liabilities according to "Accounting Standards for Business Enterprises No. 14 -Revenue" promulgated by the Ministry of Finance.

4. Operation Discussion and Analysis

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Contract liabilities	50,889.8	3.63	—	—	N/A	Mainly due to the reclassification of the prepayment in relation to the Water Recycling's pipeline connection project into contract liabilities according to "Accounting Standards for Business Enterprises No. 14 -Revenue" promulgated by the Ministry of Finance.
Wages payable	1,071.8	0.08	4,455.0	0.36	-75.94	Mainly due to the payment of year-end bonus provided for in 2017 during the period.
Non-current liabilities due within one year	21,328.9	1.52	87,009.2	6.99	-75.49	Mainly due to the repayment of medium notes due within one year during this period.
Long-term borrowings	161,902.4	11.54	58,151.7	4.67	178.41	Mainly due to additional long-term loans of the Company during this period.
Bonds payable	179,584.5	12.80	69,798.4	5.60	157.29	Mainly due to additional corporate bonds of the Company during this period.
Minority interest	68,220.6	4.86	29,673.6	2.38	129.90	Mainly due to increase in minority interest of Jinshengyuan Company.

4. Operation Discussion and Analysis

(4) Analysis of investment

During the reporting period, the Group's outbound equity investment amounted to RMB219.6312 million, an increase of RMB70.96 million when compared with the same period of last year, which mainly was invested in the new projects of water supply business.

(1) Major equity investment

- ① The Company invested RMB84.00 million for capital increase in Fuyang Capital Water Company Limited (“**Fuyang Company**”) and then Fuyang Company invested the same amount for capital increase in Jieshou Capital Water Company Limited* (“**Jieshou Company**”), and the amount would be used by Jieshou Company in the investment, construction and exclusive operation of the first batch of existing projects and additional projects for the sewage treatment PPP project in Jieshou city. After the capital increase, the registered capital of Fuyang Company was RMB191.10 million and the registered capital of Jieshou Company was RMB89.00 million, the registered address and the scope of business of both Fuyang Company and Jieshou Company remained unchanged. During the reporting period, the capital increase was completed and the PPP project intended to be invested in has been in normal operation.
- ② The Board of the Company agreed to contribute of RMB21.00 million for capital increase in Baoying Capital Water Company Limited (“**Baoying Company**”), and the amount would be used by Baoying Company in the investment, construction and operation of its Xianhe sewage treatment plant expansion project. After the capital increase, the registered capital of Baoying Company will increase from RMB53.00 million to RMB83.00 million, and the Company is still holding 70% of the equity interest in Baoying Company. During the reporting period, the capital increase has not been completed.
- ③ The Board of the Company agreed to contribute of RMB3 million by Tianjin Jiayuanxing Innovative Energy Technology Company Limited (“**Jiayuanxing**”), its wholly-owned subsidiary, to jointly establish a project company with Tianjin Kangyuan Electricity Engineering Company Limited* (天津康源電力工程有限公司) for the implementation of the heat supply ancillary project on the land parcel located at Miyun Road developed and constructed by Xiqing District of Tianjin City, and Jiayuanxing would hold 60% of the equity interest in the project company. During the reporting period, the capital contribution has not been completed.
- ④ The Board of the Company agreed to contribute of RMB111.6312 million by the Company in cash for the formation of a project company with Honghu Municipal Water Pollution Control Center* (洪湖水污染治理中心) and Tianjin Second Municipal Highway Engineering Co., Ltd.* (天津第二市政公路工程有限公司) (“**Tianjin Second Municipal**”). The project company will be responsible for the investment, construction, operation and maintenance of the PPP project for the construction, upgrading and ancillary pipe networking of the rural sewage treatment plants in Honghu City, and the Company would own 85% of equity interest in the project company. During the reporting period, the capital contribution has not been completed.

In addition to the above, in July 2018, the Board of the Company agreed Guizhou Capital Water Company Limited to invest RMB28.5643 million for the formation of a project company jointly with Guizhou Jiantianxia Construction Engineering Company Limited* (貴州建天下建築工程有限公司) and Shibing County Water Investment and Development Company Limited* (施秉縣水務投資開發有限公司). The project company will be responsible for the investment, financing, design, construction and operation of urban and rural township sewage treatment engineering PPP projects of Shibing County. The Board of the Company also agreed to invest RMB195 million to establish a project company jointly with Beijing OriginWater Technology Co., Ltd.*(北京碧水源科技股份有限公司) (the lead investor), Beijing Jiuan Construction & Investment Group Co., Ltd.*(北京久安建設投資集團有限公司) and Tianjin Haihe Construction Developing Investment Co., Ltd.*(天津市海河建設發展投資有限公司). The project company will be responsible for the investment, construction and operation of the Sponge City Project located in the Jiefang South Road area of Tianjin city.

(2) Major non-equity investment

According to the latest “Urban Sewage Treatment Plant Pollutant Discharge Standards” of Tianjin City, in June 2016, the Company conducted the expansion, upgrading and reconstruction projects for Jingu and Beicang Sewage Treatment Plants. The total investment of the projects was approximately RMB1,298 million. RMB162.39 million was invested during the reporting period, and as at the end of the reporting period, the accumulated investment was RMB224.20 million.

At present, the upgrading and reconstruction projects are in progress. During the period for the upgrading and reconstruction, effective measures will be taken to ensure that the daily operation of the original Jingu and Beicang Sewage Treatment Plants will not be affected, and sewage treatment service fees will be charged in accordance with the relevant concession agreements. Therefore, during the reporting period, no significant impact has been caused on the operating results of the Company.

4. Operation Discussion and Analysis

(5) Disposal of major assets and equity interest

Not applicable

(6) Analysis of major companies in which the company has invested

Unit: 0'000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products or Services	Registered Capital	Type of Legal Person	Percentage of interest	Asset Size	Net Assets	Net Profits
Tianjin Water Recycling Company Limited "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%	137,800	48,855	3,405
Hangzhou Tianchuang Capital Water Company Limited "Hangzhou Company"	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training.	37,745	Limited Company	70%	106,496	53,564	3,716
Xi'an Capital Water Company Limited	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%	65,735	25,565	1,822
Tianjin Jiayuanxing Innovative Energy Technology Company Limited	Tianjin	Development, consulting, service and transfer of energy conservation and new energy technology; property management services.	19,195	Limited Company	100%	57,865	28,155	572
Tianjin Kaiying Technology Development Company Limited	Tianjin	Environmental engineering management and technical advice etc.	3,333	Stock Limited Company	60%	13,213	11,270	682
Shandong Capital Environmental Protection Technology Consultant Company Limited	Shandong	Solid waste treatment.	19,200	Limited Company	100%	12,547	12,525	-143

Note 1: In the first half of 2018, Water Recycling Company achieved operating income, operating profit and net profit of RMB147.89 million, RMB43.06 million and RMB34.05 million, respectively.

Note 2: In the first half of 2018, Hangzhou Company achieved operating income, operating profit and net profit of RMB133.59 million, RMB50.46 million and RMB37.16 million, respectively.

II. OTHER DISCLOSURES

- (i) Prediction of possible loss incurred for the accumulated net profit from the beginning of the year to the end of the next reporting period, and statement of the reason and warning for material changes incurred as compared to the same period last year

Not applicable

- (ii) 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 sole capital source determines the importance and cruciality of the government credit. Whether water utilities companies can recoup the investment as scheduled and obtain the expected rate of return depends on the level of government credit. In case the risk related to government credit occurs, the project companies will face cash flow problem, which may generate capital risks such as financial risks and financing risks.

- (2) Risk of change in policy

Currently, the PRC is at the special 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 changes in policies of 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 concession period lasting for 30 years, as a social investor, the Company needs to pay attention to the risk of changes in policies.

- (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 restructuring and operational risk. On the other hand, enterprises will also face the risk of adjusting the original concession agreement

4. Operation Discussion and Analysis

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 to protect lawful interests of the Company. Meanwhile, the Company calls for further clarification on the equalities between contracting parties in the licensed operation and PPP projects, tightening of the performance assessment and profit distribution mechanisms, and provision of the government's obligations of contract performance and payment as well as the investors' rights to get reasonable returns under the laws, so as to reduce the risk related to government credit and the financial risks of the investors.

(2) Strengthen comprehensive risk management

Determining the target for comprehensive risk management, establishing an institution for comprehensive risk management organization body to identify, analyze, assess and deal with possible risks hidden in different business links; improving the risk management system by establishing a sound comprehensive risk management system for the Company; enhancing the timeliness of the Company's comprehensive risk management and conducting 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 sector, the Company conducts management and control over productional and operational risks in a timely manner through standardized management pursuant to 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 and equipment for the proper preservation of the value of assets to achieve stable operation; perfecting the monitoring of quality and promoting control over the whole process to ensure that end products could meet the standards of emission discharge; formulating water environment remedial plans and safe production plans so as to ensure careful operation and best environmental performance of the Company under force majeure conditions.

(iii) Other disclosures

On 1 February 2018, the Company received the “Approval on the Non-public Issuance of Shares of Tianjin Capital Environmental Protection Group Company Limited (關於核准天津創業環保集團股份有限公司非公開發行股票的批覆)” (Zheng Jian Xu Ke [2018] No. 145) (the “Approval”) from the China Securities Regulatory Commission (the “CSRC”), pursuant to which the Company was approved to make the non-public issuance of not more than 285,445,686 new A Shares (the “Non-Public Issuance of A shares”) and the Approval shall be valid for six months from the issue date of the approval (18 January 2018).

After obtaining the Approval, the Company had been actively pushing ahead with the issuance. However, due to the changes in the capital market environment, the Company was unable to complete the Non-public Issuance within the six-month validity period specified in the Approval (i.e., on or before 17 July 2018). The approval of the CSRC on the non-public issuance of shares has lapsed automatically.

As the Non-public Issuance is not completed as scheduled, to safeguard the interests of all shareholders of the Company, the Company will, in view of actual situation, guarantee the construction of the investment project with its own funds and funds raised by debt financing and other means, and it is expected that it will not have a material impact on the production and operation of the Company.

Pursuant to the relevant rules and regulations, if the Company wishes to propose an A Shares equity financing plan in the future, it shall reconvene a board meeting and a general meeting to consider the relevant issuance proposal and seek approval from the CSRC upon making disclosure in accordance with the relevant regulations.

5. Major Events

I. SHAREHOLDERS' GENERAL MEETINGS

Session of meeting	Date of meeting	Date of disclosure of the resolutions
2017 Annual General Meeting	14 May 2018	14 May 2018

II. PROPOSAL ON PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND

Proposed interim profit distribution plan or plan to transfer capital reserve fund into share capital

Profit distribution or transfer of capital reserve fund into share capital	No
Number of bonus shares per 10 shares (shares)	0
Amount of dividend per 10 shares (RMB) (inclusive of tax)	0
Number of shares converted per 10 shares (shares)	0

III. PERFORMANCE OF COMMITMENT

Commitment of the Company's ultimate controller, shareholders, related parties, purchasers and the Company during or subsisted in the reporting period

Not applicable

IV. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

Not applicable

V. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

Not applicable

VI. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION

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

Not applicable

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

Unit: 0'000 Currency: RMB

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)	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)
Jiayuanxing	Tianjin Qudong Media Co., Ltd. (天津驅動傳媒有限公司)	None	Litigation	Note 1	1,203	None	In second instance litigation	None	None
Anguo Company	Anguo City Government	None	Litigation	Note 2	5,142.32	None	Case Closed	None	Note 2

Note 1: From 2012 to 2016, Jiayuanxing and Tianjin Qudong Media Co., Ltd. (hereinafter referred to as "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 RMB12,030,000. 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 (hereinafter referred to as the "Hexi Court") in Tianjin. On 3 April 2018, the Hexi Court made a first-instance judgment, ruling that Tianjin Qudong Media paid Jiayuanxing cooling and heating energy fees of RMB12,030,000 from 2012 to 2016, and relevant expenses such as case acceptance fees and preservation fees. Both parties refused to accept the first-instance judgment and appealed to the Tianjin Second Intermediate People's Court. They are now awaiting the second instance judgment.

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 RMB390,874.5, 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).

5. Major Events

VII. PUNISHMENTS TO AND RECTIFICATION OF THE LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ULTIMATE CONTROLLER AND PURCHASERS

Not applicable

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

Not applicable

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

Not applicable

X. MATERIAL CONNECTED TRANSACTIONS

(I) Connected Transactions in the Ordinary Course of Business

Not applicable

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

(II) Connected Transactions in respect of Acquisition of Assets or Acquisition or Disposal of Equity

Not applicable

(III) Material Connected Transactions in respect of Joint External Investment

Not applicable

(IV) Creditor's Rights and Debts with Connected Parties

Not applicable

5. Major Events

XI. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

1. Custody, Contracting and Leasing

Not applicable

2. 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 by the Company	
Total amount of guarantees provided to subsidiaries during the reporting period	14,500
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	113,444.20
Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)	
Total amount of guarantees (A+B)	113,444.20
Percentage of the total amount of guarantees to the net assets of the Company (%)	18.10
Of which:	
Amount of guarantees provided to shareholders, de facto controller and their connected parties (C)	0
Amount of debt guarantees provided directly or indirectly to guaranteed entities with a gearing ratio of over 70% (D)	0
The amount of total guarantees in excess of 50% of net assets (E)	0
Total of the above three classes of guarantees (C+D+E)	0

XII. POVERTY ALLEVIATION WORK OF THE COMPANY

In collaboration with poverty alleviation work arrangements of Tianjin City, the Company intends to participate as an assisting unit in poverty alleviation tasks in Nancai Village, Xixiaoliang Village and Wengyangfang Village in Nancai Town, Wuqing District, Tianjin City. In January 2018, the Company contributed RMB100,000 as the initial fund for those poverty alleviation tasks, and the Company will sign alleviation and donation agreements with the local governments for performing its social responsibility in targeted poverty alleviation.

XIII. CONVERTIBLE BONDS

Not applicable

5. Major Events

XIV. EXPLANATION ON ENVIRONMENTAL PROTECTION OF THE COMPANY AND ITS SUBSIDIARIES CLASSIFIED AS KEY POLLUTANT DISCHARGING ENTITIES AS PUBLISHED BY ENVIRONMENTAL PROTECTION AUTHORITIES

The Company is mainly engaged in sewage treatment business which is to collect and treat domestic and municipal sewage by removing the main pollutants therein to the extent that the treated sewage meets the discharge standards stipulated by the national government, and then discharge the treated sewage to rivers via sewage outfalls as designated after assessment. The advanced treatment of part of the tail water is further performed for reclaimed water supply. According to the aforesaid effluent water quality standards for sewage treatment plants stipulated by the national 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, given the fact that most of sewage treatment projects have a designed capacity of exceeding 20,000 tonnes/day, they are classified as key pollutant discharging entities by local environmental protection authorities.

As at the end of the reporting period, the Company owned 26 sewage treatment projects, each of which has 1 effluent outfall. According to the relevant agreements, currently the effluent water quality required is First Grade A, 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.

No.	Pollutant index requiring basic control	First Grade standard		
		Class A	Class B	
1.	COD	50	60	
2.	BOD ₅	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 (P)	Constructed before 31 December 2006	1	1.5
		Constructed after 1 January 2006	0.5	1
10.	Chroma (dilution multiple)	30	30	
11.	PH	6-9		
12.	Number of fecal coliforms/L	10 ³	10 ⁴	

During the reporting period, the discharge concentrations of the major pollutant indexes requiring basic control 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 13,700 tonnes, 3,600 tonnes, 3,900 tonnes, 7,000 tonnes, 600 tonnes and 200 tonnes, respectively. For the first half of the year, in aggregate, environmental pollutants, namely, the COD, BOD, SS, total nitrogen, ammonia nitrogen and total phosphorus, were eliminated by approximately 189,200 tonnes, 85,400 tonnes, 97,600 tonnes, 20,600 tonnes, 20,100 tonnes and 7,800 tonnes, respectively, representing a significant contribution to water environmental governance.

1. Construction and operation of pollution prevention and facilities

During the reporting period, the sewage treatment projects under the subsidiaries of the Company strictly complied with the relevant emission standards with all the effluent water quality and odor, noise and solid emission meeting the requirements. The projects' operation was also in normal condition. The construction of the sewage treatment facilities followed the relevant construction procedures and quality standards and made normal progress.

On 15 August 2018, the General Office of the Ministry of Ecology and Environment issued the Circular on the Supervision and Handling of the Overly Excessive Discharge of Major Pollutants from 26 Pollutant Discharge Entities (《關於對26家排污單位主要污染物排放嚴重超標問題掛牌督辦的通知》), including the Xianyanglu Sewage Treatment Plant of the Company.

Pursuant to the Urban Sewage Treatment Plant Pollutant Discharge Standard (《城鎮污水處理廠污染物排放標準》) (DB12599-2015) promulgated in Tianjin in September 2015, sewage treatment plants in operation should commence implementation on 1 January 2018. To meet this requirement, the Xianyanglu Sewage Treatment Plant was relocated to another place for construction and upgrading, and the project is still under construction. Pursuant to the requirement of the Rectification Plan for the Implementation of the Feedback from Inspectors of the Central First Environmental Protection Inspectorate in Tianjin (《天津市貫徹落實中央第一環境保護督察組督察反饋意見整改方案》) issued in August 2017, "at the end of April 2019, the Xianyanglu Sewage Treatment Plant shall complete relocation and upgrading and meet the requirements for commissioning. Strengthen the operation and management of the sewage plant, organize and consider taking intensive measures to improve the sewage treatment effect". In accordance with the rectification requirements, in 2017, the Company began to develop a targeted "one plant, one strategy" technical optimization and operation measures, which started to be implemented at the end of 2017. On the basis of the existing facilities, the Xianyanglu Sewage Treatment Plant has made efforts to improve the effluent quality through the implementation of the "one plant, one strategy plan".

After receiving the notice of supervision and handling, the Company immediately organized a special meeting and actively reported to and communicated with the superior authorities to study and deepen the technical plan of "one plant, one strategy". The Company will fulfill its information disclosure obligations in a timely manner in strict accordance with the provisions and requirements of relevant laws and regulations based on the progress of the matter.

5. Major Events

2. Environmental Impact Assessment of Construction Projects and Other Administrative Permissions for Environmental Protection

The Company's sewage treatment projects in operation all have gone through the relevant EIA procedures and obtained approvals and environmental acceptances upon construction completion from the competent environmental authorities.

3. Emergency Plans for Sudden Environmental Incidents

During the reporting period, all key pollutant discharge entities of the Company's sewage treatment business prepared the "Environmental Emergency Response Plan for Sewage Treatment Plants" with reference to the "Interim Measures for the Administration of Environmental Emergency Response Plan", and the plan was approved by and filed with the local environmental protection bureau.

4. Environmental Self-monitoring Program

During the reporting period, all key pollutant discharge entities of the Company's sewage treatment business carried out environmental self-monitoring in accordance with the relevant requirements of the government. At the beginning of each year, each entity prepares the "Environmental Self-monitoring Program" for the year based on the actual situation. The monitoring program mainly specifies the monitoring items, monitoring points, monitoring methods, monitoring frequency and analysis methods, etc. The monitoring results are publicized on the local environmental information monitoring platform. Each entity will also file the self-monitoring program and adjustments and changes with the local environmental protection bureau in a timely manner.

5. Other environmental information that should be disclosed

N/A

(1) Description of environmental information of companies other than those falling under key pollutant discharge entities

N/A

(2) Explanation of Reasons for Non-disclosure of Environmental information of companies other than those falling under key pollutant discharge entities

N/A

(3) Description of the follow-up progress or changes in the disclosure of environmental information during the reporting period

N/A

XV. DETAILS OF OTHER MAJOR EVENTS

- (I) As compared with the previous accounting period, the changes made to accounting policies, accounting estimates and auditing method, the reasons for such changes and their effect

On 31 March 2017, the Ministry of Finance of the PRC has promulgated the “Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments”, the “Accounting Standard for Business Enterprises No. 23 — Transfer of Financial Assets”, the “Accounting Standard for Business Enterprises No. 24 — Hedge Accounting” and the “Accounting Standard for Business Enterprises No. 37 — Presentation and Reporting of Financial Instruments” (collectively referred hereafter as the “**New Financial Instruments Standards**”) and required that enterprises listed in both domestic and overseas markets and enterprises listed overseas and adopting the International Financial Reporting Standards or the Accounting Standards for Business Enterprises of the PRC in preparation of financial statements shall apply the abovementioned accounting standards from 1 January 2018.

Also, the Ministry of Finance of the PRC issued the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises for the Year 2018 (Cai Kuai [2018] No.15) on 15 June 2018 and issued the relevant Application Guidances in July 2018.

Due to the abovementioned requirements of the Ministry of Finance of the PRC, the Company has made corresponding changes to the original accounting policies and implemented the said accounting treatments from the effective date as required by the aforesaid provisions. Save for the New Financial Instruments Standards and abovementioned notice and application guidances, other accounting policies of the Company remain unchanged.

The assesment of the Company’s management of the impact of the implementation of the New Financial Instruments Standards on its financial statements includes: (1) receivables will be assessed in accordance with such standards, and the probability-weighted amount of the present difference between the cash flow of receivables and the cash flow expected to be received (weighted at the risk of default) will be measured taking into account of reasonable and valid information on, among other things, past events, current status and the forecast of future economic conditions to recognize the expected credit losses, i.e., amounts of provision for bad debts; and (2) the Company shall measure the investment in Tianjin Beifang Rencaigang Company Limited (天津市北方人才港股份有限公司) at fair value instead of cost and shall make fair value and impairment assessment in respect of such investment at the year end.

Upon the implementation of the New Financial Instrumnts Standards, this will cause the Company to adjust the information regarding financial instruments presented under such standards, including classification and measurement of financial instruments, but will not materially affect the net profits, total assets and net assets of the Company for the current and preceding periods.

5. Major Events

- (II) The occurrence of material accounting errors during the reporting period requiring ratification and restatement, the respective amounts, the reasons and their effect

Not applicable

- (III) Other events

The following events are disclosed and explained in accordance with the relevant rules of the Stock Exchange:

1. *Corporate Governance Code*

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

2. *Audit committee*

An audit committee was approved to be established by the Board on 31 July 2001 for the review and supervision of the financial reporting procedures of the Company as well as internal control. The audit committee of the current session are composed of Mr. Guo Yongqing, Mr. Gao Zongze and Mr. Wang Xiangfei, all of whom were independent non-executive directors. The audit committee and the management have reviewed the accounting principles and method adopted by the Group and discussed matters relating to internal control and financial reporting, and their discussion covered the unaudited interim results and the interim report. The audit committee accepted the financial accounting principles, standards and method adopted by the Group for the preparation of the unaudited interim accounts for the six months ended 30 June 2018.

3. *Liquidity and financial resources*

The borrowing needs of the Group do not vary with seasons. As at 30 June 2018, there was no outstanding bank borrowings and interests that were due. Details about the bank borrowings of the Group are set out in the Notes to the Condensed Consolidated Financial Statements as at 30 June 2018.

According to the accounting reports prepared in accordance with the PRC’s Accounting Standards for Business Enterprises, the liquidity ratio as at 30 June 2018 was 55.35%.

4. *Foreign Exchange Risk*

The operations and customers of the Group's Subsidiaries are located in the PRC. Most of the operating assets and transactions are settled in RMB, and all of the Group's borrowings are denominated in RMB. Therefore, the Group has no significant foreign exchange risk. The sole foreign exchange exposure of the Group arises from long-term payables. Such long-term payables were resulted from the Asset Transfer Agreement signed between the Company and TSC for the purchase of assets generated from foreign bank loans, involving mainly US dollars (USD) and Japanese Yen (Yen).

As at 30 June 2018, a 5% appreciation or depreciation of RMB against USD, with other factors being constant, would result in an increase or decrease of RMB3 million (30 June 2017: RMB2 million) in the net profit of the Group. As at 30 June 2018, a 5% appreciation or depreciation of RMB against Yen, with other factors being constant, would result in an increase or decrease of RMB7 million (30 June 2017: RMB4 million) in the net profit of the Group.

The interest rate risk of the Group mainly came from interest-bearing debts such as borrowings, long-term payables and debentures. The Group has borrowings, long-term payables and debentures. Borrowings and long-term payables at floating rates expose the Group to interest rate risk on cash flows, while borrowings, long-term payables and debentures at fixed rates expose the Group to interest rate risk on fair value. As at 30 June 2018, if the loan interest rate increases/decreases by 1%, with other factors being constant, the net profit of the Group for the period will decrease/increase by RMB7 million (30 June 2017: RMB4 million). The Group also considers to minimize its interest rate exposure monthly by way of refinancing, renewal of existing positions and alternative financing.

5. *Employee and Emolument Policy*

As at 30 June 2018, the Group had 1,551 employees. During the reporting period, total remuneration paid to employees of the Group was approximately RMB94.37 million. The Group adopted a wage system in accordance with post ranks. The remuneration of the Company's employees under annual salary system is pegged with his/her post rank and the economic benefits to the Company. The remuneration of the Company's employees under monthly salary system is pegged with his/her post rank, length of service, education background and skills as well as the economic benefits to the Company.

6. *Contingent Liabilities*

The Group did not have any significant contingent liabilities as at 30 June 2018.

5. Major Events

7. *Rights of Debt*

As at 30 June 2018, pursuant to the “Licensed Operation Agreement in respect of the Four Sewage Water Treatment Plants of the Company including Jizhuangzi” entered into between the Group, Tianjin Water Authority Bureau and TCCC which started to perform from 1 January 2014, the total receivables of the Group from Tianjin Water Authority Bureau amounted to RMB1,588 million, representing approximately 36.16% of the total market capital of the Group as at 30 June 2018.

8. *Charge on Assets*

During the reporting period, the Group did not create any charges on assets.

9. *Acquisition and Disposal of Subsidiaries*

During the reporting period, the Group did not acquire or dispose of any of its Subsidiaries.

10. *Details of Preferred Shares*

The Company had no preferred shares during the reporting period.

11. *Repurchase, Sale or Redemption of the Company’s Listed Securities*

The Company and its subsidiaries did not repurchase, sell or redeem any of the listed securities of the Company during the reporting period.

12. *Model Code for Securities Transactions by the Directors*

The Company has adopted a code of conduct regarding the securities transactions by the Directors and Supervisors on the terms exactly the same as the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 to the Listing Rules. The Company, having made specific enquiries to all the Directors and Supervisors, confirmed that all the Directors and Supervisors have complied with the code of conduct regarding the securities transactions by the Directors and Supervisors during the reporting period.

6. Details of Changes in Ordinary Shares and Shareholders

I. CHANGES IN SHARE CAPITAL

There were no changes in the total number of shares and share capital structure of the Company during the reporting period.

II. DETAILS OF SHAREHOLDERS

(i) Total number of shareholders:

Total number of ordinary shareholders at the end of the reporting period 102,128

Note: As of 30 June 2018, the total number of shareholders of the Company is 102,128, among which 64 shareholders are shareholders 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 (Full Name)	Shareholdings of the top ten shareholders					
	Increase/ decrease during the reporting period (shares)	Number of shares held at the end of the period (shares)	Percentage (%)	Number of restricted shares held (shares)	Pledged or frozen	Nature of the shareholder
Tianjin Municipal Investment Company Limited	0	715,565,186	50.14	0	Nil	State-owned legal person
HKSCC Nominees Limited	8,000	337,832,900	23.67	0	Unknown	Unknown
Cental Huijin Investment Co., Ltd.	0	14,169,800	0.99	0	Nil	State-owned legal person
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	1,735,000	3,330,000	0.23	0	Nil	Unknown
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)	1,154,525	3,035,308	0.21	0	Nil	Unknown
Hong Kong Securities Clearing Company Limited	1,602,380	2,356,424	0.17	0	Nil	Unknown
Wu Zuoja	2,241,219	2,241,219	0.16	0	Nil	Unknown
Shenyang Railway Coal Group Co., Ltd.	0	1,500,000	0.11	0	Nil	State-owned legal person
Yu Ronglin	235,400	1,480,000	0.10	0	Nil	Unknown
NSSF Portfolio 402 (全國社保基金四零二組合)	938,099	1,349,999	0.09	0	Nil	Unknown

6. Details of Changes in Ordinary Shares and Shareholders

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

Name of shareholder	Number of non-restricted circulating shares held (Shares)	Type and number of shares	
		Type	Number (Shares)
Tianjin Municipal Investment Company Limited	715,565,186	Ordinary RMB Shares	715,565,186
HKSCC Nominees Limited	337,832,900	H Shares	337,832,900
Cental Huijin Investment Co., Ltd.	14,169,800	Ordinary RMB Shares	14,169,800
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	3,330,000	Ordinary RMB Shares	3,330,000
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)	3,035,308	Ordinary RMB Shares	3,035,308
Hong Kong Securities Clearing Company Limited	2,356,424	Ordinary RMB Shares	2,356,424
Wu Zuojia	2,241,219	Ordinary RMB Shares	2,241,219
Shenyang Railway Coal Group Co., Ltd.	1,500,000	Ordinary RMB Shares	1,500,000
Yu Ronglin	1,480,000	Ordinary RMB Shares	1,480,000
NSSF Portfolio 402 (全國社保基金四零二組合)	1,349,999	Ordinary RMB Shares	1,349,999

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 single client who owned 5% or more interest in the total share capital of the Company.

(2) The top ten shareholders are not strategic investors of the Company.

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

Not applicable

III. CHANGES IN THE CONTROLLING SHAREHOLDER OR THE ULTIMATE CONTROLLER

Not applicable

IV. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, the following entity, other than the Directors, Supervisors or chief executive of the Company, had interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

Name of Shareholder	Capacity	Number and class of securities (Note)	Approximate	Approximate
			percentage in the relevant class of securities	percentage in the total issued share capital of the Company
Tianjin Municipal Investment Company Limited	Beneficial owner	715,565,186 A Shares (L)	65.82%	50.14%
ISIS Asset Management Plc.	Investment manager	17,286,000 H Shares (L)	5.08%	1.21%

Note: The letter "L" represents the entity's long positions in the shares. The letter "S" represents the entity's short positions in the shares.

Save as disclosed above, there is no person (other than the Directors, Supervisors or chief executive of the Company) who, as at 30 June 2018, had an interest and/or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

7. Directors, Supervisors, Senior Management and Staff

I. CHANGES IN SHAREHOLDINGS

- (i) Changes in shareholdings of the existing and resigned Directors, Supervisors and senior management during the reporting period

Not applicable

- (ii) Equity incentives granted to Directors, Supervisors and senior management of the Company during the reporting period

Not applicable

- (iii) 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 30 June 2018, 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, 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 Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name	The 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	The Company	Beneficial owner	959 domestic shares (non-restricted circulating shares) (L)	0.00007%

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

Save as disclosed above, none of the Directors, Supervisors or chief executives of the Company, who, as at 30 June 2018, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of 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, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

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

Name	Position held	Changes
Chen Yinxing	Director	Resignation
An Pindong	Director	Resignation
Yu Zhongpeng	Director	Appointment
Han Wei	Director	Appointment

8. Details of the Company's Bonds

I. BASIC DETAILS OF BONDS OF THE COMPANY

Unit: Yuan 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	2016-10-25	2021-10-25	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
Public Issue of Corporate Bonds of Tianjin Capital Environmental Protection Group Company Limited in 2018 (Phase I)	18津創01	143609.SH	2018-04-25	2023-04-26	1,100,000,000	5.17	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

During the reporting period, "16津創01" and "18津創01" issued by the Company were not due to pay any interest for the year nor were due to redeem.

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 who satisfy requirements of laws and regulations.

"18津創01" contains terms which offer the issuer's option to adjust the coupon rate and investors' put option but does not have other special terms such as exchangeable terms. During the reporting period, both the issuer's option to adjust the coupon rate and investors' put option were not triggered for "18津創01". Issuing targets of "18津創01" are eligible investors who satisfy requirements of laws and regulations.

II. CONTACT PERSON AND MEANS OF COMMUNICATION OF TRUSTEE AND MEANS OF COMMUNICATION OF CREDIT RATING AGENCY OF BONDS OF THE COMPANY

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

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

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 the end of the reporting period, the proceed was fully utilized as intended as mentioned in the prospectus and the remaining amount was RMB0.

Scale of issue of “18津創01” reached RMB1,100 million, the proceed reached RMB1,097.36 million (net of underwriting fees). As of the end of reporting period, RMB781,533,157.59 of the proceed was utilized as intended as mentioned in the prospectus and the remaining amount was RMB315,826,842.41.

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 23 May 2018, United Credit Rating Co., Ltd. completed ongoing credit rating for the Company, “16津創01” and “18津創01”; long term credit of the Company maintained at “AA+”, the credit rating outlook maintained at “stable”, credit rating of the bond loans, “16津創01” and “18津創01”, maintained at “AA+”. Investors should be aware that relevant disclosure has been made in the Shanghai Stock Exchange website (<http://www.sse.com.cn>).

8. Details of the Company's Bonds

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” and “18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 said 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 has issued its “16津創01” trustee management report (2017) on 26 June 2018 and the disclose has been made on the Shanghai Stock Exchange website (<http://www.sse.com.cn>).

VIII. ACCOUNTING DATA AND FINANCIAL INDICATORS AS OF THE END OF THE REPORTING PERIOD AND AT THE END OF LAST YEAR (OR THIS REPORTING PERIOD AND THE CORRESPONDING PERIOD OF LAST YEAR)

Major Indicators	At the end of	At the end of	Increase/decrease	Reasons of change
	this reporting period	last year	at the end of this reporting period as compared to the end of last year (%)	
Current ratio	2.61	1.31	99.04	Current liabilities were lower as mid-term notes which mature within a year were repaid during the reporting period
Quick ratio	2.57	1.31	96.18	Current liabilities were lower as mid-term notes which mature within a year were repaid during the reporting period
Assets liability ratio	55.35	56.53	-2.09	Total assets increased
Debt repayment ratio	100	100	—	
	This reporting period	The corresponding	Increase/decrease	Reasons of change
	(January to June)	period of last year	for this reporting period as compared to the corresponding period of last year (%)	
EBITDA-To-Interest coverage ratio	7.30	9.51	-23.24	Financial cost increased
Interest coverage rate	100	100	—	

IX. EXPLANATION ON OVERDUE DEBTS

Not applicable

During the reporting period the Company has no overdue debt.

8. Details of the Company's Bonds

X. 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.

XI. 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 RMB7.101 billion from various banks, namely, ICBC, Minsheng Bank and Agricultural Bank, of which credit facility, approximately RMB1.471 billion was utilized with a remaining balance of approximately RMB5.630 billion. During the reporting period, the Company has repaid each bank loans as scheduled and there is no renewal or concession for such loans.

XII. PERFORMANCE OF RELEVANT AGREEMENT OR COMMITMENT IN THE CORPORATE BOND PROSPECTUS 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.

XIII. MAJOR ISSUES OF THE COMPANY OCCURRED AND ITS EFFECT ON THE OPERATION AND SOLVENCY OF THE COMPANY

During the reporting period, the Company's cumulative new borrowings for the current year as of the end of April 2018 exceeded 40% of the net assets as of the end of previous year, and the 「Announcement on the Cumulative New Borrowings for the Current Year Exceeding Forty Percent of the Net Assets as of the End of Previous Year of Tianjin Capital Environmental Protection Group Company Limited」 (《天津創業環保集團股份有限公司當年累計新增借款超過上年末淨資產的百分之四十公告》) was published on Shanghai Stock Exchange website (<http://www.sse.com.cn>). As of the end of the reporting period, the Company's cumulative new borrowings for the current year amounted to RMB 1,179.6668 million which represented 21.79% of the net assets as of the end of previous year. The said new borrowings satisfy the requirements of the relevant laws and regulations and they were made within the scope of the Company's normal operation activities. The financial position of the Company is stable. At present, principal and interests of all our debts are repaid on time. The above new loans will not adversely affect the Company's operating condition and solvency.

Apart from what have mentioned, 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》)。

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Interim Condensed Consolidated Balance Sheet

AS at 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

		As at	
	Note	30 June 2018 Unaudited	31 December 2017 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	6	394,493	404,488
Investment property	6	84,983	86,820
Intangible assets	6	8,323,822	6,869,701
Land use rights	6	36,050	36,717
Financial assets at fair value through other comprehensive income	22	2,000	—
Available-for-sale financial assets	22	—	2,000
Long-term receivables	9	285,786	294,956
Other non-current assets		287,258	598,433
		<u>9,414,392</u>	<u>8,293,115</u>
Current assets			
Inventories		16,199	18,112
Trade receivables	8	2,097,761	1,932,058
Other current assets		127,929	85,449
Other receivables		40,153	93,708
Prepayments		45,288	124,770
Cash and cash equivalents		2,277,335	1,893,689
Restricted cash		15,743	11,989
		<u>4,620,408</u>	<u>4,159,775</u>
Total assets		<u><u>14,034,800</u></u>	<u><u>12,452,890</u></u>

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Interim Condensed Consolidated Balance Sheet

AS at 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

	Note	As at	
		30 June 2018 Unaudited	31 December 2017 Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	10	1,427,228	1,427,228
Other reserves		895,840	879,022
Retained earnings		3,261,441	2,810,790
		<u>5,584,509</u>	<u>5,117,040</u>
Non-controlling interests		<u>682,206</u>	<u>296,736</u>
Total equity		<u>6,266,715</u>	<u>5,413,776</u>
LIABILITIES			
Non-current liabilities			
Borrowings	11	3,671,079	1,543,388
Deferred revenue	12	2,126,338	2,129,064
Deferred income tax liabilities	13	124,682	120,259
Other non-current liabilities		40,000	40,000
Provisions for other liabilities and charges	14	32,930	32,930
		<u>5,995,029</u>	<u>3,865,641</u>
Current liabilities			
Trade payables	15	139,741	128,254
Contract liabilities	15	508,898	—
Advances from customers	15	65,290	930,888
Wages payables		10,718	44,550
Income tax and other taxes payables	15	61,237	63,741
Dividend payable		1,912	1,912
Other payables and others	15	571,971	633,672
Borrowings	11	413,289	1,370,456
		<u>1,773,056</u>	<u>3,173,473</u>
Total liabilities		<u>7,768,085</u>	<u>7,039,114</u>
Total equity and liabilities		<u>14,034,800</u>	<u>12,452,890</u>

Liu Yujun

Peng Yilin

The notes on page 50 to 86 form an integral part of this condensed consolidated interim financial information.

9. Financial Reports
I. Prepared in accordance with Hong Kong Financial Reporting Standards

Interim Condensed Consolidated Statement of Comprehensive Income

For the Six Months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June	
		2018	2017
Revenue	4(a)	1,021,839	896,014
Tax expenses and surcharge		(26,466)	(24,902)
Cost of sales		(597,640)	(515,675)
Gross profit		397,733	355,437
Other income	4(a)	124,557	35,879
Other gains – net		3,112	83,622
Administrative expenses		(55,631)	(52,773)
Distribution costs		(2,730)	(4,197)
Net impairment losses on financial assets		2,923	—
Operating profit		469,964	417,968
Finance income		11,246	9,599
Finance expenses		(87,495)	(62,372)
Finance expenses – net	16	(76,249)	(52,773)
Profit before income tax		393,715	365,195
Income tax	17	(92,228)	(95,776)
Profit from continuing operations for the period		301,487	269,419
Total comprehensive income for the period		301,487	269,419
Profit/Total comprehensive income attributable to:			
– Owners of the parent		282,565	255,058
– Non-controlling interests		18,922	14,361
		301,487	269,419
Earnings per share for profit from continuing operations attributable to the owners of the parent (in RMB per share)			
– basic		0.20	0.18
– diluted		0.20	0.18
Interim dividends	18	—	—

The notes on page 50 to 86 form an integral part of this condensed consolidated interim financial information.

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Interim Condensed Consolidated Statement of Changes in Equity

For the Six Months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

		Unaudited					
		Equity holders of the Company					
	Note	Share capital	Other Reserves	Retained Earnings	Sub-total	Non-controlling interests	Total Equity
Balance at 1 January 2018		1,427,228	879,022	2,810,790	5,117,040	296,736	5,413,776
– Changes of accounting policies	22	—	—	168,086	168,086	—	168,086
Restated Balance at 1 January 2018		1,427,228	879,022	2,978,876	5,285,126	296,736	5,581,862
Comprehensive income							
– Profit for the period		—	—	282,565	282,565	18,922	301,487
Total comprehensive income		—	—	282,565	282,565	18,922	301,487
Transactions with owners							
– Capital contribution from non-controlling interests		—	16,818	—	16,818	46,275	63,093
– Non-controlling interest on acquisition of subsidiary		—	—	—	—	320,273	320,273
Total transactions with owners		—	16,818	—	16,818	366,548	383,366
Balance at 30 June 2018		1,427,228	895,840	3,261,441	5,584,509	682,206	6,266,715
Balance at 1 January 2017		1,427,228	844,040	2,473,109	4,744,377	259,440	5,003,817
Comprehensive income							
– Profit for the period		—	—	255,058	255,058	14,361	269,419
Total comprehensive income		—	—	255,058	255,058	14,361	269,419
Transactions with owners							
– Dividends distributed		—	—	(135,587)	(135,587)	—	(135,587)
Total transactions with owners		—	—	(135,587)	(135,587)	—	(135,587)
Balance at 30 June 2017		1,427,228	844,040	2,592,580	4,863,848	273,801	5,137,649

The notes on page 50 to 86 form an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

	Unaudited	
	Six months ended 30 June	
	2018	2017
Cash flows from operating activities		
Continuing operations	640,332	448,235
Income tax paid	(307,771)	(128,444)
Interest received	6,232	4,344
	<u>338,793</u>	<u>324,135</u>
Cash flows from operating activities – net		
Cash flows from investing activities		
Payment for acquisition of subsidiary, net of cash acquired	(396,957)	—
Purchase property, plant and equipment, intangible assets and other long-term assets	(703,353)	(413,295)
Proceeds on disposal of property, plant and equipment	—	3
Net cash received from investment	200	400
Other cash paid relating to investing activities	—	(31,225)
Government grants received	18,900	—
	<u>(1,081,210)</u>	<u>(444,117)</u>
Cash flows from investing activities – net		
Cash flows from financing activities		
Payments of interest expenses	(81,533)	(59,888)
Repayments of borrowings	(1,342,192)	(118,764)
Proceeds from bank borrowings	1,386,695	614,921
Proceeds from debentures	1,100,000	—
Investments from non-controlling shareholders	63,093	—
	<u>1,126,063</u>	<u>436,269</u>
Cash flows from financing activities – net		
Net increase in cash and cash equivalents	383,646	316,287
Cash and cash equivalents at the beginning of the period	<u>1,893,689</u>	<u>1,181,120</u>
Cash and cash equivalents	<u><u>2,277,335</u></u>	<u><u>1,497,407</u></u>

The notes on page 50 to 86 form an integral part of this condensed consolidated interim financial information.

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Condensed Consolidated Interim Financial Information
(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 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 (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 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 Management Committee
Hefei, Anhui	16 June 2017	Hefei Urban Construction Committee
Dalian, Liaoning	1 November 2017	Dalian Urban Construction Bureau
Bayannur, Inner Mongolia	12 December 2017	Bayannur Water Bureau
Ningxiang, Changsha	27 April 2018	Bayannur Hetao Water Group Company, Ltd. Ningxiang Economic and Technological Development Zone Management Committee

Notes to the Condensed Consolidated Interim Financial Information
(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 supply 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 and government of Binhai New District of providing heating and cooling supply services to third parties which were located in Tianjin City Cultural Center, Heiniucheng Road, Houtai Scenic Area and Binhai New District Cultural Center.

This condensed consolidated interim financial information was approved for issue on 28 Aug 2018.

This condensed consolidated financial information has not been audited.

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

In this period, the Group operated its business smoothly. In terms of business expansion, the Group acquired 70% shares of Bayannur Jinshengyuan Water Supply and Drainage Co. LTD ('Bayannur Company') which expanded the strategic layout across the country. For the aspect of capital operations, the Group issued RMB 1,100 million of five-year debenture for its development. The Group will continue to focus on process of sewage water, new energy, hazardous waste treatment and other environmental services.

The financial position and performance of the Group was particularly affected by the following events and transactions during the six months to 30 June 2018:

- an increase in revenue as the result of the increase of the processing quantity or unit price of different franchising project (note 4).
- the acquisition of Bayannur Company caused an increase in the Group's intangible assets and scale expanding in process of sewage water business. (note 6)
- an increase of borrowings in relation to debenture in the current period for the construction of projects(note 11).
- the adoption of the new financial instruments standard HKFRS 9 Financial Instruments (note 22).
- the adoption of the new revenue standard HKFRS 15 Revenue from Contracts with Customers (note 22).

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of market risks (including foreign 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 financial performance.

The interim condensed consolidated financial statement do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

There have been no changes in the risk management department since period end or in any risk management policies since the period end.

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) **Market risk:**

(i) *Foreign currency 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').

As at 30 June 2018, if RMB had strengthened/weakened by 5% against the US dollar with all other variables held constant, post-tax profit for the period would have been RMB 3 million (30 June 2017: RMB 2 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 period would have been RMB 7 million (30 June 2017: RMB 4 million) higher/lower.

(ii) *Interest rate risk*

The Group's interest rate risk arises mainly from borrowings and long-term payables.

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.

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I. Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk: (Continued)

(ii) Interest rate risk (Continued)

The tables below set out the Group's exposure to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorized by the maturity dates.

	Fixed	Floating	Total
As at 30 June 2018 (Unaudited)			
Short-term borrowings	200,000	—	200,000
Other current liabilities			
– Current portion of long-term bank borrowings	—	186,803	186,803
– Current portion of long-term payables	16,164	10,322	26,486
Long-term borrowings	—	1,619,024	1,619,024
Long-term payables	176,289	79,921	256,210
Debentures	1,795,845	—	1,795,845
Total	2,188,298	1,896,070	4,084,368
As at 31 December 2017 (Audited)			
Short-term 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
Total	1,793,660	1,120,184	2,913,844

As at 30 June 2018, if interest rates on borrowings had been 1% risen/fallen with all other variables held constant, net profit for the period would have been decreased/increased by RMB 7 million (30 June 2017: RMB 4 million).

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

(b) Credit risk:

Credit risk arises from deposits with banks and credit exposures to customers.

The Group manages credit risk on bank deposits by placing the majority of its cash and bank balances with 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.

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.

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk:

Cash flow forecasting is performed in the operating entities and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.

The Group's financial assets and liabilities (inclusive of interests) are analysed into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date, using the contracted undiscounted cash flows, as follows:

	Less than 1 period	Between 1 and 2 periods	Between 2 and 5 periods	Over 5 periods	Total	Carrying value
As at 30 June 2018(Unaudited)						
Short-term bank borrowings	208,700	—	—	—	208,700	200,000
Long-term bank borrowings	266,957	774,201	784,719	250,313	2,076,190	1,805,827
Long-term payables	28,943	29,726	94,891	350,900	504,460	282,696
Trade payables	139,741	—	—	—	139,741	139,741
Other payables	565,508	—	—	—	565,508	565,508
Debentures	78,780	78,780	2,128,170	—	2,285,730	1,795,845
Dividend payable	1,912	—	—	—	1,912	1,912
	<u>1,290,541</u>	<u>882,707</u>	<u>3,007,780</u>	<u>601,213</u>	<u>5,782,241</u>	<u>4,791,529</u>
As at 31 December 2017(Audited)						
Short-term bank borrowings	519,489	—	—	—	519,489	499,000
Long-term bank 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
Other current and non-current liabilities	1,409	—	—	—	1,409	1,364
Trade payables	128,254	—	—	—	128,254	128,254
Other payables	627,209	—	—	—	627,209	627,209
Debentures	760,060	21,910	718,258	—	1,500,228	1,396,941
Dividend payable	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>

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Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

For the period ended 30 June 2018, the Group's strategy is to maintain a gearing ratio below 40%. The gearing ratio of the Group is as follows:

	Unaudited 30 June 2018	Audited 31 December 2017
Total borrowings	4,084,368	2,913,844
Less: Cash and cash equivalents	(2,277,335)	(1,893,689)
Net debt	<u>1,807,033</u>	<u>1,020,155</u>
Total equity	<u>6,266,715</u>	<u>5,413,776</u>
Total capital	<u>8,073,748</u>	<u>6,433,931</u>
Gearing ratio	<u>22%</u>	<u>16%</u>

As at 30 June 2018, the gearing ratio of the Group is increased slightly compared to last period due to the increase of long-term borrowings and debentures.

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

(e) Fair value estimation

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

At 30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through other comprehensive income (FVOCI)				
Equity securities	—	—	2,000	2,000
Total financial assets	—	—	2,000	2,000

As at 31 December 2017, the Group has no assets measured by fair value.

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 (unadjusted) 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.

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. These valuation techniques maximise the use of observable market data where it is available 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 also has a number of financial instruments which are not measured at fair value in the balance sheet. For all of these instruments, the fair value are not materially different from their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short term in nature.

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Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

4 REVENUE AND SEGMENT INFORMATION

An analysis of sales and contributions to operating profit for the period by principal operations is as follows:

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

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
Revenue from principal operations (Note 4(b))	1,021,839	896,014
Other income	124,557	35,879
	<u>1,146,396</u>	<u>931,893</u>

(b) Operating segment analysis

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

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

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

The managers operating meeting assesses the performance of the operating segments based on a measure of net profit after tax, which is measured in the approach consistent with that in the financial statements.

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

4 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Operating segment analysis (Continued)

(i) For the period ended 30 June 2018 (Unaudited)

	Sewage processing and facility construction services			Recycle water and pipeline connection	Heating and cooling	Tap water	Environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	413,312	133,377	201,559	149,040	36,574	46,059	10,250	156,225	1,146,396
Segment expense	(247,140)	(83,260)	(140,459)	(107,561)	(28,345)	(31,596)	(10,966)	(103,354)	(752,681)
Results before share of profits of an associate	166,172	50,117	61,100	41,479	8,229	14,463	(716)	52,871	393,715
Share of profits of an associate									—
Profit before income tax									393,715
Income tax expense									(92,228)
Profit for the period									<u>301,487</u>
Segment assets	5,578,806	1,072,204	3,611,822	1,310,797	578,646	407,871	43,674	1,430,980	14,034,800
Investment in an associate	—	—	—	—	—	—	—	—	—
Total assets	5,578,806	1,072,204	3,611,822	1,310,797	578,646	407,871	43,674	1,430,980	14,034,800
Total liabilities	4,449,684	329,324	1,253,121	614,818	259,095	99,997	4,055	757,991	7,768,085
Other information									
– Interest income	2,945	826	872	859	367	14	128	5,235	11,246
– Interest expenses	(73,577)	(5,440)	(8,044)	(33)	(551)	(937)	—	—	(88,582)
– Depreciation	(114)	—	(108)	(17,961)	(428)	—	(935)	(3,093)	(22,639)
– Amortisation	(62,672)	(28,724)	(51,601)	(1,965)	(8,775)	(6,926)	(1)	(1,522)	(162,186)
– Capital expenditures	246,361	—	1,012,241	167,487	17,333	143,204	694	9,593	1,596,913

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Notes to the Condensed Consolidated Interim Financial Information (All amounts in RMB thousand unless otherwise stated)

4 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Operating segment analysis (Continued)

(ii) For the period ended 30 June 2017(Unaudited)

	Sewage processing and facility construction services			Recycle water and pipeline connection	Heating and cooling	Tap water	Environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	371,462	137,155	184,487	98,811	29,197	33,511	8,920	68,350	931,893
Segment expense	(228,249)	(82,444)	(120,814)	(68,447)	(24,084)	(26,786)	(11,949)	(3,925)	(566,698)
Results before share of profits of an associate	143,213	54,711	63,673	30,364	5,113	6,725	(3,029)	64,425	365,195
Share of profits of an associate									—
Profit before income tax									365,195
Income tax expense									(95,776)
Profit for the period									269,419
									11,364,041
Segment assets	5,251,321	990,797	2,191,515	1,335,973	519,025	246,985	11,409	817,016	
Investment in an associate	—	—	—	—	—	—	—	—	—
Total assets	5,251,321	990,797	2,191,515	1,335,973	519,025	246,985	11,409	817,016	11,364,041
Total liabilities	3,483,915	386,633	461,737	1,269,099	258,492	72,598	3,563	290,355	6,226,392
Other information									
– Interest income	1,020	599	1,603	772	409	11	42	5,143	9,599
– Interest expenses	(43,831)	(5,847)	(11,213)	(170)	(892)	(916)	—	—	(62,869)
– Depreciation	(150)	—	(77)	(18,429)	(75)	—	(391)	(2,746)	(21,868)
– Amortisation	(62,672)	(28,724)	(44,177)	(106)	(7,137)	(5,088)	(1)	(355)	(148,260)
– Capital expenditures	13,976	—	303,868	535	69,630	—	53	3,102	391,164

Notes to the Condensed Consolidated Interim Financial Information
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5 OPERATING PROFIT

Operating profit is stated after (crediting)/charging the following:

	Unaudited	
	For the six months ended 30 June 2018	30 June 2017
Crediting:		
Rental of investment properties	(3,908)	(3,581)
Charging:		
Depreciation and amortization expenses	184,825	170,128
Staff costs	116,094	114,625
Raw materials and consumables used	60,114	44,284
Repair and maintenance expenses	33,993	29,863

6 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, INTANGIBLE ASSETS AND LAND USE RIGHT

	Property, plant and equipment	Investment properties	Intangible assets(a)/(b)	Land use right
Six months ended 30 June 2018 (Unaudited)				
Net book value				
Opening amount as at 1 January 2018	404,488	86,820	6,869,701	36,717
Additions	10,925	—	1,615,640	—
Disposals	(118)	—	—	—
Depreciation and amortisation	(20,802)	(1,837)	(161,519)	(667)
Impairment provision	—	—	—	—
Closing amount as at 30 June 2018	394,493	84,983	8,323,822	36,050
Six months ended 30 June 2017 (Unaudited)				
Net book value				
Opening amount as at 1 January 2017	417,882	97,590	6,219,001	14,986
Additions	211,019	—	180,145	—
Disposals	(2)	—	—	—
Depreciation and amortisation	(20,032)	(1,836)	(148,040)	(220)
Transfer to concession rights	(159,180)	—	159,180	—
Impairment provision	—	—	—	—
Closing amount as at 30 June 2017	449,687	95,754	6,410,286	14,766

- (a) Concession rights with net book value of nil (31 December 2017: RMB 181 million) have been secured against loans.
- (b) As at 30 June 2018, the balance concludes goodwill with the amount of 30 million (note 7) (31 December 2017: Nil). The Group assesses that there is no significant risk of impairment.

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7 BUSINESS COMBINATION

As at January 2018, the Group acquired 70% of the stock equity in Bayannur Company, whose main business is processing of sewage water and supply of tap water, for consideration of RMB 777 million. The acquisition is expected to increase the Group's market share.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	
Cash paid	776,957
Total purchase consideration	776,957
Less: The share of identifiable net assets at fair value	(747,305)
Goodwill	29,652

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
Cash and cash equivalents	—
Property, plant and equipment	—
Intangible assets	1,067,578
Less: Trade payables	—
Net assets	1,067,578
Less: non-controlling interest	(320,273)
	747,305

8 TRADE RECEIVABLES

Details of the trade receivables are as follows:

	Unaudited 30 June 2018	Audited 31 December 2017
Receivables from third parties	2,072,575	1,897,344
– Notes receivable	698	1,900
Receivables from related parties	59,022	68,815
	2,131,597	1,966,159
Less: allowance for impairment of trade receivables(a)	(33,836)	(34,101)
	2,097,761	1,932,058

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

8 TRADE RECEIVABLES (Continued)

(a) Impaired trade receivables

(i) As at 30 June 2018, provision for bad debts by individual is analyzed as below:

Customer	Carrying amount	Expected credit loss rate	Impairment	Reasons
Tianjin Water Authority Bureau	1,588,036	0.05%	(767)	i)
Xi'an Infrastructure Investment Group	17,027	0.05%	(14)	i)
Hangzhou Sewage Company	133,464	0.05%	(29)	i)
Guiyang Water Authority Bureau	11,110	0.05%	(2)	i)
Qujing Sewage Company	139,322	16.00%	(20,329)	ii)
Tianjin Qudong Culture Media Co. LTD	7,909	100.00%	(7,909)	iii)
Total	1,896,868		(29,050)	

- i) As these clients are provincial and municipal governments or their representatives, whose ability to meet their contractual cash flow obligations may not be weakened even if there are adverse changes in the economic and business situation over a long period, the receivables of the Company from Tianjin Water Authority Bureau, Xi'an Capital Water Co., Ltd. from Xi'an Urban Infrastructure Construction Investment Group Co., Ltd., Hangzhou Tianchuang Capital Water Co., Ltd. from Hangzhou Sewage Company, and Guizhou Capital Water Co., Ltd. from Guiyang Water Authority Bureau have a lower credit risk. Based on the historical experience of operation, the Group maintains continuous receipts. Therefore, the Company estimates that the lifetime expected credit loss rate of the receivables is 0.05%.
- ii) Receivables of Qujing Capital Water Co., Ltd. from Qujing City Water General Company comprise regular sewage treatment fee, tap water fee and price compensation. As the receivables of regular sewage treatment fee and tap water fee have a longer collection period than ordinary government clients and they have higher credit risk, the Group estimates that the lifetime expected credit loss rate is 3%; Considering the debtor's actual performance capacity, historical collection experience and the ageing of the receivables, the Group presumes that the receivables of price compensation have been defaulted and estimates that the lifetime expected credit loss rate is 100%.
- iii) Receivable of Tianjin Capital Alternative Energy Technology Co., Ltd. from Tianjin Qudong Culture Media Co., Ltd. has reached the litigation stage. Thus, the Company presumes that the receivables have been defaulted and estimates that the lifetime expected credit loss is 100%.

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8 TRADE RECEIVABLES (Continued)

(a) Impaired trade receivables (Continued)

(ii) As at 30 June 2018, provision for bad debts by the Group is analyzed as below:

Group - banker's acceptance

As at 30 June 2018, the group measures bad debt provision in accordance with the expected credit loss for the entire duration, and the amount is nil. The Group considers that there is no significant credit risk in banker's acceptance and no major loss will be caused by bank default.

Group - government clients except provincial and municipal government clients

	Carrying amount Amount	30 June 2018 Impairment	
		Expected credit loss rate	Amount
No overdue	35,682	0.01%	(3)
1-90 days overdue	39,157	0.05%	(6)
90-180 days overdue	3,873	0.20%	(7)
>180 days overdue	12,817	0.50%	(40)
	<u>91,529</u>		<u>(56)</u>

Group - others

	Carrying amount Amount	30 June 2018 Impairment	
		Expected credit loss rate	Amount
No overdue	17,922	0.10%	(36)
1-30 days overdue	24,439	0.50%	(93)
30-90 days overdue	29,478	2.00%	(823)
>90 days overdue	70,663	5.00%	(3,778)
	<u>142,502</u>		<u>(4,730)</u>

(iii) The net bad debt provision losses reversed for this period is RMB 2,923 thousand yuan, in which the amount of bad debt provision collected is RMB 4,631 thousand yuan, the corresponding book value of trade receivables is RMB 8,701 thousand yuan.

Notes to the Condensed Consolidated Interim Financial Information
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9 LONG-TERM RECEIVABLES

	Unaudited 30 June 2018	Audited 31 December 2017
Receivables from toll road concession	285,786	294,956
Less: allowance for impairment of long-term receivables	—	—
	<u>285,786</u>	<u>294,956</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.

The customer is one of the public institutions with low credit risk which is under the Tianjin municipal government. According to historical experience, the collection can be done within the agreed period. Therefore, the Group estimates that the lifetime expected credit loss rate for the receivables is 0.05%.

10 SHARE CAPITAL

Movement of the Company's authorised, issued and fully paid up capital is set out below. All of the Company's shares are ordinary shares with par value of RMB1.

	Circulating A-shares	Circulating H-shares	Total
At 31 December 2017 (Audited) and at 30 June 2018 (Unaudited)	<u>1,087,228</u>	<u>340,000</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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Notes to the Condensed Consolidated Interim Financial Information (All amounts in RMB thousand unless otherwise stated)

11 BORROWINGS

	Note	Unaudited 30 June 2018	Audited 31 December 2017
<i>Non-current liabilities:</i>			
Long-term bank borrowings	(a), (b)	1,805,827	727,160
Less: Current portion	(a), (b)	(186,803)	(145,643)
		<u>1,619,024</u>	<u>581,517</u>
Debtentures	(c)	1,795,845	1,396,941
Less: Current portion	(c)	—	(698,957)
		<u>1,795,845</u>	<u>697,984</u>
Long-term payables	(d)	282,696	289,379
Less: Current portion	(d)	(26,486)	(25,492)
		<u>256,210</u>	<u>263,887</u>
<i>Total non-current borrowings</i>		<u><u>3,671,079</u></u>	<u><u>1,543,388</u></u>
<i>Current liabilities:</i>			
Current portion of long-term bank borrowings	(a)	186,803	145,643
Current portion of debtentures	(c)	—	698,957
Current portion of long-term payables	(d)	26,486	25,492
		<u>413,289</u>	<u>1,369,092</u>
Short-term bank borrowings	(e)	200,000	499,000
Other Current liabilities		—	1,364
<i>Total current borrowings</i>		<u><u>413,289</u></u>	<u><u>1,370,456</u></u>

(a) Long-term bank borrowings

Movement of long-term bank borrowings is analyzed as follows:

	Unaudited
Six months ended 30 June 2018	
Opening amount as at 1 January 2018	727,160
Proceeds of new borrowings	1,386,695
Repayments of borrowings	(308,028)
Closing amount as at 30 June 2018	<u><u>1,805,827</u></u>
Six months ended 30 June 2017	
Opening amount as at 1 January 2017	696,828
Proceeds of new borrowings	9,021
Repayments of borrowings	(11,500)
Closing amount as at 30 June 2017	<u><u>694,349</u></u>

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

11 BORROWINGS (Continued)

(a) Long-term bank borrowings (Continued)

These borrowings mature as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
As at 30 June 2018 (Unaudited)					
Long-term bank borrowings	186,803	715,156	707,468	196,400	1,805,827
As at 31 December 2017 (Audited)					
Long-term bank borrowings	145,643	142,332	316,488	122,697	727,160

(b) Summary of terms of long-term bank borrowings:

	Unaudited 30 June 2018	Audited 31 December 2017
Long-term bank borrowings:		
Pledged	—	25,000
Guaranteed	161,000	174,000
Unsecured	1,644,827	528,160
	<u>1,805,827</u>	<u>727,160</u>

(c) Debentures

	Audited 31 December 2017	Amortiza- tion	Additions	Repayment	Due within 1 year	Unaudited 30 June 2018
Debentures						
–par value	1,400,000	—	1,100,000	(700,000)	—	1,800,000
–transaction cost	(3,059)	352	(2,491)	1,043	—	(4,155)
	<u>1,396,941</u>	<u>352</u>	<u>1,097,509</u>	<u>(698,957)</u>	<u>—</u>	<u>1,795,845</u>

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 principal has been repaid on 30 May 2018.

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.

On 25 April 2018, the Company issued a debenture at par value of RMB1,100 million on The Shanghai Stock Exchange. The fixed interest rate of 5.17% has been accrued and settled per annum. The debenture will be due for repayment on 25 April 2023. The principal will be repaid on maturity.

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Notes to the Condensed Consolidated Interim Financial Information
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11 BORROWINGS (Continued)

(d) Long-term payables and current portion of long-term payables

	Unaudited 30 June 2018		Audited 31 December 2017	
	Payable	Unrecognized financial charges	Payable	Unrecognized financial charges
Payable to Sewage Company for assets acquisition	504,460	(221,764)	462,123	(172,744)

(i) Summary of terms of long-term payable above:

	Maturity date	Original balance	Effective interest rate	Ending balance	Due within 1 year
Sewage Company	20 March 2041	430,314	5.94%	282,696	26,486

The balance of the long-term payables to Sewage Company is the consideration payable in respect of the acquisition of sewage processing assets from Sewage Company, net of unrecognised financing charges.

Pursuant to the 'Assets transfer agreement from foreign banks loans about Haihe River Tianjin sewage processing project and Beicang sewage processing project', Sewage Company sold to the Company certain sewage processing assets. The first instalment of RMB261 million settled in cash and the remaining amount is to be settled on a quarterly basis in RMB translating at exchange rates prevailing on each repayment date over the remaining years. The fair value of the initial recognition of the payable balance was at fair value assessed based on discounted future cash payments and the discount rate of 5.94%.

(ii) The payable amounts of long-term payables (including interest) are denominated in the following currencies.

	Unaudited 30 June 2018	Audited 31 December 2017
JPY	391,721	345,507
US dollar	112,739	116,616
	<u>504,460</u>	<u>462,123</u>

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.

Notes to the Condensed Consolidated Interim Financial Information
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11 BORROWINGS (Continued)

(e) Short-term bank borrowings

Movement of bank borrowings is analyzed as follows:

	Unaudited
Six months ended 30 June 2018	
Opening amount as at 1 January 2018	499,000
Proceeds of new borrowings	—
Repayments of borrowings	(299,000)
	200,000
Closing amount as at 30 June 2018	200,000

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

	Unaudited 30 June 2018	Audited 31 December 2017
Unsecured	200,000	499,000
	200,000	499,000

12 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 2017	Additions	Recognised in other income	Decrease	30 June 2018	Relating to assets/costs
Sewage water processing plants:						
– Jingu	1,311,533	—	(25,643)	(1,272)	1,284,618	assets
– Jingu upgrading project	163,000	—	—	—	163,000	assets
– Beichen upgrading project	90,000	—	—	—	90,000	assets
– Xianyanglu-upgrading project	61,442	—	(1,182)	—	60,260	assets
– Dongjiao-upgrading project	43,114	—	(829)	—	42,285	assets
– Beishiqiao-upgrading project	11,073	—	(359)	—	10,714	assets
– Project of the solution and maintainness of water pollution	6,577	—	—	—	6,577	costs
– Ningxiang project	—	18,900	—	—	18,900	assets
– Linxia project	—	5,000	—	—	5,000	assets
Water recycling plants:						
– Jingu	210,678	—	—	—	210,678	assets
– Dongjiao	21,756	—	(338)	—	21,418	assets
– Beichen	18,637	—	(263)	—	18,374	assets
– Xianyanglu-water recycling project	13,227	—	—	—	13,227	assets
Heating and cooling supply service project	171,670	3,955	—	(300)	175,325	assets
Others	6,357	—	(15)	(380)	5,962	costs
	2,129,064	27,855	(28,629)	(1,952)	2,126,338	
Total	2,129,064	27,855	(28,629)	(1,952)	2,126,338	

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13 DEFERRED INCOME TAX LIABILITIES

	Unaudited	
	Six months ended 30 June	
	2018	2017
Opening balance as at 1 January	120,259	126,108
(Reversed)/charged to profit or loss	4,423	(6,284)
Closing balance as at 30 June	<u>124,682</u>	<u>119,824</u>

14 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

		Major overhauls for the assets of concession right
Balance at 31 December 2017 (Audited) and 30 June 2018 (Unaudited)		<u>39,393</u>
Analysis of total provisions:		
	30 June 2018	31 December 2017
Non-current	32,930	32,930
Current	<u>6,463</u>	<u>6,463</u>
	<u>39,393</u>	<u>39,393</u>

15 TRADE PAYABLES, CONTRACT LIABILITIES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND OTHERS AND INCOME TAX AND OTHER TAXES PAYABLES

	Notes	Unaudited 30 June 2018	Audited 31 December 2017
Trade payables	(a)	139,741	128,254
Contract liabilities	(b)	508,898	—
Advances from customers	(c)	65,290	930,888
Other payables and others	(d)	571,971	633,672
Income tax and other taxes payables		<u>61,237</u>	<u>63,741</u>
		<u>1,347,137</u>	<u>1,756,555</u>

(a) As at 30 June 2018, the majority of trade payables are aged within one year.

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15 TRADE PAYABLES, CONTRACT LIABILITIES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND OTHERS AND INCOME TAX AND OTHER TAXES PAYABLES (Continued)

(b) Contract liabilities (note 22) comprise:

	Unaudited 30 June 2018	Audited 31 December 2017
For pipeline connection services	508,898	—
	<u>508,898</u>	<u>—</u>

(c) Advances from customers comprise:

	Unaudited 30 June 2018	Audited 31 December 2017
For road tolls	44,140	—
For pipeline connection services	13,141	916,513
For project Han Gu	4,467	4,467
For heating supply service	—	4,749
Others	3,542	5,159
	<u>65,290</u>	<u>930,888</u>

(d) Other payables and others comprise:

	Unaudited 30 June 2018	Audited 31 December 2017
Construction costs payable	438,461	525,603
Interest payable for long-term bonds	25,170	26,586
Payable for purchases of property, plant and equipment and concession right	13,892	13,892
Provisions	6,463	6,463
Others	87,985	61,128
	<u>571,971</u>	<u>633,672</u>

As at 30 June 2018, other payables of RMB 416 million (31 December 2017: RMB 701 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.

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16 FINANCE EXPENSES - NET

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
Interest expenses of borrowings	88,582	62,869
Less: Interest income	(11,246)	(9,599)
– long-term receivables	(5,014)	(5,255)
– bank deposits	(6,232)	(4,344)
Others	(1,087)	(497)
	<u>76,249</u>	<u>52,773</u>

17 INCOME TAX

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong as at 30 June 2018 (30 June 2017: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

Tax charges comprises:

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
Current income tax	87,805	102,060
Deferred income tax	4,423	(6,284)
	<u>92,228</u>	<u>95,776</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:

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
Profit before income tax	393,715	365,195
Calculated at applicable income tax rate	98,429	91,299
Effect of preferential tax rate applicable to certain subsidiaries	(3,760)	(3,876)
Income not subject to tax	(9,747)	(19,633)
Expenses not deductible for taxation purposes	7,793	29,294
Utilisation of previously deductible tax losses for which no deferred income tax assets was recognized	(772)	(1,834)
Current period deductible temporary differences for which no deferred income tax asset was recognised	(731)	202
Current period tax losses for which no deferred income tax asset was recognised	1,016	324
Income tax expense	<u>92,228</u>	<u>95,776</u>

Notes to the Condensed Consolidated Interim Financial Information
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18 INTERIM DIVIDENDS

No interim dividend was proposed by the Board of Directors of the Company for the six months ended 30 June 2018 (30 June 2017: Nil).

19 COMMITMENTS AND CONTINGENT EVENT

The Group's commitments at the balance sheet date in respect of construction projects are as follows:

	Contracted but not provided for		Authorised but not contracted for	
	30 June 2018 RMB' million	31 December 2017 RMB' million	30 June 2018 RMB' million	31 December 2017 RMB' million
Sewage Water Processing Plants Project				
– Jingu	432	463	204	333
– Bayannur project	—	397	—	—
– Beicang	198	224	152	217
– Karamay	155	179	263	263
– Dalian Chunliuhe project	97	136	—	—
– Jieshou	149	122	—	105
– Yuwan project	44	71	156	158
– Yingshang project	9	14	63	63
– Linxia project	13	13	81	81
– Ningxiang project	—	9	61	67
– Tianyu project	23	—	49	—
– Ninghe project	4	—	18	—
– Honghu project	42	—	6	—
– Xianning project	19	—	3	—
– Ningxiang PPP project	2	—	95	—
Solid waste Project				
– Shandong Yishui	159	13	71	262
– Shandong Tancheng	8	9	337	337
Energy Station Project				
– Heiniucheng Road	34	49	109	109
– Tianjin cultural center	6	6	20	20
– Houtai	2	3	108	108
	1,392	1,708	1,796	2,123
	1,392	1,708	1,796	2,123

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20 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 entered into in the ordinary course of the business between the Group and its related parties during the period.

(i) Income:

Related parties	Nature of transaction	Unaudited	
		For the six months ended	
		30 June 2018	30 June 2017
City Infrastructure Construction and Investment	Commission income from contract operation	38,104	26,251
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	16,612	16,503
City Infrastructure Construction and Investment	Commission income from construction agent service	5,105	—
Tianjin Machinery & Electric Equipment Imp. & Exp. Co., Ltd.	Income from technical services	708	—
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	—	905
		<u> </u>	<u> </u>

(ii) Key management compensation for the six months ended 30 June 2018 is summarized as follows:

	Unaudited	
	For the six months ended	
	30 June 2018	30 June 2017
Key management compensation	7,015	7,039
	<u> </u>	<u> </u>

(iii) Receivables from to related parties:

	Unaudited	Audited
	30 June 2018	31 December 2017
Tianjin Lecheng Properties Limited	13,478	38,171
City Infrastructure Construction and Investment	43,261	28,570
Tianjin Metro Resources Investment Co., Ltd.	1,673	1,673
Tianjin City Resource Operation Co., Ltd.	401	401
Tianjin Machinery & Electric Equipment Imp. & Exp. Co., Ltd.	209	—
	<u> </u>	<u> </u>
	59,022	68,815

Notes to the Condensed Consolidated Interim Financial Information
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20 RELATED PARTY TRANSACTIONS (Continued)

(iv) Commitment

The Group's commitments with related parties at the balance sheet date are as follows:

	Unaudited 30 June 2018	Audited 31 December 2017
Guarantee received		
City Infrastructure Construction and Investment	<u>161,000</u>	<u>174,000</u>

(v) 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 period, 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 30 June 2018, majority of the Group's cash and cash equivalents and borrowings are dealt with state controlled banks.

21 BASIS OF PREPARATION OF HALF-YEAR REPORT

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard HKAS 34 Interim Financial Reporting.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 31 December 2017 and any public announcements made by the Group during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial period and corresponding interim reporting period, except for the estimation of income tax and the adoption of new and amended standards as set out below.

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Notes to the Condensed Consolidated Interim Financial Information
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21 BASIS OF PREPARATION OF HALF-YEAR REPORT (Continued)

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 22 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) Impact of standards issued but not yet applied by the entity

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.

As at 30 June 2018, the Group doesn't have non-cancellable operating lease commitments.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

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22 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note 22(b)/(d) below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	31 Dec 2017	HKFRS 15	HKFRS 9	1 January 2018 Restated
Non-current assets				
Financial assets at fair value through other comprehensive income (FVOCI)	—	—	2,000	2,000
Available-for-sale financial assets (AFS)	2,000	—	(2,000)	—
Current assets				
Trade receivables	1,932,058	—	(2,658)	1,929,400
Prepayments	124,770	(91,230)	—	33,540
Total assets	<u>12,452,890</u>	<u>(91,230)</u>	<u>(2,658)</u>	<u>12,359,002</u>
Current liabilities				
Trade payables	(128,254)	(9,866)	—	(138,120)
Advances from customers	(930,888)	902,235	—	(28,653)
Contract liabilities	—	(562,364)	—	(562,364)
Income tax and other taxes payables	(61,237)	(68,031)	—	(129,268)
Total liabilities	<u>(7,039,114)</u>	<u>261,974</u>	<u>—</u>	<u>(6,777,140)</u>
Retained earnings	(2,810,790)	(170,744)	2,658	(2,978,876)
Total equity	<u>(5,413,776)</u>	<u>(170,744)</u>	<u>2,658</u>	<u>(5,581,862)</u>

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22 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 22(c) below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated with the exception of certain aspects of hedge accounting.

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

	2018
Closing retained earnings 31 December 2017 - HKAS 39/HKAS 18/HKAS 11	(2,810,790)
Increase in provision for trade receivables	2,658
Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018	2,658
Opening retained earnings 1 January 2018- HKFRS 9 (before restatement for HKFRS 15)	<u>(2,808,132)</u>

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	FVPL	FVOCI (Available- for-sale 2017)	Held-to-maturity	Amortised cost (Receivables 2017)
Closing balance 31 December 2017 – HKAS 39	—	2,000	—	—
Reclassify non-trading equities from available-for-sale to FVOCI	—	—	—	—
Opening balance 1 January 2018 - HKFRS 9	<u>—</u>	<u>2,000</u>	<u>—</u>	<u>—</u>

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22 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(i) Classification and measurement (Continued)

The impact of these changes on the Group's equity is as follows:

	Effect on AFS reserves	Effect on FVOCI reserve	Effect on retained earnings*
Opening balance – HKAS 39	—	—	—
Reclassify non-trading equities from available-for-sale to FVOCI	—	—	—
	<hr/>	<hr/>	<hr/>
Opening balance - HKFRS 9	—	—	—
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Group elected to present in OCI changes in the fair value of one its equity investment previously classified as available-for-sale, because this investment is held as long-term strategic investment that is not expected to be sold in the short to medium term. As a result, asset with a fair value of RMB 2,000 thousand yuan were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of nil were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

(ii) Impairment of financial assets

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

- trade receivables
- other financial assets at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 22(b) above. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

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22 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables

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

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

On that basis, the loss allowance as at 1 January 2018 was determined as follows for trade receivables:

	Carrying amount	Expected credit loss rate	Impairment
Individual clients			
Tianjin water bureau	1,534,573	0.05%	(767)
Xi'an Infrastructure Investment Group	27,048	0.05%	(14)
Hangzhou Sewage Company	58,717	0.05%	(30)
Guiyang water bureau	3,736	0.05%	(2)
Qujing Sewage Company	126,219	16.00%	(20,329)
Tianjin Qudong Culture Media Co. LTD	7,909	100.00%	(7,909)
Tianjin Xinghe Paper Co. LTD	4,020	100.00%	(4,020)
Subtotal	<u>1,762,223</u>		<u>(33,071)</u>
Group - government clients except provincial and municipal government clients			
No overdue	29,712	0.01%	(3)
1-90 days overdue	11,472	0.05%	(6)
90-180 days overdue	3,542	0.20%	(7)
>180 days overdue	8,006	0.50%	(40)
Subtotal	<u>52,732</u>		<u>(56)</u>
Group - others			
No overdue	35,842	0.10%	(36)
1-30 days overdue	18,692	0.50%	(93)
30-90 days overdue	41,166	2.00%	(823)
>90 days overdue	53,586	5.00%	(2,679)
Subtotal	<u>149,286</u>		<u>(3,632)</u>
Total			<u>(36,759)</u>

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22 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 Financial Instruments – Impact of adoption (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Trade receivables
At 31 December 2017 – calculated under HKAS 39	34,101
Amounts restated through opening retained earnings	2,658
Opening loss allowance as at 1 January 2018 - calculated under HKFRS 9	36,759

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and long-term receivables. Applying the expected credit risk model resulted in the recognition of a loss allowance of nil on 1 January 2018 (previous loss allowance was nil) and a further increase in the allowance by nil in the six months ending 30 June 2018.

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

22 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

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 (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

22 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

22 CHANGES IN ACCOUNTING POLICIES (Continued)

(d) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules prospectively and has not restated comparatives for the 2017 financial period. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18/ HKAS 11 carrying amount 31 Dec 2017	Reclassifica- tion	Remeasure- ments	HKFRS 15 carrying amount 1 January 2018
Prepayments	124,770	—	(91,230)	33,540
Contract liabilities	—	(562,364)	—	(562,364)
Advances from customers	(930,888)	562,364	339,871	(28,653)
Trade payables	(128,254)	—	(9,866)	(138,120)
Income tax and other taxes payables	(61,237)	—	(68,031)	(129,268)
Retained earnings	(2,808,132)	—	(170,744)	(2,978,876)

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

	2018
Retained earnings – after HKFRS 9 restatement (note 22(b))	(2,808,132)
Restatement of contract liability for pipeline collection project	(328,755)
Restatement of prepayment for costs to fulfil a contract	101,096
Recognition of income tax	56,915
Adjustment to retained earnings from adoption of HKFRS 15	(170,144)
Opening retained earnings 1 January – HKFRS 9 and HKFRS 15	(2,978,876)

Under HKFRS 15, The Group further recognized the revenue of RMB 328,755 thousand yuan which resulted in the decrease in advances from customers of RMB 339,871 thousand yuan. And the Group carried forward the cost of RMB 101,096 thousand yuan, correspondingly the amount of prepayment decreased by RMB 91,320 thousand yuan and the amount of trade payables increased by RMB 9,866 thousand yuan. The contract liability recognised in relation to the pipeline collection project on 1 January 2018 was RMB 562,364 thousand yuan, which was reclassified from advances from customers. Thus, income tax and other taxes payables increased by RMB 68,031 thousand yuan, including the increase of income tax of RMB 56,915 thousand yuan.

As the result of all changes above, retained earnings from adoption of HKFRS 15 at 1 January 2018 increased RMB 170,744 thousand yuan.

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

22 CHANGES IN ACCOUNTING POLICIES (Continued)

(e) HKFRS 15 Revenue from Contracts with Customers – Accounting policies

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 actual outcomes achieved up to the end of the reporting period as a percentage of total promised results of each contract.

Sewage water processing and heating and cooling supply services

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

Sales of environmental protection equipment

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.

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.

Sales of tap water and recycled water

Revenue from the sale of tap water and recycled water is recognised on the transfer of risks and rewards of ownership when the tap water and recycled water are delivered to customers. The Group recognises the revenue according to the contracts signed by the customers.

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Condensed Consolidated Interim Financial Information
(All amounts in RMB thousand unless otherwise stated)

22 CHANGES IN ACCOUNTING POLICIES (Continued)

(e) HKFRS 15 Revenue from Contracts with Customers – Accounting policies (Continued)

Contract operation income

Revenue from contract operation income is recognised in the accounting period in which the services are rendered. Revenue from contract operation income is recognised under the accrual basis according to the service agreements.

Technical services income

The Group sells technical services to other companies. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

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.

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Consolidated and Company Balance Sheet

As At 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

ASSETS	Note	30 June	31 December	30 June	31 December
		2018	2017	2018	2017
		Consolidated (Unaudited)	Consolidated (Audited)	Company (Unaudited)	Company (Audited)
Current assets					
Cash at bank and on hand	4(1)	2,293,078	1,905,678	1,340,258	784,959
Notes receivable and Trade receivables	4(2)/14(1)	2,097,761	1,932,058	1,687,246	1,663,178
Advances to suppliers	4(3)	45,288	124,770	6,211	1,114
Dividends receivable		—	—	—	13,880
Other receivables	4(4)/14(2)	40,153	93,708	195,094	228,079
Inventories	4(5)	16,199	18,112	3,371	4,116
Other current assets	4(6)	127,929	85,449	436,697	173,452
Total current assets		4,620,408	4,159,775	3,668,877	2,868,778
Non-current assets					
Available-for-sale financial assets		—	2,000	—	2,000
Long-term receivables	4(7)	285,786	294,956	285,786	294,956
Long-term equity investments	4(8)/14(3)	—	—	2,957,577	2,081,302
Other investments in equity instruments	4(9)	2,000	—	2,000	—
Investment properties	4(10)	84,983	86,820	63,968	65,552
Fixed assets	4(11)	364,214	383,831	108,704	116,730
Construction in progress	4(11)	30,279	20,657	—	—
Intangible assets	4(12)	8,330,220	6,906,418	3,488,949	3,321,141
Goodwill	4(13)	29,652	—	—	—
Other non-current assets	4(6)	287,258	598,433	209,306	726,085
Total non-current assets		9,414,392	8,293,115	7,116,290	6,607,766
TOTAL ASSETS		14,034,800	12,452,890	10,785,167	9,476,544

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Consolidated and Company Balance Sheet

As At 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	30 June	31 December	30 June	31 December
		2018	2017	2018	2017
		Consolidated (Unaudited)	Consolidated (Audited)	Company (Unaudited)	Company (Audited)
Current liabilities					
Short-term borrowings	4(18)	200,000	499,000	200,000	499,000
Trade payable	4(15)	139,741	128,254	42,207	42,027
Advances from customers	4(15)	65,290	930,888	48,826	5,123
Contract liabilities	4(16)	508,898	—	—	—
Taxes payable	4(15)	61,237	63,741	9,124	7,802
Dividends payable	4(15)	1,912	1,912	1,912	1,912
Other payables	4(15)	565,508	627,209	709,981	698,402
Employee benefits payable	4(17)	10,718	44,550	8,271	26,067
Current portion of non-current liabilities	4(18)	213,289	870,092	77,486	724,449
Other current liabilities	4(18)	6,463	7,827	86,463	86,463
Total current liabilities		1,773,056	3,173,473	1,184,270	2,091,245
Non-current liabilities					
Long-term borrowings	4(18)	1,619,024	581,517	999,000	—
Debentures payable	4(18)	1,795,845	697,984	1,795,845	697,984
Long-term payables	4(18)	256,210	263,887	256,210	263,887
Other non-current liabilities	4(18)	40,000	40,000	210,000	210,000
Provisions	4(19)	32,930	32,930	32,930	32,930
Deferred income	4(20)	2,126,338	2,129,064	1,689,838	1,719,380
Deferred tax liabilities	4(21)	124,682	120,259	64,887	61,929
Total non-current liabilities		5,995,029	3,865,641	5,048,710	2,986,110
Total liabilities		7,768,085	7,039,114	6,232,980	5,077,355
Shareholder's equity					
Share capital	4(22)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	4(23) (a)	415,933	399,115	380,788	380,788
Surplus reserve	4(23) (b)	479,907	479,907	479,907	479,907
Undistributed profits	4(23) (c)	3,261,441	2,810,790	2,264,264	2,111,266
Total equity attributable to equity owners of the parent		5,584,509	5,117,040	4,552,187	4,399,189
Minority interests		682,206	296,736	—	—
Total owners' equity		6,266,715	5,413,776	4,552,187	4,399,189
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		14,034,800	12,452,890	10,785,167	9,476,544

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

Consolidated and Company Income Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Six Months	31 December	Six Months	31 December
		Ended 30 June 2018 Consolidated (Unaudited)	2017 Consolidated (Unaudited)	Ended 30 June 2018 Company (Unaudited)	2017 Company (Unaudited)
1. Revenue	4(24)/14(4)	1,107,798	986,635	501,691	453,781
Less: Cost of sales	4(24)/14(4)	(648,857)	(570,417)	(251,247)	(238,418)
Taxes and surcharges	4(25)	(26,466)	(24,902)	(11,191)	(10,683)
Selling and distribution expenses	4(26)	(2,730)	(4,197)	—	—
General and					
administrative expenses	4(26)	(55,631)	(52,773)	(31,205)	(29,739)
Financial expenses-net	4(28)	(76,249)	(52,773)	(58,588)	(32,474)
Asset impairment losses	4(29)	—	(806)	—	—
Credit Losses	4(30)	2,923	—	—	—
Add: Investment gains/(losses)	4(31)/14(5)	200	400	200	400
Including: Share of profit/(loss)					
of associates		—	—	—	—
Other income	4(32)	89,615	64,864	57,549	32,870
2. Operating profit		390,603	346,031	207,209	175,737
Add: Non-operating income	4(33)	4,099	19,292	14	16,337
Less: Non-operating expenses	4(34)	(987)	(128)	(674)	—
3. Total profit		393,715	365,195	206,549	192,074
Less: Income tax expenses	4(35)	(92,228)	(95,776)	(51,587)	(51,671)
4. Net profit		301,487	269,419	154,962	140,403
Classified by continuity of operations					
Net profit from continuing operations		301,487	269,419	154,962	140,403
Net profit from discontinued operations		—	—	—	—
Classified by ownership of the equity					
Minority interests		18,922	14,361	—	—
Attributable to equity owners of the Company		282,565	255,058	154,962	140,403
5. Other comprehensive income after deduction of impact of income tax					
6. Total comprehensive income		301,487	269,419	154,962	140,403
Attributable to minority shareholders of the Company		282,565	255,058	154,962	140,403
Attributable to owners of the parent		18,922	14,361	—	—
Earnings per share (in RMB Yuan)	4(36)				
Basic		0.20	0.18	—	—
Diluted		0.20	0.18	—	—

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

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Consolidated and Company Cash Flow Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Six Months Ended 30 June 2018 Consolidated (Unaudited)	31 December 2017 Consolidated (Unaudited)	Six Months Ended 30 June 2018 Company (Unaudited)	31 December 2017 Company (Unaudited)
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		1,030,672	933,575	604,314	429,581
Refund of taxes and surcharges		54,608	71,576	24,818	34,064
Cash received relating to other operating activities	4(37) (c)	195,825	337,046	96,894	223,561
Sub-total of cash inflows		1,281,105	1,342,197	726,026	687,206
Cash paid for goods and services		(424,689)	(322,785)	(158,492)	(118,995)
Cash paid to and on behalf of employees		(156,876)	(141,789)	(68,703)	(57,260)
Payments of taxes and surcharges		(307,771)	(288,050)	(114,565)	(151,994)
Cash paid relating to other operating activities	4(37) (d)	(53,779)	(265,438)	(28,480)	(227,554)
Sub-total of cash outflows		(943,115)	(1,018,062)	(370,240)	(555,803)
Net cash flows from operating activities	4(37)	337,990	324,135	355,786	131,403
2. Cash flows from investing activities					
Cash received from investment income		200	400	14,080	400
Net cash received from disposal of fixed assets	4(37) (e)	—	3	—	—
Cash received from subsidiaries		—	—	186,346	337,046
Cash received from government grants		18,900	—	—	337,046
Sub-total of cash inflows		19,100	403	200,426	380,231
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(699,252)	(413,295)	(185,836)	(97,319)
Cash paid to acquire investments		(396,957)	—	(496,275)	(148,670)
Cash paid for restricted bank deposits		(4,101)	—	(4,101)	—
Cash paid to subsidiaries		—	—	(401,500)	(363,095)
Cash paid relating to other investing activities	4(37) (f)	—	(31,225)	—	(29,939)
Sub-total of cash outflows		(1,100,310)	(444,520)	(1,087,712)	(639,023)
Net cash flows from investing activities		(1,081,210)	(444,117)	(887,286)	(258,792)

Consolidated and Company Cash Flow Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Six Months Ended 30 June 2018 Consolidated (Unaudited)	31 December 2017 Consolidated (Unaudited)	Six Months Ended 30 June 2018 Company (Unaudited)	31 December 2017 Company (Unaudited)
3. Cash flows from financing activities					
Cash received from borrowings		1,386,695	614,921	1,250,000	500,000
Cash received from issuance of debentures		1,100,000	—	1,100,000	—
Cash received from capital contributions		63,896	—	—	—
Including: Cash received from capital contributions by minority shareholders of subsidiaries		63,896	—	—	—
Sub-total of cash inflows		2,550,591	614,921	2,350,000	500,000
Cash repayments of borrowings		(1,342,192)	(118,764)	(1,199,000)	—
Cash payments for distribution of interest expenses		(81,533)	(59,888)	(68,302)	(41,108)
Sub-total of cash outflows		(1,423,725)	(178,652)	(1,267,302)	(41,108)
Net cash flows from financing activities		1,126,866	436,269	1,082,698	458,892
4. Effect of foreign exchange rate changes on cash					
		—	—	—	—
5. Net increase/(decrease) in cash and cash equivalents					
		383,646	316,287	551,198	331,503
Add: Cash at beginning of period		1,893,689	1,181,120	779,808	454,678
6. Cash at end of period	4(37) (b)	2,277,335	1,497,407	1,331,006	786,181

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

Company representative:	Person in charge of accounting function:	Person in charge of accounting department:
Liu Yujun	Peng Yilin	Liu Tao

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Consolidated Statement of Changes in Owners' Equity

For the six months ended 30 June 2018

(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 2017 (Audited)		1,427,228	399,115	444,925	2,473,109	259,440	5,003,817
Movements for the period ended 30 June 2017							
Total comprehensive income							
Net profit		—	—	—	255,058	14,361	269,419
Total comprehensive income for the period		—	—	—	255,058	14,361	269,419
Capital contribution by shareholders							
Reorganization of a subsidiary							
Profit distribution							
Appropriation to surplus reserves		—		—	—	—	—
Dividend distribution to shareholders		—	—	—	(135,587)	—	(135,587)
Balance at 30 June 2017 (Unaudited)		1,427,228	399,115	444,925	2,592,580	273,801	5,137,649
Balance at 31 December 2017 (Audited)		1,427,228	399,115	479,907	2,810,790	296,736	5,413,776
Changes in accounting policies		—	—	—	—	—	—
Balance at 1 January 2018 (Unaudited)		1,427,228	399,115	479,907	2,810,790	296,736	5,413,776
Movements for the period ended 30 June 2018							
Total comprehensive income							
Net profit		—	—	—	282,565	18,922	301,487
Total comprehensive income for the period		—	—	—	282,565	18,922	301,487
Capital contribution by shareholders	4(23) (c)	—	16,818	—	—	366,548	383,366
Balance at 30 June 2018 (Unaudited)		1,427,228	415,933	479,907	3,261,441	682,206	6,266,715

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

Company Statement of Changes in Owners' Equity

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

Item	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2017 (Audited)	1,427,228	380,788	444,925	1,932,015	4,184,956
Movements for the period ended 30 June 2017					
Total comprehensive income					
Net profit	—	—	—	140,403	140,403
Total comprehensive income for the period	—	—	—	140,403	140,403
Profit distribution	—	—	—	—	—
Appropriation to surplus reserves	—	—	—	(135,587)	(135,587)
Dividend distribution to shareholders	—	—	—	—	—
Balance at 30 June 2017 (Unaudited)	1,427,228	414,376	1,936,831	4,189,772	
Balance at 31 December 2017 (Audited)	1,427,228	380,788	479,907	2,111,266	4,399,189
Changes in accounting policies	—	—	—	(1,964)	(1,964)
Balance at 1 January 2018 (Unaudited)	1,427,228	380,788	479,907	2,109,302	4,397,225
Movements for the period ended 30 June 2018					
Total comprehensive income					
Net profit	—	—	—	154,962	154,962
Total comprehensive income for the period	—	—	—	154,962	154,962
Balance at 30 June 2018 (Unaudited)	1,427,228	380,788	479,907	2,264,264	4,552,187

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

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements

For the six months ended 30 June 2018

(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 30 June 2018, 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 (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 Tianjin Water Authority Bureau (“TWAB”)
Xianyanglu, Tianjin	18 February 2014	TUCC and TWAB

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For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(a) Processing of sewage water (Continued)

Location	Agreement date	Authorized by
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 Management Committee
Hefei, Anhui	16 June 2017	Heifei Urban Construction Committee
Dalian, Liaoning	1 November 2017	Dalian Urban Construction Bureau
Bayannur, Inner Mongolia	12 December 2017	Bayannur Water Bureau
Ningxiang, Changsha	27 April 2018	Bayannur Hetao Water Group Company, Ltd. Ningxiang Economic and Technological Development Zone Management Committee

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 28 August 2018.

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements
For the six months ended 30 June 2018
(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 six months ended 30 June 2018 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 30 June 2018 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. This financial statement is dated from 1 January 2018 to 30 June 2018.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

(5) Business Combination

(a) Business combinations not under common control

The acquisition cost incurred by the buyer and the identifiable net assets acquired in the merger is measured at the fair value on the purchase date. The cost of combination greater than the difference of the fair value share of identifiable net assets acquired on the purchase date, is confirmed as goodwill; the cost of the merger less than the difference of fair value share of the identifiable net assets obtained in the merger, is recorded into the current profit and loss. The direct related expenses incurred for the enterprise merger shall be recorded into the current profit and loss at the time of occurrence. The transaction cost of issuing equity securities or debt securities for the purpose of a merger shall be included in the initial amount of recognition of equity securities or debt securities.

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements
For the six months ended 30 June 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) 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.

(7) Cash

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

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) 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.

9. Financial Reports
II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements
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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments

Financial instruments refer to the contracts that form one party's financial assets and form other parties' financial liabilities or equity instruments. The group recognize financial assets or financial liabilities when become one party of the financial instruments contracts.

(a) *Financial assets*

(i) Classification of financial assets

Based on the business model for financial asset management and the contractual cash flow characteristics of financial assets, the Group classifies the financial assets into: (1) financial assets measured at amortised cost; (2) financial assets at fair value through other comprehensive income.

Financial assets are initially recognised at fair value. For financial assets at fair value through profit and loss, the related transaction costs are directly recognised in profit or loss. For other financial assets, the related transaction costs are included in initially recognised amounts. Trade receivables or notes receivable arising from sales of products or rendering of services (excluding or without regard to significant financing components) are initially recognised at the consideration that is entitled to be charged by the Group as expected.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(ii) Recognition and measurement

Debt instruments

Debt instruments held by the Group are those meet the definition of a financial liability from the issuer's perspective and are measured at the following methods:

Measured at amortised cost:

The Group's business model for financial asset management aims to receive contractual cash flows. The contractual cash flow characteristics of such financial assets are consistent with basic loan arrangement, which means the cash flow generated at certain date is only the payment for the principal and the corresponding interest based on unpaid principal. The interest income of such financial assets is recognised using the effective interest method. The Group's financial assets mainly include cash at bank and on hand, notes receivable and trade receivables, other receivables, debt investments and long-term receivables. Debt investments and long-term receivables with maturities no more than one year (inclusive) at the balance sheet date are included in the current portion of non-current assets; debt investments with maturities of no more than one year (inclusive) when the investments were made are included in other current assets.

Equity instruments

The Group designates non-traded investments in equity instrument as financial assets at FVOCI, and present as other investments in equity instrument. Relevant dividend income of these financial assets are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(iii) Impairment of financial assets

The Group recognises the loss provision based on expected credit losses (“ECL”) for financial assets measured at amortised cost.

The Group calculates the probability weighted amount of the present value of differences between the cash flows receivable by the contract and the cash flows expected to be received, and recognises the ECL by considering the reasonable and well-founded information on past events, current conditions and forecasts of future economic conditions, taking the risk of default as a weight.

As at each balance sheet date, the Group measures the ECL of financial instruments at different stages respectively. Financial instrument that had no significant increase in credit risk upon initial recognition belongs to “Stage 1”, and the Group makes loss provision based on the ECL in the following 12 months. Financial instrument that had a significant increase but with no credit impairment upon initial recognition belongs to “Stage 2”, and the Group makes the loss provision based on the lifetime ECL. Financial instrument that suffered credit impairment upon initial recognition belongs to “Stage 3”, and the Group makes the loss provision based on the lifetime ECL.

For the financial instrument with lower credit risk on the balance sheet date, the Group assumes that its credit risk had no significant increase upon initial recognition, and makes the loss provision based on the ECL in the following 12 months.

For financial instruments belonging to “Stage 1”, “Stage 2” and those with lower credit risk, the interest income is calculated based on its carrying amount (including impairment provision) and effective interest rate. For the financial instrument belonging to “Stage 3”, the interest income is calculated based on the amortised cost (which is made after carrying amount less the impairment provision) and effective interest rate.

For notes receivable, trade receivables and contract assets, regardless of existence of the significant financing component, the Group makes the loss provision according to the lifetime ECL.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(iii) Impairment of financial assets (Continued)

The Group divides receivables into certain groupings based on credit risk characteristics, then pursuant to which, calculates the ECL. Basis for grouping is as follows:

Banker's acceptance notes group	Banker's acceptance from bank under low risk
Government clients group	Trade receivables with government clients except those in provincial capitals and municipalities
Other clients group	Trade receivables excluding those are subject to government clients group
Value added tax (VAT) refund group	VAT refund
Project deposit group	Project deposits
Receivables from subsidiaries group	Receivable from subsidiaries
Others group	Other receivables excluding VAT refund, project deposits and receivable from subsidiaries

For notes receivable that are classified into groupings, the Group calculates ECL using exposure at default ("EAD") and lifetime ECL rate with reference to historical credit loss experience, in combination with the current situation and forecasts of future economic conditions.

For trade receivables that are classified into groupings, the Group calculates ECL by preparing cross-reference between overdue days of trade receivables and lifetime ECL rate with reference to historical credit loss experience, in combination with the current situation and forecasts of future economic conditions.

For other receivables that are classified into groupings, the Group calculates ECL using EAD and lifetime ECL rate or ECL rate in the following 12 months with reference to historical loss experience, in combination with the current situation and forecasts of future economic conditions.

The Group included the provision for or reversal of loss provision into profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(a) Financial assets (Continued)

(iv) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (1) the contractual rights to receive the cash flows from the financial asset expire; (2) 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; (3) 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 other investments in equity instrument, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in other comprehensive income, is recognised in retained earnings; on derecognition of other financial assets, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in other comprehensive income, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss.

The Group's financial liabilities mainly refer to financial liabilities measured at amortised cost, including notes receivable and trade receivables, other payables, borrowings and debentures payable. Such financial liabilities are initially recognised at fair value, net of transaction costs incurred, and subsequently measured using effective interest method. Financial liabilities of which the period is within one year (inclusive) are classified as the current liabilities; the period is over one year while will be due within one year (inclusive) 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 derecognised 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 recognised in profit or loss.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(c) *Determination of fair value of financial instruments*

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. In valuation, the Group adopts valuation techniques applicable in the current situation and supported by adequate available data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant transactions of assets or liabilities by market participants, and gives priority to the use of relevant observable inputs. When relevant observable inputs are not available or feasible, unobservable inputs are adopted.

(10) Inventories

(a) *Classification*

Inventories include raw materials, finished goods, spare parts, lowcost 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 lowcost 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 lowcost 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.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

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

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

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

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group does not recognise further losses when the carrying amounts of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in investees are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions 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.

9. Financial Reports
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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

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

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

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

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

(d) *Impairment of long-term equity investments*

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

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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%

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)).

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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

(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.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Fixed assets

(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)).

9. Financial Reports
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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.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Intangible assets (Continued)

(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)).

(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.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset group or group of asset groups in proportion to the carrying amounts of assets other than goodwill.

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

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For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

(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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Dividends distribution

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

(20) Provisions

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

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

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

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:

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue recognition (Continued)

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

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

(b) *Construction of sewage water facilities*

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue recognition (Continued)

(d) Sales of pipeline connection for recycled water

The group provides the pipeline connection for recycled waterservices, and recognize the income within a period of time according to the proportion of completed achievements to the total results agreed in the contract. On the balance sheet date, the group reestimates the proportion of completed achievements to enable it to reflect changes in performance.

When the group recognize its income in accordance with the progress of completing projects, the part of the group's obtained unconditional collection right is confirmed as receivables, the rest is confirmed as contract assets, and the impairment loss preparation is confirmed on the basis of ECL for receivables and contract assets. If the amount received or receivable by the group exceeds the amount of completed works, the excess shall be recognized as contract liabilities and the group shall list the assets and liabilities under the same contract on a net basis.

Contract costs include the performance cost and acquisition cost. The cost of providing pipeline connection identified as the contract implementation costs and the cost is recognized as operating cost according to the completing schedule included in the carrying forward cost of labor when recognize income. The incremental cost incurred by the group to obtain the contract for the connection of water pipes is confirmed as the contract acquisition cost. For the cost obtained in the contract with the amortization period of less than one year, the cost obtained by the contract shall be recorded into the current profit and loss when it occurs; for the cost obtained in the contract with the amortization period of more than one year, the group shall, in accordance with the relevant contract, recognize the same basic amortization as the income of the project connected to the middle water pipeline into profit and loss. If the Carrying Amount of the contract cost is higher than the residual consideration expected to be obtained by providing the project minus the estimated cost to be incurred, the group shall prepare the impairment provision for the excess part and recognize it as the impairment loss of assets. On the balance sheet date, the group shall list the inventory and other non-current assets respectively according to whether the amortization period of the contract performance cost exceeds one year when it is initially recognized, so as to reduce the net amount after the relevant asset impairment provision. For the contract acquisition cost whose amortization period is longer than one year when the initial recognition is made, the net amount after the relevant asset impairment provision is deducted and listed as other non-current assets.

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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue recognition (Continued)

(e) *Sales of environmental protection equipment*

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

(f) *Contract operation income*

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

(g) *Technical services income*

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

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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.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(23) Deferred tax assets and deferred tax liabilities

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

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

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

Deferred tax assets and liabilities are offset when:

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

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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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting estimates and judgements

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

(a) Critical accounting estimates and key assumptions

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

(i) The measurement of ECL

The ECL is calculated based on the EAD and ECL rate, and the ECL rate is determined based on probability of default (“PD”) and loss given default (“LGD”). When determining the ECL rate, the Group adjusts its historical data by referring to historical credit loss experience and combining current situation and forward-looking information. When considering the forward-looking information, indicators used by the Group include the risk of economic downturn, estimated growth of unemployment rate, external market environment and changes in customers. The assumptions relating to the ECL calculation are monitored and reviewed by the Group on a regularly basis. There have been no significant changes in forementioned estimation techniques and significant assumptions in 2018.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting estimates and judgements (Continued)

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

(iv) Accounting estimates on impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups and groups of asset groups is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (Note 4(13)).

If management revises the gross margin that is used in the calculation of the future cash flows of asset groups and groups of asset groups, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill.

If the actual gross margin/pre-tax discount rate is higher/lower than management's estimates, the impairment loss of goodwill previously provided for is not allowed to be reversed by the Group.

(b) Critical judgments in applying the accounting policies

(i) Classification of financial assets

Significant judgments involved in determining the classification of financial assets include analysis of business model and contractual cash flow characteristics.

Factors considered by the Group in determining the business model for financial asset management at the level of portfolio of financial assets include how the financial asset's performance is evaluated and reported to key management personnel, risks affect the performance of financial assets and how they are managed and how management personnel is compensated.

The following major judgments exist when assessing whether the contractual cash flow of financial assets is consistent with the basic loan arrangement: whether the principal may change in time distribution during the duration or change in amount due to reasons such as early repayment; whether interest includes only the time value of currency, credit risk, other basic loan risks and considerations for costs and profits. For example, whether the amount paid in advance reflects only the unpaid principal and interest based on unpaid principal and reasonable compensation paid for early termination of the contract.

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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting estimates and judgements (Continued)

(b) Critical judgments in applying the accounting policies (Continued)

(ii) Judgement on significant increase in credit risk

The main criteria for the Group to judge the significant increase in credit risk of government clients group is that the overdue days exceed 90 days, or one or more of the following indicators have changed significantly: business environment of the debtor, internal and external credit rating, dramatic changes in actual or expected operating results, and significantly decline in the value of collateral or credit rating of the guarantee provider.

The Group's main criteria for determining that credit impairment of government clients group has occurred is that the overdue days exceed 180 days (i.e., a default has occurred) or one or more of the following conditions are met: the debtor is exposed to significant financial difficulties, enters other debt restructuring or bankruptcy.

The debtors of the government clients group is the local government or the functional department under its jurisdiction, whose fund allocation needs to go through the prescribed approval procedures of budget allocation. Compared with the ordinary debtors, the fund allocation cycle is relatively long, so the Group makes above judgment.

The main criteria for the Group to judge the significant increase in credit risk of groups other than government clients group is that the overdue days exceed 30 days, or one or more of the following indicators have changed significantly: business environment of the debtor, internal and external credit rating, dramatic changes in actual or expected operating results, and significantly decline in the value of collateral or credit rating of the guarantee provider.

The Group's main criteria for determining that credit impairment of groups other than government clients group has occurred is that the overdue days exceed 90 days (i.e., a default has occurred) or one or more of the following conditions are met: the debtor is exposed to significant financial difficulties, enters other debt restructuring or bankruptcy.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies

(a) Revenue

The Ministry of Finance issued the revised CAS 14 - Revenue (“new revenue standard”) in 2017 and the Group has adopted the above standard to prepare the financial statements for the year ended 31 December 2018. The influences on the Group’s financial statements are listed as follows:

According to the new revenue standard, the Group adjusts retained earnings at the beginning of 2018 and amounts of other related items in the financial statements based on the cumulative amounts affected of initial adoption of the standard. The comparatives for 2017 are not restated.

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected (Unaudited) 1 January 2018
Due to the adoption of new revenue standards, the Group reclassifies the advances from customers related to recycled water pipes connection service to the contract liabilities.	Contract liabilities	562,364
	Advances from customers	(562,364)

Due to the adoption of new revenue standards, the Group adjusted equity attributable to shareholders of the parent company of RMB 171 million in the consolidated financial statements, including undistributed profit of RMB 171 million.

Compared with the original revenue standards, impacts from the adoption of new revenue standards on financial statements items for the six months ended 30 June 2018 are as follows:

	For the year ended 30 June 2018 The amounts affected (Unaudited)
Balance sheet items affected	
Contract liabilities	450,044
Advances from customers	(450,044)
	For the year ended 30 June 2018 The amounts affected (Unaudited)
Income statement items affected	
Revenue	110,596
Cost of sales	52,951

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies (Continued)

(b) Financial assets

The Ministry of Finance released the *CAS 22 - Recognition and Measurement of Financial Instruments*, *CAS 23 - Transfer of Financial Assets* and *CAS 37 - Presentation of Financial Instruments* (hereinafter referred to as “new standards on financial instruments”) in 2017 and *the Circular of the Ministry of Finance on Amendment to Formats of Financial Statements of General Industry for 2018 (Cai Kuai [2018] No. 15)* in 2018. The financial statements for the year ended 31 December 2018 are prepared in accordance with the above standards and circular, and the impacts are as follows:

- (i) On 1 January 2018, the classification and measurement of financial assets in accordance with the original and the new standards on financial instruments are compared as follows:

Item	The original standards on financial instruments		Item	The new standards on financial instruments	
	Measurement category	Carrying amount		Measurement category	Carrying amount
Cash at bank and on hand	Amortised cost	1,905,678	Cash at bank and on hand	Amortised cost	1,905,678
			Financial assets held for trading	At fair value through profit or loss	—
Notes receivable and trade receivables	Amortised cost	1,932,058	Notes receivable and trade receivables	Amortised cost	1,929,400
			Other current assets	At fair value through other comprehensive income (FVOCI)	—
Other receivables	Amortised cost	93,708	Other receivables	Amortised cost	93,708
Available-for-sale financial assets	Equity instruments measured at cost	2,000	Other investments in equity instruments	FVOCI	2,000
Long-term receivables	Amortised cost	294,956	Long-term receivables	Amortised cost	294,956

As at 31 December 2017 and 1 January 2018, the Group did not hold any financial assets at fair value through profit or loss.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies (Continued)

(b) Financial assets (Continued)

- (ii) On 1 January 2018, reconciliation from carrying amount of the original financial assets to that under the new standards on financial instruments in accordance with the measurement categories under the new standards on financial instruments:

Measurement categories under new standards on financial instruments	Note
Financial assets measured at amortised cost	Table 1
Financial assets at FVOCI	Table 2

Table 1: Financial assets measured at amortised cost

under new accounting standard for financial instruments

	Note	Carrying amount
Cash at bank and on hand		
31 December 2017 and 1 January 2018		1,905,678
Receivables (Note 1)		
31 December 2017		2,320,722
Less: Financial assets at FVOCI (under new standards on financial instruments)		—
Remeasurement: Total ECL		(2,658)
1 January 2018		2,318,064
Total financial assets measured at amortised cost (new standards on financial instruments)		4,223,742

Note 1: As at 31 December 2017 and 1 January 2018, balance of receivables comprises financial statements items such as notes receivables, trade receivables, other receivables and long-term receivables, etc.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) **Significant changes in accounting policies** (Continued)

(b) *Financial assets* (Continued)

- (ii) On 1 January 2018, reconciliation from carrying amount of the original financial assets to that under the new standards on financial instruments in accordance with the measurement categories under the new standards on financial instruments: (Continued)

Table 2: Financial assets at FVOCI

	Note	Carrying amount
Other investments in equity instruments 31 December 2017		—
Add: Transfer from available-for-sale financial assets (under old standards on financial instruments)	i)	2,000
Remeasurement: Transfer from measured at cost to measured at fair value	i)	—
1 January 2018		<u>2,000</u>
	Note	Carrying amount
Available-for-sale financial assets 31 December 2017		2,000
Less: Transfer to financial assets at FVOCI (under new standards on financial instruments)	i)	(2,000)
1 January 2018		<u>—</u>
Total financial assets at FVOCI (under new standards on financial instruments)		<u>2,000</u>
		<u>2,000</u>

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies (Continued)

(b) Financial assets (Continued)

- (ii) On 1 January 2018, reconciliation from carrying amount of the original financial assets to that under the new standards on financial instruments in accordance with the measurement categories under the new standards on financial instruments: (Continued)

Table 2: Financial assets at FVOCI (Continued)

- i) Designation of investments in equity instruments as financial assets at FVOCI

As at 31 December 2017, the carrying amount of Group's unlisted equity investments measured at cost was RMB 2,000,000 yuan with accumulative impairment provision of RMB 0. On 1 January 2018, the Group designated the equity investments as financial assets at FVOCI with consideration of strategic investment, which are classified as investments in other equity instrument. The Group accordingly adjusted other comprehensive income at beginning of the period based on the difference of RMB 0 yuan between fair value and original carrying amount, and transferred accumulative impairment provision of RMB 0 from retained earnings at beginning of the period to other comprehensive income.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) **Significant changes in accounting policies** (Continued)

(b) *Financial assets* (Continued)

- (iii) On 1 January 2018, reconciliation from the impairment provision for the original financial assets to loss provision under the new standards on financial instruments:

Measurement category	Loss provision made under original standards on financial instruments/ Provisions recognised under accounting standards on contingencies	Reclassification	Remeasurement	Loss provision under the new standards on financial instruments
Financial assets measured at amortised cost - Impairment provision for notes receivable and trade receivables	34,101	—	2,658	36,759
Impairment provision for other receivables	—	—	—	—
Impairment provision for long-term receivables	—	—	—	—
Financial assets at FVOCI				
Impairment provision for available-for-sale financial assets	—	—	—	—
Impairment provision for other investments in equity instruments	—	—	—	—
Total	<u>34,101</u>	<u>—</u>	<u>2,658</u>	<u>36,759</u>

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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 'VAT Rates Adjustment Notice' (Cai Shui [2018] No. 32) issued by the Ministry of Finance, to the VAT taxable taxpayers selling behavior or import goods, the original applicable tax rate 17% and 11% will be adjusted to 16% and 10%. The Group has adjusted VAT tax rate of VAT taxable income accordingly.

(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 <i>Notice of Guizhou Provincial SAT on Implementation of Preferential Tax Policy Relating to Development of Western Regions</i> , (Qian Guo shui Han[2011] No.19) from 2011 to 2020.
Xi'an Capital Water Co., Ltd.	15%	According to <i>Notice of Shaanxi Provincial SAT on Issuing Measures for Review and Management of Preferential Tax Policy of Enterprises Relating to Development of Western Regions</i> , (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.

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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

	30 June 2018	31 December 2017
Cash on hand	177	144
Cash at bank	2,277,158	1,893,545
Other cash balances	15,743	11,989
	<u>2,293,078</u>	<u>1,905,678</u>
Including: Bank deposits overseas	<u>8,322</u>	<u>8,203</u>

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

	30 June 2018	31 December 2017
Cash at bank and on hand	2,293,078	1,905,678
Less: Restricted bank deposits (Note (i))	(15,743)	(11,989)
Cash listed in cash flow statement (Note 4(35))	<u>2,277,335</u>	<u>1,893,689</u>

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

(2) Notes receivable and Trade receivables

	30 June 2018	31 December 2017
Notes receivable (a)	698	1,900
Trade receivables (b)	2,097,063	1,930,158
	<u>2,097,761</u>	<u>1,932,058</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes receivable and Trade receivables (Continued)

(a) Notes receivable

	30 June 2018	31 December 2017
Bank acceptance notes	698	1,900
Less: Provision for bad debts	—	—
	<u>698</u>	<u>1,900</u>

(i) As at 30 June 2018, the group has no pledged notes receivable.

(b) Trade receivables

	30 June 2018	31 December 2017
Tradereceivables	2,130,899	1,964,259
Less: Provision for bad debts	(33,836)	(34,101)
	<u>2,097,063</u>	<u>1,930,158</u>

(i) As at 30 June 2018, 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	Provision for bad debts	% of total balance
TWAB	Third party	1,588,036	(767)	75%
Qujing City Water General Company	Third party	139,322	(20,329)	7%
Hangzhou Sewage Company	Third party	133,464	(29)	6%
City Infrastructure Construction and Investment	Ultimate holding company	43,209	(501)	1%
Xi'an Infrastructure Investment Group	Third party	17,027	(14)	2%
Total		<u>1,921,058</u>	<u>(21,640)</u>	<u>91%</u>

(c) Provision for bad debts:

	30 June 2018	31 December 2017
Notes receivable	—	—
Trade receivables	(33,836)	(34,101)
	<u>(33,836)</u>	<u>(34,101)</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes receivable and Trade receivables (Continued)

(c) Provision for bad debts (Continued):

(i) As at 30 June 2018, provision for bad debts by individual is analyzed as below:

Customer	Carrying amount	ECL rate	Impairment	Reasons
TWAB	1,588,036	0.05%	(767)	i)
Xi'an Infrastructure Investment Group	17,027	0.05%	(14)	i)
Hangzhou Sewage Company	133,464	0.05%	(29)	i)
Guiyang water bureau	11,110	0.05%	(2)	i)
Qujing Sewage Company	139,322	16.00%	(20,329)	ii)
Tianjin Qudong Culture Media Co. Ltd	7,909	100.00%	(7,909)	iii)
Total	1,896,868		(29,051)	

- i) As these clients are provincial and municipal governments or their representatives, whose ability to meet their contractual cash flow obligations may not be weakened even if there are adverse changes in the economic and business situation over a long period, the receivables of the Company from Tianjin Water Authority Bureau, Xi'an Capital Water Co., Ltd. from Xi'an Urban Infrastructure Construction Investment Group Co., Ltd., Hangzhou Tianchuang Capital Water Co., Ltd. from Hangzhou Sewage Company, and Guizhou Capital Water Co., Ltd. from Guiyang Water Authority Bureau have a lower credit risk. Based on the historical experience of operation, the Group maintains continuous receipts. Therefore, the Company estimates that the lifetime ECL rate of the receivables is 0.05%.
- ii) Receivables of Qujing Capital Water Co., Ltd. from Qujing City Water General Company comprise regular sewage treatment fee, tap water fee and price compensation. As the receivables of regular sewage treatment fee and tap water fee have a longer collection period than ordinary government clients and they have higher credit risk, the Group estimates that the lifetime ECL rate is 3%; Considering the debtor's actual performance capacity, historical collection experience and the ageing of the receivables, the Group presumes that the receivables of price compensation have been defaulted and estimates that the lifetime ECL rate is 100%.
- iii) Receivable of Tianjin Capital Alternative Energy Technology Co., Ltd. from Tianjin Qudong Culture Media Co., Ltd. has reached the litigation stage. Thus, the Company presumes that the receivables have been defaulted and estimates that the lifetime ECL is 100%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes receivable and Trade receivables (Continued)

(c) Provision for bad debts (Continued):

(ii) As at 30 June 2018, provision for bad debts by group is analyzed as below:

Group - banker's acceptance

As at 30 June 2018, the group measures bad debt provision in accordance with the ECL for the entire duration, and the amount is RMB 0 yuan. The Group considers that there is no significant credit risk in banker's acceptance and no major loss will be caused by bank default.

Group - government clients except provincial and municipal government clients

	Carrying amount Amount	30 June 2018	
		ECL rate	Impairment Amount
No overdue (within one month)	35,682	0.01%	(3)
1-90 days overdue	39,157	0.05%	(6)
90-180 days overdue	3,873	0.20%	(7)
>180 days overdue	12,817	0.50%	(40)
	<u>91,529</u>		<u>(56)</u>

Group - others

	Carrying amount Amount	30 June 2018	
		ECL rate	Impairment Amount
No overdue	17,922	0.10%	(36)
1-30 days overdue	24,439	0.50%	(93)
30-90 days overdue	29,478	2.00%	(823)
>90 days overdue	70,663	5.00%	(3,778)
	<u>142,502</u>		<u>(4,730)</u>

Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes receivable and Trade receivables (Continued)

(c) Provision for bad debts (Continued):

(iii) The net reverse amount of bad debt provision for this period is RMB 2,923 thousand yuan, in which the amount of bad debt provision collected or reversed is RMB 4,631 thousand yuan, the corresponding carrying amount is RMB 8,701 thousand yuan. The main collected or reversed amount is as follow:

	Reason for collected or reversed	Basis and rationality of bad debts provision	Amount of collected or reversed	Method of collected of reversed
TianjinXinghePaper Company Ltd.	Trade receivables collected	Long Aging	4,020	Collected by cash
Others	Tradereceivables collected	Long Aging	611	Collected by cash
			<u>4,631</u>	

(3) Advances to suppliers

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

	30 June 2018		31 December 2017	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	24,925	55%	43,069	35%
1 to 2 years	19,281	43%	71,489	57%
Over 2 years	1,082	2%	10,212	8%
	<u>45,288</u>	<u>100%</u>	<u>124,770</u>	<u>100%</u>

As at 30 June 2018, advances to suppliers of RMB 20 million (31 December 2017: RMB 82 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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Advances to suppliers (Continued)

(b) As at 30 June 2018, 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>8,986</u>	<u>20%</u>

(4) Other receivables

	30 June 2018	31 December 2017
VAT refund receivable	18,828	9,525
Project deposits	12,779	74,284
Others	8,546	9,899
Less: Provision for bad debts	<u>—</u>	<u>—</u>
	<u>40,153</u>	<u>93,708</u>

(a) Changes in impairment loss provisions and Carrying Amount:

	ECL in the next 12 months (group)		Stage 1 ECL in the next 12 months (single)		Subtotal Carrying Amount	Stage 3 ECL for the entire duration (credit impairment occurred)		Total Provision for bad debts
	Carrying Amount	Provision for bad debts	Carrying Amount	Provision for bad debts		Carrying Amount	Provision for bad debts	
31 December 2017	—	—	—	—	—	—	—	—
Impact of changing accounting policies	—	—	—	—	—	—	—	—
1 January 2018	—	—	—	—	—	—	—	—
Addition	—	—	—	—	—	—	—	—
Reverse	—	—	—	—	—	—	—	—
Write-off	—	—	—	—	—	—	—	—
Transfer to stage 3	—	—	—	—	—	—	—	—
Reverse to stage 1	—	—	—	—	—	—	—	—
30 June 2018	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

(a) Changes in impairment loss provisions and Carrying Amount: (Continued)

(i) As at 30 June 2018, provisions for bad debts of other receivables in stage 1 are analyzed as follows:

	Carrying amount	ECL rate in the next 12 months	Provision for bad debts	Reason
Group:				
VAT refunds	18,828	0.05%	—	i)
Project deposits	12,779	0.05%	—	i)
Others	8,546	0.10%	—	i)
	<u>40,153</u>		<u>—</u>	

i) The VAT refund is due to the local tax authorities, and the project deposits are the construction deposit handed over to the local government during the construction period of the franchise project. As at 30 June 2018, other receivables of the Company are not overdue and have low credit risk and its credit risk has not increased significantly since the initial confirmation, so other receivables of the Company are belong to stage 1. The credit risk of VAT receivable and project margin is lower than that of other customers, so the ECL rate is 0.05% in the next 12 months and 0.1% in the next 12 months for other payments.

(ii) As at 30 June 2018, the group has no other receivables belong to stage 2 and stage 3.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

(b) As at 30 June 2018, other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Nature	Amount	Aging	% of total balance	Provision for bad debts
Tianjin State Taxation Bureau	VAT refund receivable	9,820	Within 1 year	25%	—
Linxia City Water Supply and Sewerage Company	Project deposits	8,000	1 to 2 years	20%	—
Xi'an Hi-tech District State Taxation Bureau	VAT refund receivable	2,601	Within 1 year	6%	—
Linxia Human Resources and Social Security Bureau	Others	1,803	Within 1 year	4%	—
Jieshou Finance Bureau	Project deposits	1,000	2 to 3 years	2%	—
		<u>23,224</u>		<u>57%</u>	

(c) As at 30 June 2018, the group's analysis of government subsidies confirmed by the amount receivables is as follows:

	Government subsidies program	Amount	Aging
Tianjin Capital Environmental Protection Group Co, Ltd.	VAT refund	9,820	Within 1 year
Xi'an Capital Water Co., Ltd.	VAT refund	2,601	Within 1 year
Hangzhou Capital Water Co., Ltd.	VAT refund	1,682	Within 1 year
Fuyang Capital Water Co., Ltd.	VAT refund	1,378	Within 1 year
Guizhou Capital Water Co., Ltd.	VAT refund	1,067	Within 1 year
Baoying Capital Water Co., Ltd.	VAT refund	848	Within 1 year
Qujing Capital Water Co., Ltd.	VAT refund	491	Within 1 year
Tianjin Water Recycling Co., Ltd.	VAT refund	362	Within 1 year
Wendeng Capital Water Co., Ltd.	VAT refund	294	Within 1 year
Wuhan Capital Water Co., Ltd.	VAT refund	158	Within 1 year
Anguo Capital Water Co., Ltd.	VAT refund	127	Within 1 year
		<u>18,828</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Inventories

	30 June 2018			31 December 2017		
	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	8,496	—	8,496	8,251	—	8,251
Finished goods	3,026	—	3,026	3,198	—	3,198
Spare parts and low cost consumables	786	—	786	414	—	414
Construction contract	3,892	—	3,892	6,249	—	6,249
	<u>16,200</u>	<u>—</u>	<u>16,200</u>	<u>18,112</u>	<u>—</u>	<u>18,112</u>

(6) Other current and non-current assets

	30 June 2018	31 December 2017
Other current assets:		
Assets of Anguo	36,913	36,913
Input VAT to be deducted	90,303	47,219
Input VAT to be verified	—	38
Others	713	1,279
	<u>127,929</u>	<u>85,449</u>
Other non-current assets:		
Stock prepayments of Bayannur Projects	—	380,000
Prepayments of construction	277,662	209,824
Others	9,597	8,609
	<u>287,258</u>	<u>598,433</u>

(7) Long-term receivables

	30 June 2018	31 December 2017
Toll road concession	285,786	294,956
Less: Bad debt provision	—	—
	<u>285,786</u>	<u>294,956</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.

Tianjin Municipal Transportation Commission is a public institution under the Tianjin municipal government, which has low credit risk. According to historical experience, the Company can collect the money within the agreed period. Therefore, the Company estimates that the ECL rate of this receivable item is 0.05%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Long-term equity investments

	30 June 2018	31 December 2017
Investment in an associate (note (a))	22,358	22,358
Less: Impairment of Long-term equity investments (note (b))	(22,358)	(22,358)
	<u>—</u>	<u>—</u>

(a) Investment in associate

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

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

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

	Initial investment cost	31 December 2017	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	30 June 2018	Provision for impairment at the end 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.

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

	Accumulated unrecognized losses at the beginning of the period	Unrecognized losses in the current period	Accumulated unrecognized losses at the end of the period
International Machinery	644	379	1,023

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Long-term equity investments (Continued)

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

	31 December 2017	Additions	Disposals	30 June 2018
International Machinery	22,358	—	—	22,358
	<u>22,358</u>	<u>—</u>	<u>—</u>	<u>22,358</u>

(9) Other investments in equity instruments

	30 June 2018	31 December 2017
Equity instruments		
Shares of unlisted company (Notes 2 (28 b))		
– Tianjin Beifang Rencaigang Company Ltd.	<u>2,000</u>	<u>—</u>
	30 June 2018	31 December 2017
Tianjin Beifang Rencaigang Company Ltd.		
– Cost	2,000	—
– Accumulated fair value changes	—	—
	<u>2,000</u>	<u>—</u>

Other investments in equity instruments is 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. The group has no plan to dispose these investments.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Investment properties

	Buildings
Cost	
1 January 2017	137,374
Transfer to fixed assets	(18,966)
31 December 2017	118,408
Transfer to fixed assets	—
30 June 2018	118,408
Accumulated depreciation	
1 January 2017	(39,784)
Increase in the current period	(3,673)
Decrease in the current period	11,869
31 December 2017	(31,588)
Charge for the year	(1,837)
Transfer to fixed assets	—
30 June 2018	(33,425)
Net Carrying Amount	
30 June 2018	84,983
31 December 2017	86,820

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 30 June 2018 was approximately RMB 122 million (2017: RMB 122 million) and its carrying amount was approximately RMB 64 million. The fair value of leased property of Tianjin Water Recycling Co., Ltd. at 30 June 2018 was approximately RMB 117 million (2017: RMB 117 million) and its carrying amount was approximately RMB 21 million.

Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Fixed assets and construction in progress

(a) Fixed assets

	Buildings and structures (note (i))	Machinery and equipment	Motor vehicles & others	Total
Cost –				
1 January 2017	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
Additions in the current period	—	36	1,267	1,303
Disposals in the current period	—	—	(2,586)	(2,586)
30 June 2018	299,825	320,167	66,220	686,212
Accumulated depreciation –				
1 January 2017	(72,144)	(129,024)	(51,821)	(252,989)
Transfers from investment properties	(18,819)	(19,325)	(1,918)	(40,062)
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)
Charge for the year (note (ii))	(9,412)	(9,592)	(1,798)	(20,802)
Disposals in the current year	—	—	2,468	2,468
30 June 2018	(112,244)	(157,941)	(51,813)	(321,998)
Net Carrying Amount –				
30 June 2018	187,581	162,226	14,407	364,214
31 December 2017	196,993	171,782	15,056	383,831

- (i) All of the Group's buildings and structures are located in the PRC.
- (ii) The Group's depreciation expenses of RMB 19 million (2017: RMB 18 million) have been included in cost of sales and RMB 2 million (2017: RMB 2 million) in general and administrative expenses and selling and distribution expenses.
- (iii) As at 30 June 2018, 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 116 million (31 December 2017: cost of RMB 175 million and carrying amount of RMB 118 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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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Movement of significant projects of construction in progress

Name	Budgeted amount	31 December 2017	Increase in the current year	Transfer to fixed assets	Transfer to Intangible assets	30 June 2018	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	—	147,953	—	(147,953)	—	22%	22%				Self-raised
Tianjin-Beichen sewage water processing plant expanding and standard upgrading project	462,880	—	82,837	—	(82,837)	—	23%	23%				Self-raised
Tianjin- Capital Alternative Heiniucheng Roads energy station project	247,270	—	15,643	—	(15,643)	—	42%	42%				Self-raised
Fuyang- Jieshou PPP Project of sewage operation	279,945	—	82,050	—	(82,050)	—	40%	40%				Self-raised
Shandong- Yishui&Tancheng City Solid Waste Treatment project	640,000	19,410	9,412	—	—	28,822	5%	5%				Self-raised
Changsha-Ningxiang sewage operation and supporting pipeline project	200,000	—	21,233	—	(21,233)	—	66%	66%	1,497	1,344	2.04%	Self-raised/ special borrowings
Anhui-Yuwan sewage treatment project	277,000	—	18,429	—	(18,429)	—	42%	42%	1,507	1,429	2.33%	Self-raised/ special borrowings
Xinjiang- Karamay PPP Project of sewage operation	497,915	—	10,060	—	(10,060)	—	13%	13%				Self-raised
Linxia-sewage water disposal PPP project	220,000	—	19,336	—	(19,336)	—	30%	30%				Self-raised
Dalian-Dalian Chunliuhe sewage operation project	220,730	—	40,052	—	(40,052)	—	56%	56%				Self-raised
Jinghai-Tianyu Science Park sewage water processing plant expanding and standard upgrading project	85,586	—	12,598	—	(12,598)	—	15%	15%				
Others		1,247	6,657	—	(6,447)	1,457						
		<u>20,657</u>	<u>466,260</u>	<u>—</u>	<u>(456,638)</u>	<u>30,279</u>			<u>3,004</u>	<u>2,773</u>		

Notes to the Financial Statements

For the six months ended 30 June 2018

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets

	30 June 2018	31 December 2017
Concession rights (note (a))	8,289,272	6,864,596
Land use rights (note (b))	36,050	36,717
Technical know-how and computer software (note (c))	4,898	5,105
	8,330,220	6,906,418

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

Cost		
1 January 2017		7,703,498
Transfers from construction in progress		658,926
Other additions		287,574
31 December 2017		8,649,998
Transfers from construction in progress (Note 4(11) (b))		456,638
Other additions		1,129,350
30 June 2018		10,235,986
Accumulated amortisation		
1 January 2017		(1,437,970)
Charge for the year		(295,349)
31 December 2017		(1,733,319)
Charge for the period		(161,312)
30 June 2018		(1,894,631)
Provision for impairment		
30 June 2017 and 30 June 2018		(52,083)
Net Carrying Amount		
30 June 2018		8,289,272
31 December 2017		6,864,596

(i) As at 30 June 2018, no concession rights have been secured against long-term borrowings. (As at 31 December 2017, certain of concession rights with net carrying amount of RMB 302 million, cost RMB 181 million have been secured against long-term borrowings of RMB 25 million.)

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

9. Financial Reports
 II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements
 For the six months ended 30 June 2018
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets (Continued)

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

Cost	
1 January 2017 and 31 December 2017	40,162
Addition in the current period	—
	<hr/>
30 June 2018	40,162
	<hr/>
Accumulated amortisation	
1 January 2017	(2,855)
Charge for the year	(590)
	<hr/>
31 December 2017	(3,445)
Charge for the year	(667)
	<hr/>
30 June 2018	(4,112)
	<hr/>
Net Carrying Amount	
30 June 2018	36,050
	<hr/> <hr/>
31 December 2017	36,717
	<hr/> <hr/>

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

Cost	
1 January 2017	11,518
Increase in the current year	23
	<hr/>
31 December 2017	11,541
Increase in the current period	—
	<hr/>
30 June 2018	11,541
	<hr/>
Accumulated amortisation	
1 January 2017	(5,962)
Charge for the year	(474)
	<hr/>
31 December 2017	(6,436)
Charge for the period	(207)
	<hr/>
30 June 2018	(6,643)
	<hr/>
Net Carrying Amount	
30 June 2018	4,898
	<hr/> <hr/>
31 December 2017	5,105
	<hr/> <hr/>

(d) In 2018, the amounts of amortization charged to cost of sales and general and administrative expenses were RMB 161 million (2017: RMB 148 million) and RMB 1 million (2017: RMB 48 million), respectively.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Goodwill

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2017
Goodwill				
Bayannur	—	29,652	—	29,652
Less: Provision for impairment (a)	—	—	—	—
Bayannur	—	29,652	—	29,652

Goodwill recognised in the current year arose from acquisition of the equity interests in Company Bayannur (Note 5(1)).

(14) Provision for asset impairment and loss

	31 December 2017	Changes in Accounting Policy	1 January 2018	Increase in the current year	Decrease in the current year		30 June 2018
					Reverse	Write-off	
Provision for notes receivable and trade receivables (Notes(i))	34,101	2,658	36,759	1,708	(4,631)	—	33,836
Including: Single provision for bad debts	28,238	4,833	33,071	—	(4,020)	—	29,051
Combined provision for bad debts	5,863	(2,175)	3,688	1,708	(611)	—	4,785
Provision for intangible assets	52,083	—	52,083	—	—	—	52,083
Provision for other current assets (Notes(ii))	39,435	—	39,435	—	—	—	39,435
Provision for Long-term equity investments	22,358	—	22,358	—	—	—	22,358
	<u>147,977</u>	<u>2,658</u>	<u>150,635</u>	<u>1,708</u>	<u>(4,631)</u>	<u>—</u>	<u>147,712</u>

(i) For period end 6 months 30 June 2018, the Company's subsidiary Tianjin Caring Technology Development Co., Ltd. has collected some of the trade receivables which had been recognized bad debt provision.

9. Financial Reports
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	30 June 2018	31 December 2017
Trade payables (note (a))	139,741	128,254
Advances from customers (note (b))	65,290	930,888
Other payables (note (c))	565,508	627,209
Taxes payable (note (d))	61,237	63,741
Dividends payable (note (e))	1,912	1,912
	<u>833,688</u>	<u>1,752,004</u>

(a) As at 30 June 2018, trade payables are mainly for inventory purchase. Trade payables aged over one year are RMB 30 million (31 December 2017: RMB 30 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.

(b) Advances from customers:

	30 June 2018	31 December 2017
Toll road concession	44,140	—
For pipeline connection service	13,141	916,513
Received from project of Han Gu	4,467	4,467
For heating service	—	4,749
Others	3,542	5,159
	<u>65,290</u>	<u>930,888</u>

As at 30 June 2018, advances from customers aged over one year are RMB 5 million (31 December 2017: RMB 701 million), which mainly represent advances from Han Gu construction agent service. The balance is yet to be settled as the project has not been completed.

As at 30 June 2018, there were no advances from customers from any of the shareholders of the Company who hold 5% or more of voting rights (31 December 2017: Nil).

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Other payables comprise:

	30 June 2018	31 December 2017
Construction costs payable	438,461	525,603
Payable for purchase of fixed assets and concession rights	13,892	13,892
Interests payable for debentures payable	25,170	26,586
Others	87,985	61,128
	<u>565,508</u>	<u>627,209</u>

As at 30 June 2018, other payables of RMB 209 million (31 December 2017: RMB 226 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 30 June 2018, there were no other payables from any of the shareholders of the Company who hold 5% or more of voting rights (31 December 2017: Nil).

(d) Balances of taxes payable

	30 June 2018	31 December 2017
Enterprise income tax payable/(prepaid)	24,107	39,477
Unpaid VAT	29,341	15,463
Others	7,789	8,801
	<u>61,237</u>	<u>63,741</u>

(e) Dividends payable

	30 June 2018	31 December 2017
Ordinary share dividends payable	<u>1,912</u>	<u>1,912</u>

9. Financial Reports
II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Contract Liabilities

	30 June 2018	31 December 2017
Advances from customers of good sand services	508,898	—
	<u>508,898</u>	<u>—</u>

As at 1 January 2018, the group's contract liabilities is 562 million yuan. 111 million yuan of the liabilities has been transferred to pipeline connection income in 2018.

As at 30 June 2018, the group's signed but not performed or fully completed liabilities will come into effect as construction progress. Revenue from these liabilities is uncertain because of sites conditions and other conditions.

(17) Employee benefits payable

	30 June 2018	31 December 2017
Short-term employee benefits payable (note (a))	10,631	44,413
Defined contribution plans payable (note (b))	87	137
	<u>10,718</u>	<u>44,550</u>

(a) Short-term employee benefits payable

	31 December 2017	Increase in the current period	Decrease in the current period	30 June 2018
Wages and salaries, bonuses, allowances and subsidies	37,936	77,832	(111,986)	3,782
Staff welfare	—	3,697	(3,697)	—
Social security contributions	102	6,812	(6,843)	71
Including: Medical insurance	95	6,178	(6,208)	65
Work injury insurance	1	255	(256)	—
Maternity insurance	6	379	(379)	6
Housing funds	12	15,217	(15,216)	13
Labour union funds and employee education funds	6,363	2,678	(2,276)	6,765
	<u>44,413</u>	<u>106,236</u>	<u>(140,018)</u>	<u>10,631</u>

As at 30 June 2018, no defaulted payables are included in the balance of employee benefits payable and the balance is estimated to be used up in 2018.

Notes to the Financial Statements

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Employee benefits payable (Continued)

(b) Defined contribution plans payable

	31 December 2017	Increase in the current period	Decrease in the current period	30 June 2018
Basic pensions	132	16,454	(16,504)	82
Unemployment insurance	5	354	(354)	5
	<u>137</u>	<u>16,808</u>	<u>(16,858)</u>	<u>87</u>

(c) Directors' emoluments

The remuneration of every director for the six months ended 30 June 2018 is set out below:

	Fees	Salaries and other emoluments	Total
Executive directors:			
Liu Yujun	—	485	485
Peng Yilin	—	430	430
Fu Yana	—	410	410
Tang Fusheng (note (i))	—	480	480
Lin Wenbo (note (i))	—	—	—
Non-executive directors:			
Gao Zongze	110	—	110
Wang Xiangfei	110	—	110
Guo Yongqing	110	—	110
	<u>330</u>	<u>1,805</u>	<u>2,135</u>

The remuneration of every director for the six months ended 30 June 2017 is set out below:

	Fees	Salaries and other emoluments	Total
Executive Directors:			
Liu Yujun	—	485	485
Lin Wenbo (note (i))	—	188	188
Fu Yana	—	401	401
Peng Yilin	—	421	421
Tang Fusheng (note (i))	—	295	295
Non-executive Directors:			
Gao Zongze	110	—	110
Wang Xiangfei	110	—	110
Guo Yongqing	110	—	110
	<u>330</u>	<u>1,790</u>	<u>2,120</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.

9. Financial Reports
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Notes to the Financial Statements
For the six months ended 30 June 2018
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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Note	30 June 2018	31 December 2017
Non-current:			
Long-term borrowings	(a)	1,805,827	727,160
Less: Current portion due within one year	(a)	(186,803)	(145,643)
		<u>1,619,024</u>	<u>581,517</u>
Debentures payable	(b)	1,795,845	1,396,941
Less: Current portion due within one year	(b)	—	(698,957)
		<u>1,795,845</u>	<u>697,984</u>
Long-term payables	(c)	282,696	289,379
Less: Current portion due within one year	(c)	(26,486)	(25,492)
		<u>256,210</u>	<u>263,887</u>
Other non-current liabilities	(e)	<u>40,000</u>	<u>40,000</u>
Current:			
Current portion of long-term borrowings	(a)	186,803	145,643
Current portion of debentures payable	(b)	—	698,957
Current portion of long-term payables	(c)	26,486	25,492
		<u>213,289</u>	<u>870,092</u>
Short-term borrowings	(d)	<u>200,000</u>	<u>499,000</u>
Other current liabilities	(e)	<u>6,463</u>	<u>7,827</u>

Notes to the Financial Statements

For the six months ended 30 June 2018

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Long-term borrowings

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

	30 June 2018	31 December 2017
Borrowings from:		
China Construction Bank (“CCB”)	411,000	199,000
Industrial and Commercial Bank of China (“ICBC”)	505,549	168,517
China Minsheng Bank (“CMBC”)	105,500	124,000
Bank of China (“BOC”)	122,507	67,372
China Development Bank (“CDB”)	48,600	64,100
Industrial Bank (“IB”)	45,071	46,571
Bank of Communications (“BOC”)	43,200	30,000
The Export-Import Bank of China (“EIBOC”)	500,000	—
Agriculture Bank of China (“ABC”)	24,400	27,600
	<u>1,805,827</u>	<u>727,160</u>

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

	Note	30 June 2018	31 December 2017
Pledged	(i)	—	25,000
Guaranteed	(ii)	32,000	27,000
Unsecured		<u>154,803</u>	<u>93,643</u>
		<u>186,803</u>	<u>145,643</u>
		30 June 2018	31 December 2017
Guaranteed	(iii)	129,000	147,000
Unsecured		<u>1,490,024</u>	<u>434,517</u>
		<u>1,619,024</u>	<u>510,428</u>

(i) As at 30 June 2018, the current portion of bank borrowings of RMB 0 million (31 December 2017: RMB 25 million) is secured by the concession rights (Note 4(12) (a)).

(ii) As at 30 June 2018, the current portion of bank borrowings of RMB 32 million (2017: RMB 27 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)).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Long-term borrowings (Continued)

(iii) As at 30 June 2018, the non-current portion of bank borrowings of RMB 129 million (2017: RMB 147 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 30 June 2018, these long-term borrowings bear interest rates between 4.275% and 7.480% in 2018 (2017: between 4.275% and 7.830%).

(v) Borrowings were repayable as follows:

	30 June 2018	31 December 2017
Within 1 year	186,803	145,643
1 to 2 years	715,156	142,332
2 to 5 years	707,468	316,488
Over 5 years	196,400	122,697
	<u>1,805,827</u>	<u>727,160</u>

(vi) Top five of current portion of long-term borrowings at 30 June 2018 is analyzed as follows:

	Grant date	Maturity date	Currency	Interest rate (%)	Amount
ICBC	2018.04.03	2019.04.01	RMB	4.76%	50,000
CCB	2008.09.28	2019.06.27	RMB	4.66%	32,000
CMBC	2016.06.27	2019.06.27	RMB	4.28%	24,000
CMBC	2016.06.17	2019.06.17	RMB	4.28%	16,800
ICBC	2016.08.12	2019.03.30	RMB	4.90%	8,900
					<u>131,700</u>

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

	Grant date	Maturity date	Currency	Interest rate (%)	Amount
EIBOC	2018.02.12	2020.02.12	RMB	4.53%	500,000
ICBC	2018.04.03	2021.04.01	RMB	4.76%	250,000
CCB	2018.04.10	2021.04.10	RMB	4.75%	249,000
CCB	2008.09.28	2022.09.27	RMB	4.66%	129,000
ICBC	2017.12.01	2032.09.20	RMB	4.66%	80,899
					<u>1,208,899</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Long-term borrowings (Continued)

(viii) The exposure of the Group's borrowings to interest rate changes and the contractual reporting dates are as follows

	30 June 2018	31 December 2017
6 to 12 months	<u>1,805,827</u>	<u>727,160</u>

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

	30 June 2018	31 December 2017
Floating rate expiring within 1 year	4,402,760	3,228,000
Floating rate expiring over 1 year	<u>1,226,800</u>	<u>700,000</u>
	<u>5,629,560</u>	<u>3,928,000</u>

(b) Debentures payable

	31 December 2017	Bond payable due within 1 period	Increase in the current period	Payment	Amortization	30 June 2018
Debentures payable						
– Par value	1,400,000	—	1,100,000	(700,000)	—	1,800,000
– Transaction cost	(3,059)	—	(2,491)	1,043	352	(4,155)
	<u>1,396,941</u>	<u>—</u>	<u>1,097,509</u>	<u>(698,957)</u>	<u>352</u>	<u>1,795,845</u>

General information of debentures payable are as follows:

	Carrying Amount	Issuance date	Maturity	Issuance amount
Corporate Debenture II (note (i))	700,000	2013-05-29	5	700,000
Corporate Debenture III (note (ii))	700,000	2016-10-25	5	700,000
Corporate Debenture IV (note (iii))	<u>1,100,000</u>	<u>2018-04-25</u>	<u>5</u>	<u>1,100,000</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) 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 2017	Interest Accrued		30 June 2018
		Interest accrued in the current period	Interest paid in the current period	
Corporate Debenture II (note (i))	22,554	15,596	(38,150)	—
Corporate Debenture III (note (ii))	4,021	10,865	—	14,886
Corporate Debenture IV (note (iii))	—	10,283	—	10,283
	<u>26,575</u>	<u>36,744</u>	<u>(38,150)</u>	<u>25,169</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 RMB 700 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.
- (iii) On 25 April 2018, the Company issued a debenture at par value of RMB 1,100 million on The Shanghai Stock Exchange approved by the Securities Regulatory Commission of China [2016]1896. The fixed interest rate of 5.17% has been accrued and settled per annum. The debenture will be due for repayment on 25 April 2023. The principal will be repaid on maturity.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Long-term payables

	30 June 2018			31 December 2017		
	Payables	Unrecognized financial charges	Total	Payables	Unrecognized financial charges	Total
Payable for assets acquisition	504,460	(221,764)	282,696	462,123	(172,744)	289,379

(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%	282,696	26,486	256,210

As at 30 June 2018, 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%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Long-term payables (Continued)

(ii) The balance of long-term payable are denominated in the following currencies:

	30 June 2018	31 December 2017
JPY	192,453	197,719
USD	90,243	91,660
	<u>282,696</u>	<u>289,379</u>

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

	30 June 2018	31 December 2017
JPY	391,721	345,507
USD	112,739	116,616
	<u>504,460</u>	<u>462,123</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 30 June 2018, the current portion of long-term payables of RMB 26 million (31 December 2017: RMB 25 million) was classified as current liabilities.

	30 June 2018	31 December 2017
Within 1 year	26,486	25,492
1-2 years	26,184	24,691
2-5 years	74,324	70,080
Over 5 years	155,702	169,116
	<u>282,696</u>	<u>289,379</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(d) *short-term borrowings*

	30 June 2018	31 December 2017
Borrowings from:		
Industrial and Commercial Bank of China	—	200,000
Tianjin Rural Commercial Bank	200,000	150,000
Bank of China	—	100,000
China Everbright Bank	—	49,000
	<u>200,000</u>	<u>499,000</u>

Summary of short-term borrowings by terms

	30 June 2018	31 December 2017
Unsecured	<u>200,000</u>	<u>499,000</u>

(e) *Other liabilities*

	30 June 2018	31 December 2017
Non-current:		
– Cooling service fee	<u>40,000</u>	<u>40,000</u>
	<u>40,000</u>	<u>40,000</u>
Current:		
– Provisions expected to be paid within one year (Note 4(17))	6,463	6,463
– Current portion of government loan for water recycling plants construction (note (i))	<u>—</u>	<u>1,364</u>
	<u>6,463</u>	<u>7,827</u>

- (i) A loan was taken from Tianjin Municipal Bureau by Tianjin Recycled Water Co., Ltd., a subsidiary of the Company in 2003 for the purpose of the construction of water recycling plants. The loan is repayable by equal amount instalments over eleven years from 2007. The loan has been repayed in May 2018.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Provisions

	31 December 2017	Increase in the current period	Decrease in the current period	30 June 2018
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>

(20) 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 2017	Increase in the current period	Recognized in other income	Other Disposal	30 June 2018	Related to assets/incomes
Sewage water processing plants						
– Jingu sewage water processing plant	1,311,533	—	(25,643)	(1,272)	1,284,618	Assets
– Xianyang Road upgrading project	61,442	—	(1,182)	—	60,260	Assets
– Dongjiao upgrading project	43,114	—	(829)	—	42,285	Assets
– Beishiqiao plant upgrading project	11,073	—	(359)	—	10,714	Assets
– Water pollution management and control project	6,577	—	—	—	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
– Ningxiang Economic and Technological Development Zone sewage water processing plant standard upgrading project	—	18,900	—	—	18,900	Assets
– Linxia sewage water processing plant reconstruction and extension project	—	5,000	—	—	5,000	Assets
Water recycling plants						
– Jingu water recycling project	210,678	—	—	—	210,678	Assets
– Dongjiao water recycling project	21,756	—	(338)	—	21,418	Assets
– Beichen water recycling project	18,637	—	(263)	—	18,374	Assets
– Xianyang Road water recycling project	13,227	—	—	—	13,227	Assets
Heating and cooling supply project	171,670	3,955	—	(300)	175,325	Assets
Others	6,357	—	(15)	(380)	5,962	Incomes
	<u>2,129,064</u>	<u>27,855</u>	<u>(28,629)</u>	<u>(1,952)</u>	<u>2,126,338</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) 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:

	30 June 2018	31 December 2017
Deductible temporary difference - provision for asset impairment (Note 4(14))	147,721	147,977
Deductible losses	36,953	43,261
Maintenance cost of sewage water processing plants (Note 4(19))	39,393	39,393
	224,067	230,631

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

Year	30 June 2018	31 December 2017
2018	—	10,372
2019	18,056	18,056
2020	6,243	6,243
2021	5,124	5,124
2022	3,466	3,466
2023	4,064	—
	36,953	43,261

(b) *Deferred income tax liabilities*

	30 June 2018		31 December 2017	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	124,682	498,728	120,259	481,036
Including:				
Expected to be recovered within one year (inclusive)			—	
Expected to be recovered after one year	124,682		120,259	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Share capital

Movement of the Company's authorized, issued and fully paid up capital is set out below. All of the Company's shares are ordinary shares with par value of RMB 1.

	Circulating A shares	Circulating H shares	Total
At 30 June 2018 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.

(23) Capital surplus, surplus reserve and undistributed profits

(a) Capital surplus

	31 December 2017	Increase in the current period	Decrease in the current period	30 June 2018
Share premium	382,311	—	—	382,311
A subsidiary recognized as a stock limited company (i)	16,804	—	—	16,804
Capital Increase by minority shareholders (ii)	—	16,818	—	16,818
	<u>399,115</u>	<u>16,818</u>	<u>—</u>	<u>415,933</u>
	31 December 2016	Increase in the current year	Decrease in the current year	31 December 2017
Share premium	382,311	—	—	382,311
A subsidiary recognized as a stock limited company (i)	16,804	—	—	16,804
	<u>399,115</u>	<u>—</u>	<u>—</u>	<u>399,115</u>

- (i) Approved by the resolution of the interim shareholders' meeting on 14 September 2016, Tianjin Caring Technology Development Company, the subsidiary of the Company, has been changed into a stock limited corporation. Taking 31 August 2016 as the base date and the net assets calculated according to the accounting standards for enterprises as 37 million yuan, the converted equity capital is 20 million yuan as the total capital stock of Tianjin Caring Technology Development Co. Ltd. The remaining net assets carried forward as capital reserves.

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For the six months ended 30 June 2018

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Capital surplus (Continued)

- (ii) The second provisional shareholders meeting in 2017 of Tianjin Caring Technology Development Co. Ltd. (the subsidiary of the Company) has examined and approved the motion concerning Tianjin Caring Technology Development Company's increasing capital matters. The motion determined 30 June 2017 as the base day to evaluate the net asset value per share of capital and share. The capital increase agreement was signed on 8 March 2018 and registration of new shares was completed on 11 May 2018. RMB 13 million was taken as capital stock and the remaining net assets were carried forward for capital reserve.

(b) Surplus reserve

	31 December 2017	Increase in the current period	Decrease in the current period	30 June 2018
Statutory surplus reserve	479,907	—	—	479,907
	31 December 2016	Increase in the current year	Decrease in the current year	31 December 2017
Statutory surplus reserve	444,925	34,982	—	479,907

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)

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

(c) Undistributed profits

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Amount	Appropriation/ distribution ratio	Amount	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	2,810,790	—	2,473,109	—
Changes in Accounting Policies	168,086	—	—	—
Add: Net profit attributable to owners of the parent for the current year	282,565	—	255,058	—
Less: Appropriation for statutory surplus reserve	—	—	—	—
Dividends distribution to shareholders (note (i))	—	—	—	—
Ordinary share dividends payable (note (i))	—	—	(135,587)	—
Undistributed profits at the end of the year	<u>3,261,441</u>		<u>2,592,580</u>	

(i) The company will not distribute profit in the year 2018.

(24) Revenue and cost of sales

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue	Cost of sales	Revenue	Cost of sales
Revenue from principal operations	1,021,838	597,640	896,014	515,675
Revenue from other operations	85,960	51,217	90,621	54,742
	<u>1,107,798</u>	<u>648,857</u>	<u>986,635</u>	<u>570,417</u>

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For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Revenue and cost of sales (Continued)

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water and construction of related facility	748,048	419,744	693,104	387,107
Water recycling and connection project	149,040	108,777	98,811	69,315
Heating and cooling supply services	36,574	25,587	29,197	20,839
Tap water supplying	46,059	28,795	33,511	23,971
Sale of environmental protection equipment	10,250	10,740	8,920	10,532
Others	31,867	3,997	32,471	3,911
	<u>1,021,838</u>	<u>597,640</u>	<u>896,014</u>	<u>515,675</u>

Analysis by locations is as follows:

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Tianjin	639,087	360,692	540,632	299,300
Hangzhou	133,377	80,822	137,155	77,660
Xi'an	60,003	40,748	60,216	35,727
Qijing	52,321	35,929	49,400	33,414
Others	137,050	79,449	108,611	69,574
	<u>1,021,838</u>	<u>597,640</u>	<u>896,014</u>	<u>515,675</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Revenue and cost of sales (Continued)

(b) Revenue from other operations and cost of sales

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	61,367	45,629	72,004	48,533
Technical service fee	13,674	1,958	13,623	3,772
Rental	3,908	3,381	3,581	1,749
Others	7,011	249	1,413	688
	<u>85,960</u>	<u>51,217</u>	<u>90,621</u>	<u>54,742</u>

(c) As at 30 June 2018, revenue from the top five customers is analyzed as below:

Revenue from the Group's top 5 customers is RMB 685 million, which accounts for 62% of the Group's total revenue (2017: RMB 648 million and 65%). The details are as follows:

	Revenue	% of the Group's total revenue
TWAB	407,617	37%
Hangzhou Sewage Company	133,377	12%
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd.	60,003	5%
Qijing City Water General Company	52,321	5%
Tianjin Municipal Transportation Commission	31,242	3%
	<u>684,560</u>	<u>62%</u>

Notes to the Financial Statements

For the six months ended 30 June 2018

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) Taxes and surcharges

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	Tax base
Landuse tax	7,182	7,634	RMB1.5-30 persquare meter
City maintenance and construction tax	7,814	8,053	7% of the VAT paid
Educational surcharge	3,535	4,053	2% or3% of the VAT paid
Property tax	3,467	2,061	70% of its original value, tax rate is 1.2%
Local educational surcharge	2,121	2,702	2% of the VAT paid
Others	2,347	399	
	<u>26,466</u>	<u>24,902</u>	

(26) Selling expenses and genral and administrative expenses

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Geranal and administrative expenses	Selling expenses (i)	General and administrative expenses	Selling expenses
Employee benefits	38,193	2,467	35,456	3,935
Consulting service fees	3,016	—	1,299	—
Travelling, meeting and business entertainment expenses	1,864	226	2,393	171
Expenses of secretary of the board	2,344	—	1,716	—
Audit fees	1,986	—	2,790	—
Depreciation of fixed assets	1,991	8	1,643	9
General office expenses	1,296	6	1,305	55
Repair and maintenance expenses	1,073	—	1,816	—
Power and gas fees	764	—	852	—
Other taxes	219	—	236	—
Amortisation of intangible assets	946	—	483	—
Others	1,939	23	2,784	27
	<u>55,631</u>	<u>2,730</u>	<u>52,773</u>	<u>4,197</u>

- (i) For the six months ended 30 June 2018, selling expenses of RMB 3 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)

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

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Amortisation of intangible assets	162,186	148,260
Utilities	129,989	135,003
Employee benefits	116,094	114,625
Repair and maintenance expenses	33,993	29,863
Raw materials consumption	60,114	44,284
Sewage mud processing expenses	44,428	23,992
Recycled water pipeline connection cost	61,429	32,288
Depreciation of fixed assets and investment properties	22,639	21,868
Factory environment, detection and fire prevention fee	13,419	11,943
Consulting service fees	6,477	4,495
Construction cost of environmental equipments	5,653	7,272
Network maintenance expenses	6,265	6,469
Travelling, meeting and business entertainment expenses	3,989	5,436
Toll road management fee	3,560	3,560
General office expenses	2,239	2,613
Expenses of secretary of the board	2,344	1,716
Audit fees	1,986	2,790
Other taxes	378	5,713
Others	30,036	25,197
	<u>707,218</u>	<u>627,387</u>

(28) Financial expenses - net

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Interest expenses	91,355	62,869
Less: Amount capitalized on qualifying assets	(2,773)	—
Interest expenses	88,582	62,869
Less: Interest income	(11,246)	(9,599)
Including: From long-term receivables	(5,014)	(5,255)
From bank deposits	(6,232)	(4,344)
Exchange losses (note (a))	(2,467)	(2,143)
Others	1,380	1,646
	<u>76,249</u>	<u>52,773</u>

(a) For the six months ended 30 June 2018, the exchange loss on the long-term payables denominated in JPY and US dollar were 2.5 million (2017: RMB 2.1 million of the exchange loss).

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For the six months ended 30 June 2018

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Asset impairment losses

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Provision for bad debts	—	806
	<u>—</u>	<u>806</u>

(30) Credit Losses

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Notes receivable and trade receivables losses	(2,923)	—
Other receivables losses	—	—
Other current assets losses	—	—
Long-term receivables losses	—	—
	<u>(2,923)</u>	<u>—</u>

(31) Investment Income/Loss

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Dividends income from other investments in equity instruments	200	—
Investment income from available-for-sale financial assets	—	400
	<u>200</u>	<u>400</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Other Income

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	Related to assets/incomes
VAT refund	60,986	64,864	Incomes
Government Grants (note (a))	28,629	—	Assets/Incomes
	<u>89,615</u>	<u>64,864</u>	

(a) Details of government grants

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	Related to assets/incomes
Compensation for relocation and Construction of Jizhuangzi sewage processing plant	25,643	—	Assets
Special Construction Fund of Xianyanglu upgrading project	1,182	—	Assets
Special Construction Fund of Dongjiao sewage water processing plant	829	—	Assets
Others	975	—	Assets/Incomes
	<u>28,629</u>	<u>—</u>	

(33) Non-operating income

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	Amount recognized in non-recurring profit or loss in the six months ended 30 June 2018
Government Grants (note (a))	2,228	16,732	2,228
Gains on disposals of non-current assets	—	1	—
Others	1,871	2,559	1,871
	<u>4,099</u>	<u>19,292</u>	<u>4,099</u>

(a) Details of government grants

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	Related to assets/incomes
Construction subsidyof sewage water processing plant	—	16,059	Assets
Construction subsidyof water recycling plant	—	599	Assets
Others	2,228	74	Incomes
	<u>2,228</u>	<u>16,732</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Non-operating expenses

	For the six months ended 30 June 2018	For the six months ended 30 June 2017	Amount recognized in non-recurring profit or loss in six months ended 30 June 2018
Losses on disposal of fixed assets	118	—	118
Others	869	128	869
	<u>987</u>	<u>128</u>	<u>987</u>

(35) Income tax expenses

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Current income tax calculated based on tax law and related regulations	87,805	102,060
Deferred income tax	4,423	(6,284)
	<u>92,228</u>	<u>95,776</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profits presented in the consolidated financial statements to the income tax expenses is set below:

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Total profit	393,715	365,195
Calculated at applicable income tax rates (25%)	98,429	91,299
Effect of favourable tax rates	(3,760)	(3,876)
Income not subject to tax	(9,747)	(19,633)
Costs, expenses and losses not deductible for tax purposes	7,793	29,294
Utilization of previously deductible tax losses for which no deferred income tax was recognized	(772)	(1,834)
Tax temporary differences for which no deferred income tax asset was recognized	(731)	202
Tax deferred from prior year	1,016	324
Income tax expenses	<u>92,228</u>	<u>95,776</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) 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 283million (2017: RMB 255 million) and weighted average number of ordinary shares of 1.427 billion shares in issue during the year (2017: 1.427 billion shares).

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Consolidated net profit attributable to ordinary shareholders of the Company	282,565	255,058
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>0.20</u>	<u>0.18</u>
Including:		
– Basic earnings per share for operations on a going concern	0.20	0.18
– 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 six months ended 30 June 2018 (For the six months ended 2017: nil), diluted earnings per share equal to basic earnings per share.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Net profit	301,487	269,419
Add:		
Provision for asset impairments	(2,923)	806
Depreciation of fixed assets and investment properties	22,639	21,868
Amortisation of intangible assets	162,186	148,260
Net losses/(gains) from disposal of fixed assets	118	(1)
Net financial expenses	86,115	60,726
Investment (gains)/losses	(200)	(400)
Amortisation of deferred income	(28,629)	(16,732)
Decrease/(increase) Increase in deferred tax liabilities	4,423	(6,284)
Decrease in inventories	1,913	4,208
Increase in operating receivables	(186,075)	(127,510)
Increase in operating payables	(23,064)	(30,225)
Net cash flows from operating activities	337,990	324,135
Net increase/(decrease) in cash		
Cash at the end of the period	2,277,335	1,497,407
Less: Cash at the beginning of the period	(1,893,689)	(1,181,120)
Net increase/(decrease) in cash	383,646	316,287

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

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Cash		
Including: Cash on hand	177	465
Cash at bank	2,277,158	1,496,942
Cash listed in cash flow statement	2,277,335	1,497,407

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Cash received relating to other operating activities

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Deposit on project bids retrieved	64,212	218,220
Collection of deposit on project bids	54,131	83,429
Interest income from bank deposits	6,232	4,344
Subsidies received	27,855	4,507
Project fund on behalf of sewage mud project	10,000	—
Others	33,395	26,546
	<u>195,825</u>	<u>337,046</u>

(d) Cash paid relating to other operating activities

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Guarantee Deposit/Pledge	5,325	187,996
Consulting service fees	5,480	4,495
Travelling, meeting and business entertainment expenses	3,989	5,436
Expenses of secretary of the board	2,344	1,716
Repair and maintenance expenses	33,993	29,863
Others	2,648	35,932
	<u>53,779</u>	<u>265,438</u>

(e) Net cash received from disposals of fixed assets

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Carrying amount of disposals of fixed assets	118	2
Net (losses)/gains from disposal of fixed assets	(118)	1
	<u>—</u>	<u>3</u>

Notes to the Financial Statements

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5 CHANGE IN BUSINESS COMBINATIONS

(1) Business combination involving entities not under common control

(a) Business combination involving entities not under common control occurred in the year

Acquiree	Acquisition time	Acquisition Cost	Percentage of equity acquired	Acquisition method	Acquisition date	Basis of determining acquisition date	Revenue from acquisition date to period end of the acquiree	Net Profit from acquisition date to period end of the acquiree	Cash flows from operating activities from acquisition date to period end of the acquiree	Net cash flows from acquisition date to period end of the acquiree
Inner Mongolia Bayannur Capital Water Co.Ltd. (Bayannur Company)	February 2018	776,957	70%	Cash	February 2018	Changes in the industrial and commercial registration completed	26,931	9,699	17,952	5,210

(b) Cost of combination and goodwill recognised are as follows:

	Bayannur Company
Cost of combination- Cash paid	776,957
Total cost of combination	776,957
Less: Fair value of the identifiable net assets obtained	(747,305)
Goodwill	<u>29,652</u>

(c) The assets and liabilities of Bayannur Company at the acquisition date are as follows:

	Fair value Acquisition date	Carrying amount	
		Acquisition date	31 December 2017
Cash at bank and on hand	—	20	4
Fixed assets	—	—	—
Intangible assets	1,067,578	1,067,578	1,067,276
Less: Payables	—	(555)	(5)
Net assets	1,067,578	1,067,043	1,067,275
Less: Minority interests	(320,273)	(320,113)	(320,183)
Net assets obtained	<u>747,305</u>	<u>746,930</u>	<u>747,092</u>

The Group determined fair value of Bayannur Company at acquisition date according to the written report of assets evaluation from Bayannur Huaxin Assets Appraisal Office.

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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	
Qujing Capital Water Co., Ltd.	A	Qujing	Qujing	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.	48	12	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 Dongfang 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
Inner Mongolia Bayannur Capital Water Co., Ltd.	A	Bayannur	Bayannur	Processing of sewage water, producing and selling of recycled water, supplying tap water	70	—	Share Acquisition

A: Holding subsidiary

B: Wholly-owned subsidiary

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6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests

Name	Minority interests ratio	Minority interests in 2018	Declared distribution of cash dividends in 2018	Minority interests as at 30 June 2018
Hangzhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")	30.00%	11,147	—	197,880
Qujing Capital Water Co., Ltd. ("Qujing Company")	13.44%	1,416	—	36,308
Dalian Dongfang Chunliuhe Water Purification Co., Ltd. ("Dalian Company")	36.12%	(3,376)	—	20,380

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

Balance Sheet

	30 June 2018					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	304,759	760,204	1,064,963	130,147	399,180	529,327
Qujing Company	125,705	266,863	392,568	67,323	65,269	132,592
Dalian Company	15,915	142,444	158,359	46,810	27,310	74,120
	<u>446,379</u>	<u>1,169,511</u>	<u>1,615,890</u>	<u>244,280</u>	<u>491,759</u>	<u>736,039</u>
	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>

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6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests (Continued)

Income Statement

	For the six months ended 30 June 2018				Total comprehensive income
	Revenue	Total profit	Income tax expenses	Net profit	
Hangzhou Company	133,591	50,308	(13,152)	37,156	37,156
Qijing Company	53,572	12,397	(3,522)	8,875	8,875
Dalian Company	—	—	—	—	—
	<u>187,163</u>	<u>62,705</u>	<u>(16,674)</u>	<u>46,031</u>	<u>46,031</u>

	For the six months ended 30 June 2017				Total comprehensive income
	Revenue	Total profit	Income tax expenses	Net profit	
Hangzhou Company	137,338	54,608	(15,504)	39,104	39,104
Qijing Company	50,657	12,346	(3,136)	9,210	9,210
	<u>187,995</u>	<u>66,954</u>	<u>(18,640)</u>	<u>48,314</u>	<u>48,314</u>

Cash Flow Statement

	For the six months ended 30 June 2018				
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash at the beginning of the period	Cash at the end of the period
Hangzhou Company	(6,678)	(22,679)	(71,438)	256,638	155,843
Qijing Company	3,663	(324)	(13,694)	14,200	3,845
Dalian Company	(124)	(32,947)	28,301	12,144	7,374
	<u>(3,139)</u>	<u>(55,950)</u>	<u>(56,831)</u>	<u>282,982</u>	<u>167,062</u>

	For the six months ended 30 June 2017				
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash at the beginning of the period	Cash at the end of the period
Hangzhou Company	3,584	(11,846)	54,043	101,618	147,399
Qijing Company	12,518	(100)	(12,800)	7,922	7,540
	<u>16,102</u>	<u>(11,946)</u>	<u>41,243</u>	<u>109,540</u>	<u>154,939</u>

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

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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 tapwater 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.

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7 SEGMENT INFORMATION (Continued)

(a) Segment information as at and for the year ended 30 June 2018 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	Hang zhou	Others						
Revenue from external customers (Note 4(24))	413,112	133,377	201,559	149,040	36,574	46,059	10,250	117,827	1,107,798
Cost for operations	(214,061)	(80,822)	(124,862)	(108,777)	(25,587)	(28,795)	(10,739)	(55,214)	(648,857)
Interest income (Note 4(28))	2,945	826	872	859	367	14	128	5,235	11,246
Interest expenses (Note 4(28))	(73,577)	(5,440)	(8,044)	(33)	(551)	(937)	—	—	(88,582)
Results before share of profits of an associate	166,172	50,117	61,100	41,479	8,229	14,463	(716)	52,871	393,715
Loss from investment in associate	—	—	—	—	—	—	—	—	—
Depreciation expenses	(114)	—	(108)	(17,961)	(428)	—	(935)	(3,093)	(22,639)
Amortization	(62,672)	(28,724)	(51,601)	(1,965)	(8,775)	(6,926)	(1)	(1,522)	(162,186)
Total profit	166,172	50,117	61,100	41,479	8,229	14,463	(716)	52,871	393,715
Income tax expenses	(41,554)	(13,152)	(12,395)	(8,922)	(2,506)	(2,223)	107	(11,583)	(92,228)
Net profit	<u>124,618</u>	<u>36,965</u>	<u>48,705</u>	<u>32,557</u>	<u>5,723</u>	<u>12,240</u>	<u>(609)</u>	<u>41,288</u>	<u>301,487</u>
Total assets	<u>5,578,806</u>	<u>1,072,204</u>	<u>3,611,822</u>	<u>1,310,797</u>	<u>578,646</u>	<u>407,871</u>	<u>43,674</u>	<u>1,430,980</u>	<u>14,034,800</u>
Total liabilities	<u>4,449,684</u>	<u>329,324</u>	<u>1,253,121</u>	<u>614,818</u>	<u>259,095</u>	<u>99,997</u>	<u>4,055</u>	<u>757,991</u>	<u>7,768,085</u>
Long-term equity investment in associate	—	—	—	—	—	—	—	—	—
Non-current assets addition (i)	<u>246,361</u>	—	<u>1,012,241</u>	<u>167,487</u>	<u>17,333</u>	<u>143,204</u>	<u>694</u>	<u>9,593</u>	<u>1,596,913</u>

(i) Non-current assets do not comprise financial assets, long-term equity investments, or deferred tax assets.

Notes to the Financial Statements

For the six months ended 30 June 2018

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7 SEGMENT INFORMATION (Continued)

(b) Segment information as at and for the year ended 30 June 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	Hang zhou	Others						
Revenue from external customers (Note 4(24))	371,462	137,155	184,487	98,811	29,197	33,511	8,920	123,092	986,635
Cost for operations	(203,870)	(77,660)	(105,577)	(69,315)	(20,839)	(23,971)	(10,532)	(58,653)	(570,417)
Interest income (Note 4(28))	1,020	599	1,603	772	409	11	42	5,143	9,599
Interest expenses (Note 4(28))	(43,831)	(5,847)	(11,213)	(170)	(892)	(916)	—	—	(62,869)
Results before share of profits of an associate	143,213	54,711	63,673	30,364	5,113	6,725	(3,029)	64,425	365,195
Loss from investment in associate	—	—	—	—	—	—	—	—	—
Depreciation expenses	(150)	—	(77)	(18,429)	(75)	—	(391)	(2,746)	(21,868)
Amortization	(62,672)	(28,724)	(44,177)	(106)	(7,137)	(5,088)	(1)	(355)	(148,260)
Total profit	143,213	54,711	63,673	30,364	5,113	6,725	(3,029)	64,425	365,195
Income tax expenses	(39,824)	(15,504)	(12,731)	(7,169)	(4,832)	(1,681)	454	(14,489)	(95,776)
Net profit	103,389	39,207	50,942	23,195	281	5,044	(2,575)	49,936	269,419
Total assets	5,251,321	990,797	2,191,515	1,335,973	519,025	246,985	11,409	817,016	11,364,041
Total liabilities	3,483,915	386,633	461,737	1,269,099	258,492	72,598	3,563	290,355	6,226,392
Long-term equity investment in associate	—	—	—	—	—	—	—	—	—
Non-current assets addition (i)	13,976	—	303,868	535	69,630	—	53	3,102	391,164

(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 408 million is derived from a single customer, accounting for 37% of the Group's total revenue (For six months ended 30 June 2017: RMB 369 million, 37%).

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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	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 2017	Increase in the current period	Decrease in the current period	30 June 2018
Municipal Investment	<u>1,820,000</u>	<u>—</u>	<u>—</u>	<u>1,820,000</u>

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	30 June 2018		31 December 2017	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Municipal Investment	<u>50.14%</u>	<u>50.14%</u>	<u>50.14%</u>	<u>50.14%</u>

(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(8) (a).

Notes to the Financial Statements

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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	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Purchase of equipment	7,406	57,627
Tianjin City Property Management Co. Ltd.	Receive of property management services	2,167	—
		<u>9,573</u>	<u>57,627</u>

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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

Rendering of services

Related party name	Nature of transaction	For the six months ended 30 June 2018	For the six months ended 30 June 2017
City Infrastructure Construction and Investment	Commission income from contract operation	38,104	26,251
Tianjin Lecheng Properties Co., Ltd.	Income from heating and cooling supply	16,612	16,503
City Infrastructure Construction and Investment	Commission income from construction agent service	5,105	—
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Nitrogen removal technology services	708	—
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	—	905
		<u>60,529</u>	<u>43,659</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.	161,000	28 September 2008	27 September 2022	No

(c) Key management compensation

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Key management compensation	<u>7,015</u>	<u>7,039</u>

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8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Receivables from and payables to related parties

Receivables from related parties

Project name	Related party name	30 June 2018	31 December 2017
Trade receivable	Tianjin Lecheng Properties Co., Ltd.	13,478	38,171
	City Infrastructure Construction and Investment	43,209	28,570
	Tianjin Metro Resources Investment Co., Ltd.	1,673	1,673
	Tianjin City Resource Operation Co., Ltd.	401	401
	Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	209	—
			58,970

Payables to related parties

Project name	Related party name	30 June 2018	31 December 2017
Accountspayables	City Infrastructure Construction and Investment	11,575	8,723
Other payables	Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	15,523	15,523
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
			—

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. RMB 2,009 thousand 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.

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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:

	30 June 2018	31 December 2017
Guarantee received		
City Infrastructure Construction and Investment	<u>161,000</u>	<u>174,000</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	
	30 June 2018 RMB million	31 December 2017 RMB million	30 June 2018 RMB million	31 December 2017 RMB million
Sewage water processing plant projects:				
– Tianjin Jingu upgrading project	432	463	204	333
– Bayannur PPP project	—	397	—	—
– Tianjin Beichen upgrading project	198	224	152	217
– Karamy project	155	179	263	263
– Dalian Chunliuhe project	97	136	—	—
– Jieshou upgrading project	149	122	—	105
– Hefei Yuwan project	44	71	156	158
– Yingshang project	9	14	63	63
– Linxia project	13	13	81	81
– Changsha Tianchuang Ningxiang project	—	9	61	67
– Jinghai Tianyu Science Park sewage water processing plant upgrading project	23	—	49	—
– Ninghe modern industrial district sewage treatment plant (phase I) upgrading project	4	—	18	—
– Honghu upgrading project	42	—	6	—
– Xianning Yongan upgrading project	19	—	3	—
– Ningxiang PPP project	2	—	95	—
Solid wastes treatment projects:				
– Shandong Yishui project	159	13	71	262
– Shandong Tancheng project	8	9	337	337
Energy station projects:				
– Heiniu Urban Roads energy station project	34	49	109	109
– Cultural Center energy station project	6	6	20	20
– Houtai energy station project	2	3	108	108
	1,392	1,708	1,796	2,123
	1,392	1,708	1,796	2,123

(2) Investment commitments

- (a) According to the resolution of the 32th meeting of the Company's seventh Board of Directors on 26 April 2017, the Company promises to contribute RMB 110 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 30 June 2018, RMB 64 million was not paid.

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10 IMPACT OF EVENTS AFTER THE BALANCE SHEET DATE

- (1) As at 10 July 2018, the Company held the sixtieth session of the seventh board meeting to examine and approve a motion concerning the establishment of Shibinggui Capital Water Co. Ltd. The joint venture which comprised the Company's subsidiary Guizhou Capital Water Co. Ltd, Guizhou Jiantianxia Construction Engineering Co. Ltd and China Huaxi Engineering Design and Construction Co. Ltd won the bid Shibing county town and township sewage treatment PPP project. According to the requirements of the competitive consultation project file, the winning bidder should set up a project company with Shibing Water Investment Development Co. Ltd (the government party contributive representative). The project company in the cooperation period shall be responsible for financing, designing, construction, operation, maintenance and handing over the project, and charging sewage water service fee and maintenance fee, and to undertake all the rights and obligations in the PPP project contract as party B. The registered capital of the project company is RMB 29,852.8 thousand of which RMB 1 million accounting for 3.35% of the shares is invested by Shibing Water Investment Development Co. Ltd on behalf of the government. Guizhou Capital Water Co. Ltd invested RMB 28,564.3 thousand, accounting for 95.68% of the shares. Guizhou Jiantianxia Construction Engineering Co. Ltd contributed RMB 288.5 thousand, accounting for 0.97% of the shares.
- (2) As at 10 July 2018, the Company held the sixtieth session of the seventh board meeting to examine and approve a motion concerning the establishment of Tianjin Bihai Sponge City Co. Ltd and a motion concerning signing Tianjin Jiefang South Road sponge city construction PPP project contract. The Company, Beijing Origin Water Technology Co., Ltd. (BOW), Beijing Jiuan Construction and Investment Group Co., Ltd (Jiuan Company), and government representative Tianjin Haihe Construction Developing Investment Co., Ltd. (Haihe Company) jointly set up the project company, the initial registered capital will be RMB 650,000,000. The Company agrees to invest RMB 195,000,000 in monetary fund, accounting for 30% of the registered capital of the project company; BOW agrees to invest RMB 227,500,000 in monetary fund, accounting for 35% of the project company's registered capital; Jiuan Company agrees to invest RMB 32,500,000 in monetary capital, accounting for 5% of the project company's registered capital; the government party's investment representative agrees to invest RMB 195,000,000 in monetary fund, accounting for 30% of the registered capital of the project company.

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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.

The board of directors is responsible for the planning and establishment of the risk management framework of the group, the formulation of the risk management policies and related guidelines of the group and the supervision of the implementation of risk management measures. The group has developed risk management policies to identify and analyze the risks faced by the group. These risk management policies have specified specific risks, covering many aspects such as market risk, credit risk and liquidity risk management etc. The group regularly assesses the market environment and changes in the group's business activities to determine whether the risk management policies and systems are updated. The risk management of the group shall be conducted by the risk management committee in accordance with the policy approved by the board of directors. The risk management committee identifies and assesses and avoids risks through close cooperation with other business units of the group. The internal audit department of the group conducts regular audits on risk management control and procedures and reports the results to the audit committee of the group.

(1) **Market risk:**

(a) *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(18) (c) (ii)).

At 30 June 2018, 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 (30 June 2017: RMB 2 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 7 million (30 June 2017: RMB 4 million) higher/lower.

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11 FINANCIAL RISKS (Continued)

(1) Market risk: (Continued)

(b) 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 Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2018 and 2017, the Group did not enter into any interest rate swap agreements.

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.

	Fixed	Floating	Total
At 30 June 2018			
Short-term borrowings:	200,000	—	200,000
Other non-current liabilities due within one year:			
Current portion of long-term borrowings	—	186,803	186,803
Current portion of long-term payables	16,164	10,322	26,486
Long-term borrowings	—	1,619,024	1,619,024
Long-term payables	176,289	79,921	256,210
Debentures payable	1,795,845	—	1,795,845
Total	2,188,298	1,896,070	4,084,368
	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	1,793,660	1,118,820	2,912,480

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(All amounts in RMB thousand unless otherwise stated)

11 FINANCIAL RISKS (Continued)

(1) **Market risk:** (Continued)

(b) *Interest rate risk: (Continued)*

At 30 June 2018, 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 7 million (2017: RMB 4 million).

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

(2) **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.

As at 30 June 2018, the group has no significant collateral and other credit enhancement as collateral.

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 30 June 2018, the Company had given guarantees of approximately RMB 1,168 million (30 June 2017: RMB 1,320 million) to banks of certain subsidiaries in respect of their banking facilities, of which RMB595million of the facilities had been drawn by the subsidiaries. The Directors consider that the subsidiaries will be able to settle their obligations.

(a) *Liquidity risk:*

Cash flow forecasting is performed by each subsidiary of the Group. The Group's finance department aggregates the cash flow forecasting submitted by each subsidiary and on this basis continuously monitors the Group's short and long term capital demands, so that the Group has sufficient cash reserve and other readily realizable marketable securities available. At the same time, to meet its short and long term capital demands, the Group continues to monitor the covenants of its borrowing agreements, so that the Group can maintain sufficient undrawn committed borrowing facilities from the financial institutions.

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11 FINANCIAL RISKS (Continued)

(2) Credit risk: (Continued)

(a) 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:

	30 June 2018				Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	
Short-term borrowings	208,700	—	—	—	208,700
Trade payables	139,741	—	—	—	139,741
Other payables	565,509	—	—	—	565,509
Dividends payable	1,912	—	—	—	1,912
Long-term borrowings	266,957	774,201	784,719	250,313	2,076,190
Debentures payable	78,780	78,780	2,128,170	—	2,285,730
Long-term payables	28,943	29,726	94,891	350,900	504,460
	<u>1,290,542</u>	<u>882,707</u>	<u>3,007,780</u>	<u>601,213</u>	<u>5,782,242</u>

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

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

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12 FAIR VALUE ESTIMATION (Continued)

(1) Assets measured at fair value on a recurring basis:

As at 30 June 2018, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 3	Total
Other equity instrument investments – Unlisted equity instrument investments of Tianjin Beifang Renaigang Co., Ltd	2,000	2,000
Total financial assets	2,000	2,000
Total assets	2,000	2,000

As at 31 December 2017, no ongoing assets measured at fair value.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include illiquidity discount.

Amounts of the Group's financial instruments not traded in an active market are of no significance.

(2) 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.

The fair value of long-term borrowings, long-term payables and debentures payable is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows on the same terms, and categorised within Level 3 of the fair value hierarchy.

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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:

	30 June 2018	31 December 2017
Total borrowings	4,084,368	2,913,844
Short-term borrowings	200,000	499,000
Long-term borrowings	1,805,827	727,160
Current portion of debentures payable	—	698,957
Debentures payable	1,795,845	697,984
Long-term payables	282,696	289,379
Other non-current assets - Government loan and others	—	1,364
Less: Cash	(2,277,335)	(1,893,689)
Net debt	<u>1,807,033</u>	<u>1,022,155</u>
Total equity	6,266,715	5,413,776
Total capital	<u>8,073,748</u>	<u>6,433,931</u>
Gearing ratio	<u>22%</u>	<u>16%</u>

As at 30 June 2018, the gearing ratio of the Group increased mainly due to the Company's new long-term borrowings and new debenture payable.

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14 NOTESTOTHECOMPANYFINANCIALSTATEMENTS

(1) Notes receivable and trade receivables

	30 June 2018	31 December 2017
Trade receivables	1,689,210	1,663,178
Less: Provision for bad debts	(1,964)	—
	1,687,246	1,663,178

- (a) As at 30 June 2018, 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	Provision for bad debts	% of total balance
TWAB	Third party	1,588,036	(767)	94%
Tianjin Water Recycling Co., Ltd.	Subsidiary	7,403	(25)	0%
City Infrastructure Construction and Investment	Ultimate holding company	43,209	(501)	3%
Tianjin Shuangkou Municipal Solid Waste Sanitary Landfill	Third party	16,417	(309)	1%
Tianjin City appearance Sanitation Construction Development Co., Ltd.	Third party	9,638	(216)	1%
Total		1,664,703	(1,818)	99%

- (b) Provision for bad debts:

	30 June 2018	31 December 2017
Trade receivables	(1,964)	—
	(1,964)	—

- (i) As at 30 June 2018, provision for bad debts by individual is analyzed as below:

Customer	Carrying amount	ECL rate	Impairment	Reasons
TWAB	1,588,036	0.05%	(767)	Notes 4(2C(i))
Tianjin Water Recycling Co., Ltd.	7,403	0.05%	(25)	i)
Total	1,595,439		(792)	

- i) Tianjin Water recycling Co., Ltd. is a subsidiary of the Company, which is in good business condition and has low credit risk of the receivables. Therefore, the Company estimates that the ECL rate of the receivables is 0.05%.

9. Financial Reports
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14 NOTESTOTHECOMPANYFINANCIALSTATEMENTS (Continued)

(1) Notes receivable and trade receivables (Continued)

(b) Provision for bad debts: (Continued)

(ii) As at 30 June 2018, provision for bad debts by group is analyzed as below:

Group - others

	Carrying amount Amount	30 June 2018	
		Impairment ECL rate	Amount
No overdue	16,221	0.10%	(33)
1-30 days overdue	8,780	0.50%	(20)
30-90 days overdue	16,627	2.00%	(666)
>90 days overdue	52,143	5.00%	(453)
	<u>93,771</u>		<u>(1,172)</u>

(2) Other receivables

	30 June 2018	31 December 2017
Receivables from subsidiaries	175,189	152,146
VAT refund receivable	9,820	5,343
Project Deposits	8,745	68,847
Others	1,340	1,743
Less: Provision for bad debts	—	—
	<u>195,094</u>	<u>228,079</u>

As at 30 June 2018, there were no other receivables overdue but unimpaired (31 December 2017: Nil).

Notes to the Financial Statements

For the six months ended 30 June 2018

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14 NOTESTOTHECOMPANYFINANCIALSTATEMENTS (Continued)

(2) Other receivables (Continued)

(a) Changes in impairment loss provisions and Carrying Amount:

	ECL in the next 12 months (group)		Stage 1 ECL in the next 12 months (single)		Subtotal Carrying Amount	Stage 3 ECL for the entire duration (credit impairment occurred)		Total Provision for baddebts	
	Carrying Amount	Provision for baddebts	Carrying Amount	Provision for baddebts		Carrying Amount	Carrying Amount		Provision for baddebts
31 December 2017	—	—	—	—	—	—	—	—	
Impact of changing accounting policies	—	—	—	—	—	—	—	—	
1 January 2018	—	—	—	—	—	—	—	—	
Addition	—	—	—	—	—	—	—	—	
Reverse	—	—	—	—	—	—	—	—	
Write-off	—	—	—	—	—	—	—	—	
Transfer to stage 3	—	—	—	—	—	—	—	—	
Reverse to stage 1	—	—	—	—	—	—	—	—	
30 June 2018	—	—	—	—	—	—	—	—	

(i) As at 30 June 2018, provisions for bad debts of other receivables in stage 1 are analyzed as follows:

Group:	Carrying amount	ECL rate in the next 12 months	Provision for bad debts	Reason
Receivable due from subsidiaries	175,189	0.10%	—	i)
VAT refunds	9,820	0.05%	—	i)
Project deposits	8,745	0.05%	—	i)
Others	1,340	0.10%	—	i)
	195,094		—	

i) The VAT refund is due to the local tax authorities, and the project deposits are the construction deposit handed over to the local government during the construction period of the franchise project. As at 30 June 2018, other receivables of the Company are not overdue and have low credit risk and its credit risk has not increased significantly since the initial confirmation, so other receivables of the Company are belong to stage 1. The credit risk of VAT receivable and project margin is lower than that of other customers, so the ECL rate is 0.05% in the next 12 months and 0.1% in the next 12 months for other payments.

(ii) As at 30 June 2018, the group has no other receivables belong to stage 2 and stage 3.

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14 NOTESTOTHECOMPANYFINANCIALSTATEMENTS (Continued)

(2) Other receivables (Continued)

(b) As at 30 June 2018, other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Nature	Amount	Aging	% of total balance	Provision for bad debts
Linxia Capital Water Co., Ltd.	Receivable due from subsidiaries	97,000	Within 1 year	50%	—
Xi'an Capital Water Co., Ltd.	Receivable due from subsidiaries	25,000	Within 1 year	13%	—
ChibiCapitalWaterCo.,Ltd.	Receivable due from subsidiaries	13,000	Within 1 year	7%	—
Karamay Tianchuang Capital Water Co., Ltd.	Receivable due from subsidiaries	11,000	Within 1 year	5%	—
Tianjin State Taxation Bureau	VAT refund receivable	9,820	Within 1 year	5%	—
		155,820		80%	—

(3) Long-term equity investments

	30 June 2018	31 December 2017
Investment in subsidiaries (note (a))	3,094,898	2,218,623
Less: Impairment of Long-term equity investments (note (b))	(137,321)	(137,321)
	2,957,577	2,081,302

Notes to the Financial Statements

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14 NOTESTOTHECOMPANYFINANCIALSTATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries

Name of subsidiaries	Investment cost	31 December 2017	Additions	Disposals	Provision	30 June 2018	Provision for impairment	Cash dividends declared/ Investment income in the current period
Xi'an Capital Water Co., Ltd.	334,000	334,000	—	—	—	334,000	—	—
Hangzhou Tianchuang Capital Water Co., Ltd.	264,212	264,212	—	—	—	264,212	—	—
Qijing 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. (note(i))	191,302	107,302	84,000	—	191,302	—	—	—
Tianjin Water Recycling Co., Ltd.	100,436	100,436	—	—	—	100,436	—	—
Wuhan Tianchuang Capital Water Co., Ltd.	135,229	135,229	—	—	—	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	—	—
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	—	—
Tianjin Capital New Materials Co., Ltd.	26,500	—	—	—	—	—	(26,500)	—
Tianjin Zichuang Project Investment Co., Ltd.	23,400	23,400	—	—	—	23,400	—	—
Subtotal	1,738,084	1,536,303	84,000	—	—	1,536,303	(117,781)	—

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14 NOTESTOTHECOMPANYFINANCIALSTATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

Name of subsidiaries	Investment cost	31 December 2017	Additions	Disposals	Provision	30 June 2018	Provision for impairment	Cash dividends declared/ Investment income in the current period
Tianjin Caring Technology Development Co., Ltd	16,000	16,000	—	—	—	16,000	—	—
Tianjin Jinning Capital Water Co., Ltd.	22,560	7,560	—	—	—	7,560	(15,000)	—
Tianjin Jing Hai Capital Water Co., Ltd	37,553	37,553	—	—	—	37,553	—	—
Tianjin Capital Water Co., Ltd.	10,000	5,460	—	—	—	5,460	(4,540)	—
Yingshang Capital Water Co., Ltd.	53,000	53,000	—	—	—	53,000	—	—
Shangdong Capital Environmental Protection Technology Development Co., Ltd.	128,000	128,000	—	—	—	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.	63,670	63,670	—	—	—	63,670	—	—
Linxia Capital Water Co., Ltd.	45,000	45,000	—	—	—	45,000	—	—
Dalian Dongfang Chunliuhe Water Purification Co., Ltd.	47,981	47,981	—	—	—	47,981	—	—
Changsha Tianchuang Capital Water Co., Ltd. (note (ii))	15,318	—	15,318	—	—	15,318	—	—
Inner Mongolia Bayannur Capital Water Co., Ltd. (note (ii))	776,957	—	776,957	—	—	776,957	—	—
Subtotal	1,356,814	544,999	792,275	—	—	1,337,274	(19,540)	—
Total	3,094,898	2,081,302	876,275	—	—	2,957,577	(137,321)	—

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14 NOTESTOTHECOMPANYFINANCIALSTATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

- (i) In this year, the Company increased capital of 84 million yuan to its subsidiary Fuyang Capital Water Co., Ltd. for the construction and operation of the upgrading project of Jieshou sewage water treatment plant.
- (ii) In 2018, the Company contributed 15 million yuan to set up Changsha Tianchuang Capital Water Co., Ltd and the shareholding ratio is 80%. And in 2018, the Company contributed 777 million yuan to acquire 70% shareholdings of Inner Mongolia Bayannur Capital Water Co., Ltd.

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

	31 December 2017	Additions	Disposals	30 June 2018
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>137,321</u>	<u>—</u>	<u>—</u>	<u>137,321</u>

(4) Revenue and cost of sales

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue	Cost of sales	Revenue	Cost of sales
Revenue from principal operations	438,859	213,413	400,855	213,040
Revenue from other operations	62,832	37,834	52,926	25,378
	<u>501,691</u>	<u>251,247</u>	<u>453,781</u>	<u>238,418</u>

9. Financial Reports

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14 NOTESTOTHECOMPANYFINANCIALSTATEMENTS (Continued)

(4) Revenue and cost of sales (Continued)

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water and construction of related facility	407,617	209,853	368,937	202,460
Road tolls	31,242	3,560	31,918	3,560
	<u>438,859</u>	<u>213,413</u>	<u>400,855</u>	<u>213,040</u>

(b) Revenue from other operations and cost of sales

	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	38,683	29,040	32,836	22,885
Technical service fee	9,291	8,604	9,400	8,604
Rental	4,906	—	5,088	791
Others	9,952	190	5,602	117
	<u>62,832</u>	<u>37,834</u>	<u>52,926</u>	<u>32,397</u>

(5) Investment income

	30 June 2018	31 December 2017
Dividend income from other investments in equity instruments	200	—
Investment income from available-for-sale financial assets	—	400
	<u>200</u>	<u>400</u>

9. Financial Reports

Supplement of the Financial Statements

II. Prepared in accordance with the PRC Accounting Standards

For the six months ended 30 June 2018

(All amounts in RMB thousand unless otherwise stated)

1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	For the six months ended 30 June 2018	For the six months ended 30 June 2017
(Profits)/losses on disposal of non-current assets	(118)	1
Government Grants	30,857	16,732
Other non-operating income and expenses — net	1,002	2,431
	<u>31,741</u>	<u>19,164</u>
Effect of income tax	(7,935)	(4,791)
Effect of minority interests (after tax)	(550)	(10)
Total	<u>23,256</u>	<u>14,363</u>

Basis for preparation of statement of non-recurring profit or loss

Under the requirements in *Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public – Non-recurring Profit or Loss [2008]* from China Security Regulatory Commission (“CSRC”), non-recurring profit or loss refers to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

2 RECONCILIATION STATEMENT OF INLAND AND ABROAD FINANCIAL STATEMENT

There is no difference on inland and abroad financial statement of the Group.

3 RATE OF RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average income rate of net assets (%)		Basic/Diluted earnings per share	
	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Net profit attributable to ordinary shareholders of the Company	5.28	5.31	0.20	0.18
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	4.85	5.01	0.18	0.17

10. List of Documents Available for Inspection

1. The financial statements signed and sealed by the person in charge of the Company, the officer in charge of the accounting function and the officer in charge of the accounting department (the chief accountant).
2. Original of the report of the auditor sealed by the certified public accountants, and signed and sealed by the auditor.
3. Original copies of all documents and announcements of the Company publicly disclosed in the website designated by the CSRC during the reporting period.
4. The Interim Report released in other stock markets.

Tianjin Capital Environmental Protection Group Company Limited

Chairman: Liu Yujun