

Annual Report 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 annual report contains no false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of its contents.

II. Information on absent directors

Position of absent Director	Name of absent Director	Reason(s) for absence provided by the absent Director	Name of proxy
Director	YU Zhongpeng	Director Mr. YU Zhongpeng was unable to attend the Board meeting due to work, and appointed Director Mr. Si Xiaolong as proxy to vote for him instead	Si Xiaolong

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

IV. Liu Yujun, the officer in charge of the Company, Peng Yilin, the officer in charge of the accounting function, and Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2018 annual report.

V. The proposal on profit distribution or transfer of capital reserve fund to share capital for the reporting period as reviewed by the Board

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2018 amounted to RMB501.17 million. After deduction of the statutory common reserve of RMB37.20 million drawn in accordance with the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the undistributed profits of RMB2,978.88 million at the beginning of the year, the actual profit distributable to the shareholders for this year amounted to RMB3,442.85 million.

Important

According to the profit distribution policy of the Company, after considering the fact that the Company is still in the development stage and following the Company's arrangements for capital expenses on external project development in 2019, a cash dividend of RMB1.06 (inclusive of tax) for every 10 shares will be proposed to all shareholders for 2018, with the cash dividend amount in the sum of RMB151.29 million, representing 30.19% of the distributable profit realized for the year 2018 concerned attributable to the Company. There will be no transfer from the capital reserve fund to share capital in 2018.

The distribution proposal shall be submitted to the 2018 general meeting of the Company for consideration and approval.

VI. Risk statements for the forward-looking statements

Not applicable

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

No

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

No

IX. SIGNIFICANT RISKS WARNING

Not applicable

X. Others

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

1	Definitions	4
2	Company Profile and Major Financial Indicators	7
3	Company Business Overview	12
4	Management Discussion and Analysis	15
5	Major Events	40
6	Details of Changes in Ordinary Shares and Shareholders	69
7	Directors, Supervisors, Senior Management and Employees	76
8	Corporate Governance	86
9	Relevant Details of Corporate Bonds	98
10	Financial Report	103
11	Report of the Auditors	104
12	Financial Statements prepared in accordance with PRC Accounting Standards for Business Enterprises	109
13	Independent Auditor's Report	232
14	Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards	237
15	List of Documents Available for Inspection	348

1. Definitions

I. DEFINITIONS

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

“Group”	Tianjin Capital Environmental Protection Group Company Limited and its subsidiaries
“Subsidiaries”	Subsidiaries of Tianjin Capital Environmental Protection Group Company Limited
“Company”	Tianjin Capital Environmental Protection Group Company Limited
“Tianjin Investment Group”	Tianjin City Infrastructure Construction and Investment Group Company Limited
“TMICL”	Tianjin Municipal Investment Company Limited
“Bohai Chemical”	Tianjin Bohai Chemical Industry (Group) Company Limited
“Tianjin Haihe”	Tianjin Haihe Construction Development and Investment Company Limited
“Jiayuanxing”	Tianjin Jiayuanxing Innovative Energy Technology Company Limited
“Jiayuanxin”	Tianjin Jiayuanxin Innovative Energy Technology Company Limited
“TLP”	Tianjin Lecheng Properties Company Limited
“TYCOM”	Tianjin Yuanyicheng Commercial Operation Management Company Limited
“Water Recycling Company”	Tianjin Water Recycling Company Limited
“Guizhou Company”	Guizhou Capital Water Company Limited
“Baoying Company”	Baoying Capital Water Company Limited
“Qujing Company”	Qujing Capital Water Company Limited
“Fuyang Company”	Fuyang Capital Water Company Limited
“Hangzhou Company”	Hangzhou Tianchuang Capital Water Company Limited

“Hong Kong Company”	Tianjin Capital Environmental Protection (Hong Kong) Company Limited
“Wendeng Company”	Wendeng Capital Water Company Limited
“Jinghai Company”	Tianjin Jinghai Capital Water Company Limited
“Xi’an Company”	Xi’an Capital Water Company Limited
“Caring Company”	Tianjin Caring Technology Development Company Limited
“Anguo Company”	Anguo Capital Water Company Limited
“Wuhan Company”	Wuhan Tianchuang Capital Environmental Protection Company Limited
“Jinning Capital Company”	Tianjin Jinning Capital Water Company Limited
“Jiayuantian”	Tianjin Jiayuantian Innovative Energy Technology Company Limited
“Jiayuansheng”	Tianjin Jiayuansheng Innovative Energy Technology Company Limited
“Shandong Company”	Shandong Capital Environmental Protection Technology Consultant Company Limited
“Karamay Company”	Karamay Tianchuang Capital Water Company Limited
“Jiayuanbin”	Tianjin Jiayuanbin Innovative Energy Technology Company Limited
“Yingshang Company”	Yingshang Capital Water Company Limited
“Changsha Tianchuang Water”	Changsha Tianchuang Capital Water Co., Ltd.
“Changsha Tianchuang Environmental Protection”	Changsha Tianchuang Environmental Protection Co., Ltd.
“Linxia Company”	Linxia Capital Water Company Limited
“Anhui Company”	Anhui Capital Water Company Limited
“Dalian Chunliuhe Company”	Dalian Oriental Chunliuhe Water Quality Purification Company Limited

1. Definitions

“Beijing-Tianjin-Hebei Region”	including Dongjiao Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant, Jingu Sewage Water Treatment Plant and Beicang Sewage Water Treatment Plant in the downtown of Tianjin, Anguo Company, Jinghai Company and Jinning Capital Company, Caring Company, Jiayuanxing and Water Recycling Company
“Southwest Region”	including Guizhou Company and Qujing Company
“Northwest Region”	including Xi’an Company, Karamay Company, Bayannur Company and Linxia Company
“Central China Region”	including Anhui Company, Hefei Company, Fuyang Company, Wuhan Company, Yingshang Company, Honghu Tianchuang, Changsha Tianchuang Water and Changsha Tianchuang Environmental Protection
“Eastern China Region”	including Hangzhou Company and Baoying Company
“Northeast Region”	Dalian Chunliuhe Company, Wendeng Company and Shandong Company
“Qudong Company”	Tianjin Qudong Media Co., Ltd.
“CSRC”	the China Securities Regulatory Committee
“Hefei Company”	Hefei Capital Water Company Limited
“Bayannur Company”	Inner Mongolia Bayannur Capital Water Co., Ltd.
“Honghu Tianchuang”	Honghu Tianchuang Water Company Limited
“Jieshou Company”	Jieshou Capital Water Company Limited
“Tianjin Second Municipal”	Tianjin Second Municipal Highway Engineering Co., Ltd.
“Chibi Company”	Chibi Capital Water Company Limited
“Shibing Company”	Shibinggui Capital Water Company Limited
“Deqing Company”	Deqing Capital Water 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	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	Mona Y.Y. Cho	Guo Fengxian
Correspondence address	TCEP Building 76 Weijin South Road Nankai District, Tianjin	22/F, Worldwide House, Central, Hong Kong	TCEP Building 76 Weijin South Road Nankai District, Tianjin
Telephone number	86-22-23930128	852-21629620	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
Email address	niu_bo@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

III. COMPANY PROFILE

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

2. Company Profile and Major Financial Indicators

IV. PLACES WHERE INFORMATION IS DISCLOSED AND AVAILABLE FOR INSPECTION

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

V. PROFILE OF THE SHARES OF THE COMPANY

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

VI. OTHER RELEVANT INFORMATION

Certified public accountants engaged by the Company (PRC)	Name	PricewaterhouseCoopers Zhong Tian LLP
	Office Address	11/F, PricewaterhouseCoopers Center, 2 Leading Enterprise Square, 202 Hu Bin Road, Huangpu District, Shanghai, the PRC
	Name of Signing Accountant	Li Jun Song Yijin
Certified public accountants engaged by the Company (Hong Kong)	Name	PricewaterhouseCoopers
	Office Address	22/F, Prince’s Building, Central, Hong Kong
	Name of Signing Accountant	Chen Guangde

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

(i) Major accounting data

Major accounting information			Unit: 0'000 Currency: RMB	
	2018	2017	Increase/decrease for the period as compared to the same period last year (%)	2016
Operating income	244,751.5	214,834.1	13.93	195,866.6
Net profit attributable to the shareholders of the Company	50,116.8	50,825.1	-1.39	44,316.8
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	44,560.6	46,887.7	-4.96	40,683.3
Net cash flow from operating activities	69,264.6	91,205.2	-24.06	40,367.0
	As at the end of 2018	As at the end of 2017	Increase/decrease as at the end of the period as compared to the end of the same period last year (%)	As at the end of 2016
Net assets attributable to the shareholders of the Company	581,820.3	511,704.0	13.70	474,437.7
Total assets	1,568,744.8	1,245,289.0	25.97	1,064,089.7

(ii) Major financial indicators

Major financial indicators			Increase/decrease for the period as compared to the same period last year (%)	
	2018	2017		2016
Basic earnings per share (RMB/share)	0.35	0.36	-2.78	0.31
Diluted earnings per share (RMB/share)	0.35	0.36	-2.78	0.31
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.31	0.33	-6.06	0.29
Weighted average return on net assets ratio (%)	9.05	10.33	Decreased by 1.28 percentage points	9.71
Weighted average return on net assets ratio after deduction of extraordinary items (%)	8.05	9.53	Decreased by 1.48 percentage points	8.91

2. Company Profile and Major Financial Indicators

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

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

Not applicable

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

Not applicable

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

Not applicable

IX. MAJOR FINANCIAL INFORMATION BY QUARTER FOR THE YEAR 2018

	<i>Unit: 0'000</i>		<i>Currency: RMB</i>	
	The First Quarter (January to March)	The Second Quarter (April to June)	The Third Quarter (July to September)	The Fourth Quarter (October to December)
Operating Income	49,294.1	61,485.7	62,269.0	71,702.7
Net profit attributable to the shareholders of the Company	10,947.8	17,308.7	13,458.8	8,401.5
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	10,797.3	15,133.6	13,292.2	5,337.5
Net cash flow from operating activities	-7,768.0	41,567.0	28,762.7	10,863.4

Differences between information by quarter and information disclosed in periodical reports

Not applicable

X. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

	<i>Unit: 0'000</i>			<i>Currency: RMB</i>
Extraordinary Profit And Loss Items	Amount in 2018	Amount in 2017	Amount in 2016	
Profit/loss from disposal of non-current assets	-90.0	-8.2	-68.1	
Government grants recognized in current profit and loss, except for those closely related to business operation, in compliance with national policy and settled in certain amount which are constantly granted by government	7,848.1	5,343.3	4,336	
Other non-operating income and expenses save for the above items	-180.9	-72.6	773.6	
Effect on minority interests	-126.7	-9.5	-147.6	
Effect on income tax	-1,894.3	-1,315.6	-1,260.4	
Total	5,556.2	3,937.4	3,633.5	

XI. ITEMS MEASURED BY FAIR VALUE

Not applicable

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

Results

Unit: 0'000 Currency: RMB

	For the year ended 31 December				
	2018	2017	2016	2015	2014
Turnover	<u>244,752</u>	<u>193,193</u>	<u>177,381</u>	<u>175,367</u>	<u>167,113</u>
Profit before taxation	<u>69,484</u>	<u>71,879</u>	<u>62,223</u>	<u>49,018</u>	<u>43,326</u>
Taxation	<u>(16,806)</u>	<u>(19,959)</u>	<u>(15,432)</u>	<u>(14,570)</u>	<u>(11,555)</u>
Profit after taxation	52,678	51,920	46,791	34,448	31,771
Non-controlling interests	<u>(2,561)</u>	<u>(1,094)</u>	<u>(2,474)</u>	<u>(1,394)</u>	<u>(954)</u>
Profit attributable to the shareholders of the Company	<u>50,117</u>	<u>50,825</u>	<u>44,317</u>	<u>33,054</u>	<u>30,817</u>
Dividend	<u>—</u>	<u>—</u>	<u>13,559</u>	<u>9,991</u>	<u>9,991</u>

Note: The results for each of the five years ended 31 December 2018 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

Assets and Liabilities

Unit: 0'000 Currency: RMB

	As at 31 December				
	2018	2017	2016	2015	2014
Fixed assets	64,199	52,803	53,046	57,114	61,346
Intangible assets	1,031,447	686,970	621,900	624,475	630,610
Associated company	19,500	—	—	2,600	3,135
Available-for-sale financial assets	200	200	200	200	200
Long-term receivables	25,369	29,496	30,915	31,946	32,615
Trade receivables due after one year	—	—	—	—	—
Other non-current assets	10,918	59,843	18,774	805	846
Net current assets	<u>150,129</u>	<u>98,631</u>	<u>159,479</u>	<u>28,637</u>	<u>161,617</u>
	1,301,762	927,943	884,314	745,777	890,369
Non-controlling interests	79,676	29,674	25,944	21,764	16,750
Long-term liabilities	<u>640,266</u>	<u>386,564</u>	<u>383,932</u>	<u>283,901</u>	<u>456,570</u>
Net assets	<u>581,820</u>	<u>511,704</u>	<u>474,438</u>	<u>440,112</u>	<u>417,048</u>

3. Company Business Overview

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

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

In 2018, the principal businesses of the Company remained to be water utilities business and new energy cooling and heating supply business, with water utilities business being the main business growth driver.

1. Water Utilities Business

- (1) Sewage treatment business. As of the end of the reporting period, the Company had sewage treatment projects with a total capacity of 4,990,000 m³/day, inclusive of equity-based projects with a total capacity of 4,450,000 m³/day, a rise of 320,000 m³/day over the beginning of the reporting period; and commissioned operation projects with a capacity of 540,000 m³/day, a slight decrease than the previous year. Starting from the four sewage treatment plants covering the urban area of Tianjin, the Company has now spread its sewage treatment business to 15 provinces and cities in the Beijing-Tianjin-Hebei region, Central China, Eastern China and Northwest China.
- (2) Water supply business. The Company's water supply business is divided into civil tap water supply and industrial water supply, with a scale of 210,000 m³/day and 95,000 m³/day respectively, which were located in Qujing and Bayannur.
- (3) Recycled water business. The Company operated the recycled water business with a capacity of 355,000 m³/day, and there was no additional capacity installed during the reporting period.

The Company's sewage treatment and water supply business were operated under the BOT, TOT and PPP models, while its recycled water business adhered to the model of generating revenue from the production and sales of recycled water, and providing recycled water pipeline connection engineering services.

2. New Energy Cooling and Heating Supply Business

The new energy cooling and heating supply business is mainly operated in Tianjin. During the reporting period, the Company secured a new project, the Miyun Road Electric Heating Project, which represented a breakthrough in its electric heating business. Meanwhile, it acquired an additional new energy service area of 346,000 sq.m. As of the end of the reporting period, the Company's new energy service area totaled 2,346,000 sq.m., which was operated under the BOT model, same as the previous year.

3. Other businesses

In line with its strategic objective of being a comprehensive environmental service provider, the Company extended its reach to both ends of the water industrial chain while consolidating the basic water business so as to promote its comprehensive environmental services ability. Supported by its proprietary technologies, the Company expanded its business presence to the fields of industrial and medical wastewater and sludge treatment, environment monitoring, hazardous waste disposal while increasing its efforts in converting technical achievements into productivity and expanding its business scope.

(II) Description of Industrial Situation

(1) *The PPP model has entered a period of standardized operation, with the sewage treatment charging policy being constantly optimized.*

In November 2017, the Ministry of Finance issued the “Notice on Regulating the Management of the Integrated Information Platform Project Library for Public-Private Partnership (PPP) (關於規範政府和社會資本合作(PPP)綜合信息平台項目庫管理的通知)”, declaring that PPP had entered a stage of rational development. The Notice further standardized the operation of the PPP projects and cleaned up the project library while raising the entry threshold, carrying out comprehensive verification of the information about the projects, the plans of implementation, qualification of social capital participation, financial affordability, procurement documents and details of the contracts.

On 2 July 2018, the National Development and Reform Commission issued the “Opinions on Innovating and Improving the Pricing Mechanism for Promoting Healthy Growth (關於創新和完善促進綠色發展價格機制的意見)”, providing comprehensive guidance on optimizing the sewage treatment charging policy, which incorporated the ecological environment costs into the economic operation costs, and clarified the polluter accountability mechanism, having a significant impact on promoting the prevention and control of water pollution and the development of the sewage treatment industry.

(2) *Market competition has been diversifying*

With the strong promotion of the national policies, the environmental protection industry has ushered in golden opportunities for its development, and opened up a new era of effect-oriented environmental governance which focuses on improving environment quality by means of integrated and systematic governance. Competition in the environmental protection market was diversifying. In addition to traditional environmental protection companies, other companies were rushing into the water sector. For environmental protection companies, it is especially important to build a market-oriented technological innovation system. With the upgrading of environmental governance needs, the supporting function of technology will gradually become obvious.

3. Company Business Overview

In the future, while giving full play to its expertise in water project operation to ensure water treatment quality, the Company will focus on promoting its core businesses such as sludge treatment, reclaimed water utilization, sponge city construction, and hazardous waste treatment, aiming to improve its capacity of comprehensive management of the water environment. Meanwhile, the Company will keep abreast of the development of solid waste treatment and environment restoration, building up its technological reserve and enhancing its service capacity of comprehensive environmental management.

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, the Group's core competitiveness 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.

After the development in 2018, the Company further consolidated its strengths and enhanced its overall competitiveness. In respect of market development, the Company made positive progress as it secured 7 water treatment projects in Jieshou, Shibing, Hefei and Deqing, etc., which has significantly expanded its strategic presence across the country. In terms of capital operation, the Company actively promoted its mixed reform, as Shandong Company introduced Dalian Dongtai Industrial Waste Treatment Co., Ltd. (大連東泰產業廢棄物處理有限公司), an industry leader, while Caring Company introduced Beijing OriginWater Technology Co., Ltd., a renowned company in the water industry. Through the introduction of strategic investors, we aim to improve the comprehensive competitiveness of our environmental protection business. In terms of business development, while steadily consolidating its principal business, the Company successfully landed the Sponge City Construction Project in the South Jiefang Road area, Tianjin and the Miyun Road Electric Heating Project, representing a ground-breaking breakthrough in its water environment treatment and electric heating business, and further expanding its industrial chain. In terms of technical research and development, the Company clarified the direction of its R&D Center while constantly increasing its research and development efforts, actively building up the reserve of environmental management technologies and emerging environmental technology products.

I. OPERATION DISCUSSION AND ANALYSIS

In 2018, under the leadership of the Board and in accordance with 2018 Operating Strategy and Business Plan of the Group, the management of the Company has continued to solidly promote the innovation and thorough implementation in basic management, technology R&D and market development and other operations, and steadily completed the following tasks with an aim of further consolidating and developing its core competitiveness:

1. **Giving full play to operational and construction advantages to ensure the quality and profits of projects so as to meet the requirements for enhancement of water quality standards**

With increasingly stringent requirements of water environment management, the Company made full use of its operational and technological advantages to deepen management of operation of all water projects and achieve precise operation. While ensuring operational quality and safety, the Company adopted initiatives of income growth and cost savings to strive to reduce operating costs. At the same time, the daily maintenance of project agreements was carried out, and the unit price of the sewage treatment services was adjusted duly to ensure the level of income from projects.

The Company strengthened the management of project construction to ensure the smooth implementation of project construction. Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant in the urban area of Tianjin achieved local standards compliance operation at the end of 2018.

2. **Continuing to promote market development and expand the scale of water business, and meanwhile expanding the scope of the industrial chain and improving comprehensive capabilities in environmental treatment**

During the reporting period, the Company successively obtained a number of water PPP projects with newly-added sewage treatment capacity of 304,650 tons per day. Two of these projects involved the construction and operation of rural sewage treatment and ancillary pipeline networks, tapping into the rural water treatment field. The Company 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, achieving breakthroughs in the comprehensive treatment of water environment and the electric heating business field.

3. **Deepening management and innovation work. On the basis of establishing the management of the four business lines of market development, construction and management, operation and management and technological research and development, the Group set up regional companies, and combined its functional management authorization with business linear management to increase capabilities of regional comprehensive management and further enhance the Group's overall management efficiency.**

4 Management Discussion and Analysis

4. The successful issuance of 3+2 years corporate bonds of RMB1.1 billion has ensured the funding requirements of the Group's daily operations.
5. Continuing to promote R&D and striving to play the leading role in science and technology

Based on the existing projects, a R&D center will be built in the Jingu Sewage Treatment Plant to strengthen the scientific and technological R&D. During the reporting period, the Group carried out 28 scientific research projects and obtained 8 patents, including 3 invention patents and 5 utility model patents; there were 5 projects including 2 inventions and 3 utility models newly applied.

II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

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

In 2018, the Group recorded an operating revenue of RMB2,447.5150 million, representing an increase of 13.93% as compared to that of last year. The operating costs were RMB1,558.5560 million, representing an increase of 21.51% as compared to that of last year. Net profit attributable to the Company was RMB501.1680 million, representing a decrease of 1.39% over last year. The decrease in net profit was mainly due to the increase in operating costs resulted from the increased volume of water treatment and improved water quality standards, as well as the significant increase in financial expenses resulted from the increases in exchange losses and debt financing.

2. Analysis of the principal business

During the reporting period, the Group's principal business segment did not change significantly compared with the previous year and are still engaged in the sewage treatment and construction of sewage treatment plant business, recycled water business, tap water supply, new energy heating and cooling supply business, toll collection business and transformation of achievements in technology research. It recorded operating income of RMB2,260.1320 million, representing an increase of 16.99% over the previous year.

3. Analysis of other business

The Group's other business mainly includes the sewage treatment entrusted operation business via the technical service model, as well as the technical and engineering consulting business. During the reporting period, it realised an income for other business of RMB187.3830 million, representing a decrease of 13.41% over the previous year.

(I) ANALYSIS OF PRINCIPAL BUSINESSES

Analysis on changes in income statement and cash flow statement

Unit: 0'000 Currency: RMB

Item	Amount for the current period	Amount for the same period last year	Percentage change (%)
Operating revenue	244,751.5	214,834.1	13.93
Operating costs	155,855.6	128,269.9	21.51
Selling expenses	541.7	646.7	-16.24
Administrative expenses	12,909.6	13,974.9	-7.62
Research and development expenses	1,043.9	847.2	23.22
Financial expenses	16,198.6	10,033.9	61.44
Net cash flows from operating activities	69,264.6	91,205.2	-24.06
Net cash flows from investing activities	-242,270.2	-50,715.1	377.71
Net cash flows from financing activities	164,491.0	30,766.8	434.64
Investment gain	20.0	40.0	-50.00
Gains on disposals of assets	-37.3	0.0	-100.00
Non-operating income	688.4	387.0	77.88
Non-operating expenses	405.0	197.5	105.06
Profit or loss attributable to minority shareholders	2,561.2	1,094.4	134.03

- Reason for change in operating revenue: 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.
- Reason for change in operating costs: It was mainly due to increased water volume and improved water quality standards which have resulted in significant increase in the cost of each entity under the Group.
- Reason for change in selling expenses: It was mainly due to the decrease in the number of sales staff and thus staff expense decreased.
- Reason for change in administrative expenses: It was mainly due to decreased expenses including expenses for Board Secretary and audit fees.
- Reason for change in research and development expenses: It was mainly due to increased capital expenditure based on the research and development plan of this year.
- Reason for change in financial expenses: It was mainly because debt financing increased which resulted in the increase in interest expenses, and exchange loss increased as compared with last year.
- Reason for change in net cash flows from operating activities: It was mainly due to the increase in cash outflows of the cost item arising from the enhanced water quality standards this year.

4 Management Discussion and Analysis

8. Reason for change in net cash flows from investing activities: It was due to the fact that investment expenses of various construction projects of the Company for this year were higher than those in the same period last year.
9. Reason for change in net cash flows from financing activities: It was mainly because the new debt financing for the current year is higher than that in the same period last year.
10. Reason for change in investment gain: It was mainly because the dividends received from Tianjin Beifang Rencaigang Company Limited (天津北方人才港股份有限公司) this year was less than those received in the same period of last year.
11. Reason for change in gains on disposals of assets: It was mainly because of the asset losses arising from the disposals in this year, which was nil for the same period last year.
12. Reason for change in non-operating income: It was mainly due to special subsidies received by the Company which were higher than those for the same period last year.
13. Reason for change in non-operating expenses: It was mainly due to loss on disposals of assets and other expenses which were higher than those for the same period last year.
14. Reason for change in profit or loss attributable to minority shareholders: It was mainly due to the increase in profit or loss attributable to minority shareholders calculated based on net profit of non-wholly owned subsidiaries for this year after increasing minority interests.

1. Analysis of income and costs

During the reporting period, while striving for market expansion and increasing the scale of its main business, the Company continued to strengthen its project operation, on the one hand to improve the operation quality to meet increasingly stringent regulatory requirements, and strive for operating cost control through refined management; on the other hand to timely maintain project agreements and timely adjust the unit price of sewage treatment service fees for ensuring project income.

During the reporting period, the Group's principal businesses realized a total revenue of RMB2,260.132 million, representing an increase of 16.99% over the previous year, mainly due to additional water projects and upward adjustment to the unit price of sewage treatment service fees for some projects during the reporting period. Costs for principal businesses amounted to RMB1,413.986 million, representing an increase of 21.98% over the previous year. This was on one hand due to increased business costs resulted from the above-mentioned increase in income, and on the other hand to the increased operating costs for meeting water quality standards of the transitional stage during the upgrade and renovation period of the four sewage treatment plants in Tianjin.

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

Unit: 0'000 Currency: RMB

Major business by industry

Industry	Operating revenue	Operating costs	Gross profit margin (%)	Increase/decrease in operating revenue as compared to last year (%)	Increase/decrease in operating costs as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)
Sewage treatment and construction of sewage treatment plants business	162,638	104,667	35.64	15.14	21.59	Decreased by 3.42 percentage points
Recycled water business	34,986	21,972	37.20	16.27	20.80	Decreased by 2.35 percentage points
Toll collection business	6,248	712	88.60	-0.29	—	Decreased by 0.04 percentage point
Tap water supply business	9,326	6,238	33.11	38.37	27.31	Increased by 5.81 percentage points
Cooling and heating supply business ^(Note 1)	9,102	5,879	35.41	27.75	20.32	Increased by 3.99 percentage points
Transformation of achievements in technology research ^(Note 2)	3,528	1,842	47.79	117.78	71.78	Increased by 13.96 percentage points
Others ^(Note 3)	186	89	52.15	80.58	7.23	Increased by 32.73 percentage points

Major business by region

Region	Operating revenue	Operating costs	Gross profit margin (%)	Increase/decrease in operating revenue as compared to last year (%)	Increase/decrease in operating costs as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)
Beijing-Tianjin-Hebei Region ^(Note 4)	139,951	80,351	42.59	11.28	17.18	Decreased by 2.89 percentage points
Southwest Region ^(Note 5)	16,680	10,930	34.47	45.97	10.26	Increased by 21.22 percentage points
Northwest Region ^(Note 6)	19,756	15,805	20	39.6	51.85	Decreased by 6.46 percentage points
Central China Region ^(Note 7)	15,592	10,292	33.99	35.31	54.79	Decreased by 8.31 percentage points
Eastern China Region ^(Note 8)	30,242	21,179	29.97	11.9	11.28	Increased by 0.4 percentage point
Northeast Region ^(Note 9)	3,792	2,842	25.05	15.01	29.59	Decreased by 8.43 percentage points

4 Management Discussion and Analysis

Note 1: The increase was because Jiayuanbin and Jiayuantian have successively commenced operation.

Note 2: The increase was due to the increase in deodorization projects.

Note 3: The increase was because Caring Company has newly added technical consultation business for denitrification systems, and for Yuyue (禹越), Lingang Wetland and other projects.

Note 4: Beijing-Tianjin-Hebei Region includes the four sewage treatment plants in Dongjiao, Xianyang Road, Jingu and Beicang of Tianjin as well as Anguo Company, Jinghai Company, Jinning Capital Company, Water Recycling Company, Caring Company, Jiayuanxing, etc., and the increase was due to the increase in business volume as compared with the same period of last year.

Note 5: Southwest Region includes Guizhou Company and Qujing Company, and the increase was due to higher water prices.

Note 6: Northwest Region includes Xi'an Company, Karamay Company, Bayannur Company and Linxia Company, and the increase was due to increased income and cost of sewage, recycled water and tap water after the newly added Bayannur Project.

Note 7: Central China Region includes Fuyang Company, Wuhan Company, Yingshang Company, Changsha Tianchuang Water, Changsha Tianchuang Environmental Protection, Anhui Company, Honghu Tianchuang and Hefei Company. The increase was due to higher water price and commencement of operation of Changsha Tianchuang Environmental Protection.

Note 8: Eastern China Region includes Hangzhou Company and Baoying Company.

Note 9: Northeast Region includes Dalian Chunliuhe Company, Wendeng Company and Shandong Company. The increase was because Dalian Chunliuhe Company has commenced trial operation.

Description of major business by industry, product and region

Not applicable

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

Not applicable

(3). Cost analysis

Unit: 0'000 Currency: RMB

		By industry						
Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation	
Sewage treatment and construction of sewage treatment plants	Labor	12,999	9.19	11,725	10.11	10.87	Nil	
	Energy consumption (electricity)	20,977	14.84	19,767	17.05	6.12	Nil	
	Materials consumption	17,042	12.05	7,664	6.61	122.36	The material consumption has increased mainly due to the improvement in water quality and increase in the volume of sewage treatment after the upgrading and construction of sewage treatment plants	
	Depreciation and amortization	31,068	21.97	27,093	23.37	14.67	Nil	
	Other manufacturing costs	22,581	15.97	19,831	17.11	13.87	Nil	
	Subtotal	104,667	74.02	86,080	74.26	21.59	Nil	
Tap water	Labor	1,060	0.75	776	0.67	36.60	The labor costs have increased mainly due to the newly-added Bayannur Project in this year	
	Energy consumption (electricity)	689	0.49	392	0.34	75.77	The electricity fee has increased mainly due to the newly-added Bayannur Project in this year and the increase in volume of water treatment of Qijing second tap water plants	
	Materials consumption (including the water resource fees)	2,969	2.10	2,673	2.31	11.07	Nil	
	Depreciation and amortization	1,411	1.00	982	0.85	43.69	The depreciation and amortization have increased mainly due to the newly-added Bayannur Project in this year	
	Other manufacturing costs	109	0.08	77	0.07	41.56	The repair expenses have increased mainly due to the newly-added Bayannur Project in this year	
		Subtotal	6,238	4.41	4,900	4.23	27.31	Nil

4 Management Discussion and Analysis

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Recycled water	Labor	1,829	1.29	1,548	1.34	18.15	Nil
	Energy consumption (electricity)	1,241	0.88	817	0.70	51.90	The electricity has increased mainly due to the newly-added Bayannur Project in this year
	Materials consumption	895	0.63	595	0.51	50.42	The material consumption has increased mainly due to the increase in the water supply volume of Zhangguizhuang plant
	Depreciation and amortization	3,023	2.14	3,742	3.23	-19.21	Nil
	Other manufacturing costs	1,655	1.17	1,745	1.51	-5.16	Nil
	Subtotal	8,643	6.11	8,447	7.29	2.32	Nil
Recycled water pipe network connection	Construction cost	13,329	9.43	9,741	8.40	36.84	Settlement of pipe networks business increased, and the cost increased
	Subtotal	13,329	9.43	9,741	8.40	36.84	Nil
Energy supply	Labor	930	0.66	827	0.71	12.45	Nil
	Energy consumption (electricity)	2,231	1.58	1,909	1.65	16.87	Nil
	Materials consumption	64	0.05	59	0.05	8.47	Nil
	Depreciation and amortization	1,833	1.30	1,502	1.30	22.04	Nil
	Other manufacturing costs	821	0.58	589	0.51	39.40	It is mainly due to the increase in repair and maintenance expenses of equipment
	Subtotal	5,879	4.16	4,886	4.21	20.32	Nil
Toll collection	Collection management fees	712	0.50	712	0.61	0	Nil
	Subtotal	712	0.50	712	0.61	0	Nil
Transformation of achievements in technology research	Expenditure for materials and facilities	1,753	1.24	986	0.85	77.79	It is mainly due to the increase in the sales of environmental protection equipment
	Other manufacturing costs	89	0.06	86	0.07	3.49	It is mainly due to the decrease in labor costs
	Subtotal	1,842	1.30	1,072	0.92	71.83	Nil
Others	Other manufacturing costs	89	0.06	84	0.07	5.95	Nil
	Subtotal	89	0.06	84	0.07	5.95	Nil
Total		141,399	100.00	115,922	100.00	21.98	

Cost analysis and other explanation

Not applicable

(4). Major customers and major suppliers

Sales from the top five customers amounted to RMB1,424.743 million, accounting for 58% of total sales for the year; among which, sales from related parties was RMB66.32 million, accounting for 3% of total sales for the year. Sales from the largest customer amounted to RMB847.242 million, accounting for 35% of total sales for the year.

Procurement from the top five suppliers amounted to RMB752.3113 million, accounting for 26.03% of total procurement for the year; among which, procurement from related parties was nil, accounting for 0% of total procurement for the year.

Other explanation

Nil

2. Expenses

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

3. Research and development investment

Unit: 0'000 Currency: RMB

Expensed research and development investment during the year	1,043.9
Capitalized research and development investment during the year	57.78
Total research and development investment	1,101.68
Percentage of total research and development investment over operating revenue (%)	0.45
Number of research and development personnel in the Company	92
Percentage of number of research and development personnel over the total number of personnel of the Company (%)	5.29
Ratio of capitalized research and development investment (%)	5.24

Explanation

Not applicable

4. Cash flow

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

4 Management Discussion and Analysis

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

Not applicable

(III) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: 0'000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of the previous period (%)	Explanation
Prepayments	2,353.1	0.15	12,477.0	1.00	-81.14	Mainly due to the transfer of prepayments of completed parts at the beginning of the year to retained profit upon recognition of the carry-over cost of sales of pipeline connection for recycled water using the percentage of completion method according to HKFRS 15 "Revenue from Contracts with Customers"
Other receivables	3,616.2	0.23	9,370.8	0.75	-61.41	Mainly due to the recovery of bid security for projects during the current year
Non-current assets due within one year	2,278.9	0.15	—	—	100.00	Mainly due to the road toll fee collection due within one year
Other current assets	15,668.8	1.00	8,544.9	0.69	83.37	Mainly due to the increase in input tax for value-added tax to be credited arising from acquisition of assets by the Company
Available for sale financial assets	0.0	—	200.0	0.02	-100.00	Mainly due to the transfer of equity instrument investment under available-for-sale financial assets to FVOCI according to HKFRS 9 "Financial Instruments"
Financial assets at fair value through other comprehensive income (FVOCI)	200.0	0.01	0.0	—	100.00	Mainly due to the transfer of equity instrument investment under available-for-sale financial assets to FVOCI according to HKFRS 9 "Financial Instruments"
Long-term equity investments	19,500.0	1.24	0.0	—	100.00	Mainly due to the investment in the subsidiary, Tianjin Bihai Sponge City Co. Ltd, by the Company
Construction in progress	15,093.9	0.96	2,065.7	0.17	630.69	Mainly due to the increased investment in non-franchise projects during the current year
Intangible assets	1,029,883.3	65.65	690,641.8	55.46	49.12	Mainly due to the increase in franchised projects during the current year
Other non-current assets	18,517.5	1.18	59,843.3	4.81	-69.06	Mainly due to the transfer of the prepayment for the equity of the Bayannur Company

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 the previous period (%)	Explanation
Short-term borrowings	20,000.0	1.27	49,900.0	4.01	-59.92	Mainly due to the repayment of short-term borrowings due
Notes payable and trade payables	17,639.8	1.12	12,825.4	1.03	37.54	Mainly due to the payables for source water from subsidiaries
Advances from customers	0.0	—	93,088.8	7.48	-100.00	Mainly due to the reclassification of advances from related parties contracted to contract liabilities according to HKFRS15 "Revenue from Contracts with Customers"
Contract liabilities	46,909.3	2.99	0.0	—	100.00	Mainly due to the reclassification of advances from related parties contracted to contract liabilities according to HKFRS15 "Revenue from Contracts with Customers"
Other payables	145,804.5	9.29	62,912.1	5.05	131.76	Mainly due to the increased payables for construction projects
Non-current liabilities due within one year	24,336.9	1.55	87,009.2	6.99	-72.03	Mainly due to the repayment of the medium-term notes due within one year during the current year
Other current liabilities	9.2	0.00	782.7	0.06	-98.82	Mainly due to the offsetting of maintenance costs provided for previous years
Long-term borrowings	205,195.3	13.08	58,151.7	4.67	252.86	Mainly due to the newly added long-term borrowings of the Company
Debentures payable	179,636.3	11.45	69,798.4	5.60	157.36	Mainly due to the newly added corporate debentures during the current year
Provisions	1,006.9	0.06	3,293.0	0.26	-69.42	Mainly due to the offsetting of maintenance costs provided for previous years
Minority interests	79,676.4	5.08	29,673.6	2.38	168.51	Mainly due to the increase in the minority interests of Bayannur Company

(IV) INDUSTRY ANALYSIS

With the revision of Water Pollution Prevention and Control Law, the local governments have been increasing the demands for the enhancement and assurance of the water environment quality. On one hand, the existing sewage treatment plants have gradually begun to upgrade in order to meet the higher discharge standards. On the other hand, the comprehensive management of water environment will become the mainstream demand of the market.

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

The above industry policies give the enterprises in the water utilities industry a lot of room for the market development, but they also put forward a great challenge for operation, market expansion, capital operation, technological development and research and other comprehensive capabilities of the enterprises.

Water Utilities Industry Analysis

1. Capacity and operation situation during the reporting period

Section	Capacity	Utilization rate of capacity (%)
Supply of tap water and industrial water	305,000 m ³ /day	47.2
Sewage treatment	3,560,000 m ³ /day	93.6
Recycled water	280,000 m ³ /day	44.6

District	Capacity	Scale of new production during the reporting period	Planned capacity of projects under construction	Estimated production time
Beijing-Tianjin-Hebei region	1,755,000 tons/day	0	350,000 tons/day	2019 to 2020
Central China	478,000 tons/day	0	376,650 tons/day	2019
Eastern China	650,000 tons/day	0	30,000 tons/day	2019 to 2020
Southwest	390,000 tons/day	0	0 tons/day	2019
Northwest	690,000 tons/day	0	135,000 tons/day	2019
Northeast	85,000 tons/day	0	120,000 tons/day	2019

2. Sales information

Unit: 0'000 Currency: RMB

Section	Sales revenue	Cost	Gross margin (%)	YoY Change (%)
Supply of tap water	9,326	6,238	33.11	5.81
Sewage treatment	162,638	104,667	35.64	-3.42
Recycled water	7,928	8,643	-9.02	28.98

(1). Section of supply of tap water

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

Unit: 0'000 Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Qijing	1.70	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return	No price adjustment	Price adjustment by the cost factor adjustment method
Bayannur	2.35	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return	No price adjustment	According to the relevant provisions of the Administrative Measures on the Price of Water Supplied to Municipalities

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

Unit: 0'000 Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	2.02	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return	No price adjustment	Price adjustment by the cost factor adjustment method

(2). *Section of sewage treatment*

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

Unit: Yuan Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Beijing-Tianjin-Hebei region	1.88	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Northeast	1.14	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Eastern China	1.3	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Central China	1.12	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Price of project in Chibi was adjusted from RMB1.07/m ³ to RMB1.15/m ³	Price adjustment by the cost factor adjustment method
Northwest	1.29	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Southwest	1.01	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method

4 Management Discussion and Analysis

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

Unit: Yuan Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.24	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Price of project in Chibi was adjusted from RMB1.07/m ³ to RMB1.15/m ³	Price adjustment by the cost factor adjustment method

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

During the reporting period, the water sources of Qijing No. 1, No. 2, and No. 3 Water Plants of the Company are Xiaoxiang Reservoir, Xihe Reservoir and Shuicheng Reservoir. According to the inspection information of Qijing Zhizhen Environmental Testing Co., Ltd. in 2018, the water quality indicators of the three reservoirs met Class II surface water environmental quality standards (GB3838-2002). The supply project of tap water in Bayannur for Front Banner subsidies was Shengyuan Tap Water Plant. The water sources for the plant are Gongjiqiu (公濟渠) underground water sources. According to the inspection information of the Institute of Water Resources for Bayannur (巴彥淖爾市水利科學研究所) in 2018, the water quality indicators of 10 water source wells met The Standards for Drinking Water Quality (GB5749-2006).

4. Supply of tap water

Water supply	Sales volume	Difference of production and sales volume (%)	YoY Change (%)	Reason	Impact on the Company's operation
45,780,000 tons	45,780,000 tons	0	8.7	Water used for residents' living and urban greening has increased	No material impact
5,640,000 tons	5,640,000 tons	-	-	Supply of the industrial water has increased	No material impact

5. Significant capital expenditure

Unit: 0'000 Currency: RMB

Total amount of capital expenditure plan during the reporting period	Source of capital	Capital cost	Project status
326,974	Own funds and bank borrowings	4.45%	See the table below

Among which: Project status

Unit: 0'000 Currency: RMB

Project operation model	Total project budget	Project Progress	The amount invested during the reporting period	Accumulated and actual investment amount	Project revenue	If there is any significant change or significant difference in the project progress, the reasons shall be stated and disclosed
BOT Model (The Upgrading and Reconstruction Project of Tianjin Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant and Karamay Phase II Project)	124,022.7	Completed	61,083.5	72,832.8	For the details of revenue of the projects for Tianjin Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant, please see "Major non-equity investment" below; Karamay Phase II is under construction and there is no income	Nil
Hefei Taochong Sewage Water Treatment Plant PPP Project	58,590	Under construction	32,271	32,271	Under construction and no income	Nil
Bayannur Sewage Treatment and Wastewater Reuse and Water Supply PPP Project	106,760	The acquisition is completed	68,760	106,760	Profit of RMB1.26 million in 2018	Nil

(V) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

During the reporting period, the Company's equity investment was distributed in water projects and hazardous waste business, and for the establishment of project companies or purchase of equity thereof. The total amount of equity investment in 2018 equalled to RMB768.15 million.

(1) Major equity investment

- (1) On 2 February 2018, the Board of the Company agreed to designate Jieshou Company as the PPP project company for the investment, construction and exclusive operation of the existing and additional contract operation projects in Jieshou City. The total investment of the project is RMB279.945 million, which would be financed by the Company by first increasing the capital of Fuyang Company by RMB84 million, which would in turn increase the capital of Jieshou Company by the same amount, with the rest of the project funds to be provided by Jieshou Company with bank loans. Following the capital increase, the registered capital of Fuyang Company and Jieshou Company was RMB191.10 million and RMB89 million respectively, with their respective registered address and scope of business remaining unchanged. The capital increase has been completed during the reporting period.
- (2) On 2 February 2018, the Board of the Company agreed to increase the capital of Baoying Company for the project capital of the Expansion of Xianhe Sewage Treatment Plant Project, with a total investment amount of RMB99.806 million. The capital increase was funded by the shareholders of Baoying Company in cash in proportion to their shareholdings. The Company contributed RMB21 million as it held 70% equity of Baoying Company, and Xianhe Sewage Treatment Plant of Baoying County contributed RMB9 million as it held 30% equity of Baoying Company. Following the capital increase, the registered capital of Baoying Company was increased from RMB53 million to RMB83 million. The capital increase has been completed during the reporting period.
- (3) On 24 May 2018, the Board of the Company agreed Jiayuanxing to jointly establish Jiayuanxin 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. The total investment of the project was RMB48.10 million, of which RMB5 million was sourced from Jiayuanxin's registered capital, with the remaining funds from the engineering supporting fees. Jiayuanxing held 60% equity of Jiayuanxin as it had contributed RMB3 million to its share capital, and Tianjin Kangyuan Electricity Engineering Company Limited held 40% equity of Jiayuanxin as it had contributed RMB2 million to its share capital. Jiayuanxin has been established during the reporting period.

- (4) On 8 June 2018, the Board of the Company agreed to jointly establish Honghu Tianchuang with Honghu Municipal Water Pollution Control Center (洪湖市水污染治理中心) and Tianjin Second Municipal by means of cash contribution. Honghu Tianchuang 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. The total investment of the project was RMB437.77 million, which was financed with the registered capital of Honghu Tianchuang of RMB131.33 million, to which the Company has contributed RMB111.631 million, accounting for 85% of its total equity; Honghu Municipal Water Pollution Control Center has contributed RMB13.133 million, accounting for 10% of its total equity; and Tianjin Second Municipal has contributed RMB6.5665 million, accounting for 5% of its total equity. Honghu Tianchuang has been established during the reporting period.
- (5) On 10 July 2018, the Board of the Company agreed to establish Shibing Company, which was responsible for the investment, financing, design, construction, operation, maintenance and handover of the sewage treatment PPP projects in Shibing County and the townships under its jurisdiction, as well as the collection of sewage treatment service fees and pipeline network service fees. The total investment of the project was RMB99.51 million, which was financed with the registered capital of Shibing Company of RMB29.853 million, to which Guizhou Company has contributed RMB28.564 million, accounting for 95.68% of its total equity; Guizhou Jiantianxia Construction Engineering Company Limited (貴州建天下建築工程有限公司) has contributed RMB288,500, accounting for 0.97% of its total equity; and Shibing County Water Investment and Development Company Limited (施秉縣水務投資開發有限公司), a representative of the government, has contributed RMB1 million, accounting for 3.35% of its total equity. The equity injection has been completed during the reporting period.
- (6) On 10 July 2018, the Board of the Company agreed to jointly establish a project company 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 Haihe Company, a representative of the government. The project company will be responsible for the implementation of the PPP project for the construction of Sponge City in South Jiefang Road area in Tianjin. The total investment of the project was RMB2,521.13 million, which was financed with the registered capital of the project company of RMB650 million, to which Beijing OriginWater Technology Co., Ltd. has contributed RMB227.50 million, accounting for 35% of its total equity; the Company has contributed RMB195.00 million, accounting for 30% of its total equity, Beijing Jiuan Construction Investment Group Co., Ltd. (北京久安建設投資集團有限公司) has contributed RMB32.50 million, accounting for 5% of its total equity and Haihe Company has contributed RMB195.00 million, accounting for 30% of its total equity. During the reporting period, the project company has been established under the name of Tianjin Bihai Sponge City Co., Ltd.

4 Management Discussion and Analysis

- (7) On 25 July 2018, the Board of the Company agreed Xi'an Company to invest RMB3.00 million to establish Xi'an Chuangye Intelligent Environment Testing Co., Ltd. (西安創業智慧環境檢測有限公司), which is to carry out the examination and testing business for third parties, with prominent strategic significance in expanding the business scope of Xi'an Company and extending its industrial chain. The company has been established during the reporting period.
- (8) On 25 September 2018, the Board of the Company agreed to invest RMB205.957 million to establish a wholly-owned subsidiary, Hefei Company, for its investment in the construction of the PPP project for Taochong Sewage Treatment Plant in Hefei City. The estimated total investment of the project was approximately RMB585.895 million, which was financed with the registered capital of Hefei Company. Hefei Company has been established during the reporting period.
- (9) On 9 November 2018, the Board of the Company agreed to invest RMB62.00 million in the capital increase of a wholly-owned subsidiary of the Company, Wuhan Company, for its capital increase in Chibi Company, which would invest in the upgrade and expansion of the PPP project of the sewage treatment plant in Chibi. The estimated total investment was RMB205.58 million. Following the capital increase, the registered capital of Wuhan Company will be increased to RMB201.9689 million. The capital increase has been completed during the reporting period.
- (10) On 20 November 2018, the Board of the Company agreed to invest RMB54 million to jointly establish Deqing Company together with Deqing Qianlong Construction Development Co., Ltd. (德清乾龍建設發展有限公司) for the acquisition of the PPP project of Qianyuan Sewage Treatment Plant in Deqing County. The estimated total investment of the project was approximately RMB279.82 million, which was financed with the registered capital of Deqing Company of RMB60 million, to which the Company has contributed RMB54 million, accounting for 90% of its share capital, and Deqing Qianlong Construction Development Co., Ltd., a representative of the government, has contributed RMB6 million, accounting for 10% of its share capital. The capital injection has been completed during the reporting period.

(2) Major non-equity investment

As at the end of 2018, Jingu and Beicang projects were substantially completed. During the “upgrading and reconstruction” period, effective measures will be taken to ensure that the daily operation of the original Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant will not be affected. Moreover, in accordance with the “Supplementary Agreement of the Licensed Operation Agreement”, during the “upgrading and reconstruction” period, sewage treatment service fees will be charged in accordance with “Licensed Operation Agreement”. Therefore, no significant impact has been caused on the operating results of the Company during the reporting period.

(3) Financial assets measured by fair value

Not applicable

(6) DISPOSAL OF MAJOR ASSETS AND EQUITY INTEREST

Not applicable

(7) 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
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%	127,097	43,141	9,191
Hangzhou Company	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training. And its technical services, technical training and other supporting services	37,744.5	Limited Company	70%	110,983	68,243	5,999
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation and management of municipal sewage treatment plants and tap water and its supporting facilities; research and promotion of environment protection technology	33,400	Limited Company	100%	61,432	40,257	2,755
Jiayuanxing	Tianjin	Development, consulting, service and transfer of energy conservation and energy technology; property management services	19,195.05	Limited Company	100%	61,317	30,252	2,473
Caring Company	Tianjin	Environmental engineering management and technical advice etc.	3,333.33	Stock Limited Company	60%	14,398	11,534	945
Bayannur Company	Bayannur, Inner Mongolia	Processing of sewage water, production and sales of recycled water and supply of tap water	106,757.79	Limited Company	70%	113,160	111,119	126
Shandong Company	Shandong	Investment and construction of sewage treatment facilities	19,200	Limited Company	55%	24,347	12,306	-362

Water Recycling Company recorded revenue from principal operations of RMB345.01 million and operating profit of RMB129.57 million in 2018.

Hangzhou Company recorded revenue from principal operations of RMB284.06 million and operating profit of RMB82.88 million in 2018.

(8) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Not applicable

III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

(I) STATUS AND TRENDS OF THE INDUSTRY

In 2019, the Party Central Committee determined the major policy fundamentals of achieving stability in terms of employment, finance, foreign trade, foreign investment, investment and expectations, boosting market confidence and continuing to tackle the three major issues. In the meanwhile, in respect of macro-policy, the countercyclical adjustment shall be enhanced and proactive fiscal policy and prudent monetary policy shall be implemented continuously with appropriate pre-adjustment and fine-tuning to stabilize total demand. The effect of the proactive fiscal policy shall be improved by carrying out tax and fees reduction on a larger scale and increasing the local government special bonds scale substantially. The prudent monetary policy shall be flexible to keep a reasonable and sufficient liquidity. The transition mechanism of the monetary policy shall be improved and the proportion of direct financing shall be increased to solve the problem of difficulties in and high cost of financing faced by the Company. Under the above macro-economic situation, both corporate operation and business expansion shall be carried out in conjunction with above environmental and economic features to introduce timely measures and appropriate adjustments. In particular, the corporate funds security and investment risks in market expansion shall be addressed. However, the outlook of the environmental protection industry is positive in general under the requirements of environmental governance, while the higher level of environmental standards also put forward higher requirements for the Company's comprehensive competitiveness.

After years of hard work, the Company's water projects has a total water supply scale of approximately 5.65 million cubic meters per day, involving water supply, sewage treatment and recycling. It has accumulated rich experience and capabilities in water project's market development and operation management, and it has become a domestically well-known water company. In recent years, the Company has also made achievements in fields such as sludge disposal, industrial wastewater treatment, hazardous waste disposal, soil remediation, new energy utilization, electric heating and sponge city. It has gradually built up comprehensive environmental service capabilities. In the future, the Company is capable and confident to participate in the competition in the key development areas of the environmental protection industry, creates revenue for shareholders, and contributes in building a Beautiful China.

(II) DEVELOPMENT STRATEGIES OF THE COMPANY

Positioning itself as a “comprehensive environmental service provider” and based on the development strategic objectives set out during the “13th Five-Year Plan” period, the Company will continue to promote the corporate development in all aspects. 2019 is the critical year in implementing the “13th Five-Year Plan”. The Company will continue to devote consistent efforts to realise new development and step across pedestals in the crucial stage of the “13th Five-Year Plan”. In respect of business development, the Company not only continues to consolidate its core business focusing on wastewater treatment, but also actively expands other promising environmental protection business. Through the optimization of its business structure, the Company is committed to build up its integrated environmental service capabilities supported by the whole industry chain. In 2019, the Company will focus on connecting fully with the market through the system by market-oriented reforms in order to facilitate the realization of strategic goals with improved comprehensive management. In addition, the Company will pay attention to risk control and technology research and development and has been always adhering to the development strategy of “technology-leading, capital-stimulating, moderate-scale and legal-protection”. On the one hand, it will enhance various risk controls in response to changes in external environment to ensure a stable and healthy corporate development. On the other hand, it will adhere to the technology-oriented concept and put more efforts into improving its independent innovative capability to achieve high quality development. The Company will continue to uphold the concept of openness and sharing, and contribute its own strength to the construction of a Beautiful China and green development.

(III) OPERATING PLANS

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

In 2018, the Group started to transform itself into a “comprehensive environmental service provider” and implemented the main business concepts of “technology-leading, capital-stimulating, moderate-scale and legal-protection”. Through comprehensive distribution, careful planning and solid progress, key progresses have been achieved in all aspects of work. With efforts of all employees, the operation strategy and operation plan formulated by the Board at the beginning of the year has basically been completed. The targets set on revenue, fees and costs have also been achieved successfully.

2. In 2019, the Company will use the “13th Five-Year” strategic plan as its guideline to consolidate staff’s efforts and further develop new strategic businesses. It will deepen organizational and structural reforms, improve research and development system, focuses on the refined management as the major task and strive to achieve the upgrading of “enterprise positioning, market position and comprehensive capabilities”, as a result, laying a solid foundation for the final realization of the “13th Five-Year” strategic objective of “China’s well-known comprehensive environmental service provider”. The business strategies in 2019 are as follows:

(1) Strengthen technology-leading and improve core competitiveness

The Company will build a technology-led and innovation-driven platform to guide technology research and business development and open up a new phase of corporate transformation and development led by technology. It will carry out technology research and accumulation based on market needs and make practical and good transformation of technology achievements to facilitate the improvement in quality and efficiency of main businesses and the development of strategic emerging business.

(2) Continue to promote traditional business expansion while realizing industrial chain extension

The Company will step up efforts in market development and expand the scale of water business. It will focus on the goals in three aspects, namely the optimization of industrial chains, expansion into new business areas and key technology and products, so as to realize the vertical development of industrial chain and business diversity.

(3) Further enhance the institutional framework and strengthen basic management

The Company will sort out and optimize the Group’s management interface and hierarchy, improve internal control system construction and further implement the matrix management system in order to increase management efficiency and effectively guarantee the smooth implementation of the Group’s strategic planning.

(4) Reform the remuneration system and optimize appraisal mechanism for plans

The Company will improve its remuneration system by benchmarking with the industry and the mechanism transition in order to build a market-driven remuneration system in line with the market situation, activate existing human resources, attract external talents and accelerate the overall improvement in professional ability of the staff team.

(5) Strengthen internal control supervision and enhance legal protection

The Company will also strengthen its internal control and supervision through internal controls and risks assessments, and strengthen the management of the Company's legal matters to ensure the proper legal and compliance reviews of various works.

(6) Strengthen the leading of the Party to provide solid safeguard for the Company's development

The Company will focus on the deep integration between the Party-building works and our major works, stick to the way of market-oriented reforms and give full play to the Party Committee's guiding role of "defining direction, making overall planning and supporting implementation" so as to provide solid political, talent and organizational safeguard to the Group's transformation and upgrading and escort our operation.

3. Income, expenses and cost plan:

In 2019, it is expected that the main business of the Group will still mainly engage in sewage treatment business, and the annual sewage treatment will be not less than 1.2 billion cubic meters. With the higher discharge standards applicable to projects in Tianjin and other areas and the continuous increase in costs of various types of resources, energy and labor, the operation costs of projects increase. If there are no major changes in the prevailing national guidelines, policies and business environment, it is expected that amount of variation in revenue from and cost for sewage treatment service fee will not be higher than 20%.

4. Technology R&D investment plan:

In 2019, the Group will invest not less than approximately RMB18 million in technology research, development and technological reforms, and will continue to conduct research and development on the new technical processes and application technology in the areas of sewage water treatment and sludge treatment etc.

5. In 2019, the estimated capital expenditure is RMB3.3 billion, which will be mainly used for the upgrade of water projects, and the construction of new energy projects and hazardous waste projects.

In 2019, the capital required for the Group's operation and investment will be satisfied by the Group's existing credit, corporate bonds, equity financing, strategic cooperation and other channels.

(IV) POSSIBLE RISKS

(1) Risk of government credit

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

(2) Risk of change in policy

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

(3) Risk of operation and management

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

2. Risk control measures

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

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

(2) *Strengthen comprehensive risk management*

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

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

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

(V) OTHERS

Not applicable

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

Not applicable

5 Major Events

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

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

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

"I. Basic principles for profit distribution of the Company:

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

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

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

II. Dividend distribution policies of the Company:

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

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

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

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

II. Dividend distribution policies of the Company: (Continued)

(4) Proportion of cash dividends:

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

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

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

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

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

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

II. Dividend distribution policies of the Company: (Continued)

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

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

(1) Formulation of profit distribution policy

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

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

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

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

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

(1) Formulation of profit distribution policy (Continued)

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

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

(2) Formulation of specific proposal of profit distribution

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

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

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

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

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

(2) Formulation of specific proposal of profit distribution (Continued)

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

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

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

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

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

IV. Adjustment to profit distribution policy:

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

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

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

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

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

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

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

V. Disclosures in regular reports:

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

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

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

VI. Supervision on profit distribution by the supervisory committee:

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

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

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

5 Major Events

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

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

VI. Supervision on profit distribution by the supervisory committee: (Continued)

The Company has laid emphasis on reasonable return to investors since its reorganization completed in December 2000. Other than no profit distribution in 2018 due to the preparation for the non-public issuance of A shares, the Company has made cash dividend distribution in other years.

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

Unit: 0'000 Currency: RMB

Year of dividends	Number of bonus shares per 10 shares (shares)	Amount of dividends distributed per 10 shares (RMB) (inclusive of tax)	Number of shares transferred per 10 shares (shares)	Amount of cash dividends (inclusive of tax)	Net profit attributable to the ordinary shareholders of the Company in the consolidated financial statements for the year	Percentage of the net profit attributable to the ordinary shareholders of the Company in the consolidated financial statements (%)
2018	0	1.06	0	15,129	50,116.8	30.19
2017	0	0	0	0	50,825.1	0
2016	0	0.95	0	13,559	44,316.8	30.60

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

Not applicable

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

Not applicable

II. PERFORMANCE OF COMMITMENT

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

Not applicable

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

Not applicable

III. FUNDS OCCUPIED AND REPAYMENT PROGRESS DURING THE REPORTING PERIOD

Not applicable

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

Not applicable

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

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

In 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 in preparation of financial statements shall apply the abovementioned accounting standards from 1 January 2018. Meanwhile, the Ministry of Finance of the PRC issued the Notice of the Ministry of Finance 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.

The Company’s management assessed the impact of the application of the New Financial Instruments Standards on the Company’s financial statements and determined there would be the following impact: 1. receivables will be assessed in accordance with the New Financial Instruments Standards starting from this year, 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. 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.

Except for the New Financial Instruments Standards as stated above, there is no change in other accounting policies of the Company.

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

Not applicable

(III) Communication with former accounting firm

Not applicable

(IV) Other explanations

Not applicable

VI. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

Unit: 0'000 Currency: RMB

	Present Appointment	
Name of the PRC accounting firm	PricewaterhouseCoopers Zhong Tian LLP	
Remuneration of the PRC accounting firm	200	
Service years of the PRC accounting firm	24 years	
Name of Hong Kong accounting firm	PricewaterhouseCoopers	
Remuneration of Hong Kong accounting firm	130	
Service years of Hong Kong accounting firm	24 years	
	Name	Fees
Accounting firm responsible for internal control audit	PricewaterhouseCoopers Zhong Tian LLP	RMB600,000

Explanations on the Appointment and Removal of Accounting Firm

During the reporting period, the Company did not change its accounting firm. The PRC auditor and Hong Kong auditor of the Company are PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively. The Company paid total remuneration of approximately RMB3.3 million to the two auditing firms for the auditing works for the last year. As at the end of the previous reporting period, the above two accounting firms have provided auditing services for the Company for 24 years.

VII. RISKS OF SUSPENSION OF LISTING

(I) Causes of Suspension of Listing

Not applicable

(II) Measures to be taken by the Company

Not applicable

VIII. SITUATION AND REASONS FOR TERMINATION OF LISTING

Not applicable

IX. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

Not applicable

X. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION

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

Not applicable

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

During the reporting period:

Unit: Yuan Currency: RMB

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 (RMB0'000)	Progress of litigation (or arbitration)	Ruling results of litigation (or arbitration) and its effect	Enforcement of award of litigation (or arbitration)
Jiayuanxing	Qudong Company	None	Litigation	Note 1	12,030,003.00	None	Two-tier final appeal	Note 1	Termination of execution (note 2)
Anguo Company	Anguo Municipal Government	None	Arbitration	Note 3	47,475,320.86	None	Final arbitral award	Note 4	Note 4

Note 1: From 2012 to 2016, Jiayuanxing and Qudong Company 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热合同》)", in which it is stipulated that Jiayuanxing would provide cold and heat supply services to the Tianjin Cultural Center Grand Theatre (天津文化中心大剧院), which was operated and managed by Qudong Company. Qudong Company did not pay cold and heat supply energy fees to Jiayuanxing on time and in full according to the contract. In order to safeguard the legal rights and interests of Jiayuanxing, on 3 November 2017, Jiayuanxing has filed a civil lawsuit in the People's Court of Hexi District in Tianjin (hereinafter referred to as the "Hexi Court"). On 3 April 2018, the Hexi Court made a first-instance judgment, ruling that Qudong Company paid Jiayuanxing cold and heat supply energy fees of RMB12,030,003.00 from 2012 to 2016 within ten days from the effective date of the first-instance judgment; case acceptance fees and preservation fees totaling RMB98,980 were burdened by Qudong Company. Both parties refused to accept the first-instance judgment and appealed to the Secondary Intermediate People's Court of Tianjin (hereinafter referred to as the "Secondary Intermediate People's Court"). On 25 September 2018, the Secondary Intermediate People's Court made the final judgment, ruling to reject the appeal applications of both parties and maintained the original judgment.

Note 2: On 22 October 2018, Jiayuanxing applied to the Hexi Court for enforcement. On 19 December 2018, under the direction of the Hexi Court, both parties reached a settlement agreement in implementation. Qudong Company shall pay in advance RMB3.16 million and the remaining amounts shall be repaid by four installments by 31 December 2020. If Qudong Company fails to perform in one installment, the implementation based on the original legal documents will be resumed. On 11 January 2019, RMB3.1635 million repaid by Qudong Company in advance has been in the account. On 21 January 2019, Jiayuanxing received an execution ruling from the Hexi Court. Upon execution, both parties reached a settlement agreement. As the agreement has not been completed for fulfillment, the court made a ruling to end the implementation of the civil judgment of the Hexi Court (2017) Jin 0103 Minchu No. 12411.

X. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION (Continued)

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

Note 3: As Anguo Municipal Government failed to perform the relevant terms of the licensed operation agreement entered into between Anguo Company and Anguo Municipal Government, Anguo Company applied for arbitration to China International Economic and Trade Arbitration Commission in 2013, requesting for termination of the licensed operation agreement for a water supply project in Anguo; and claiming payment of service fees for water supply and compensation for investment owed to Anguo Company by Anguo Municipal Government.

Note 4: 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. The above (1), (2) and (3) have been satisfied, and the Anguo Municipal Government has not yet made payment of the amounts payable under (4) and (5). The Anguo Municipal Government issued the repayment plan on 2 March 2019, planning to repay RMB10 million in advance at the end of 2019 and paying off the remaining amount at the end of 2020. The Anguo Company will also apply for enforcement to the Baoding Intermediate People's Court in early April.

(III) Other explanations

Not applicable

XI. PUNISHMENTS TO AND RECTIFICATION OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, ULTIMATE CONTROLLERS AND PURCHASERS

Not applicable

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

Not applicable

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

Not applicable

XIV. MATERIAL CONNECTED TRANSACTIONS

(I) Connected Transactions in the Ordinary Course of Business

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

- a. On 30 January 2018, the Proposal on entering into the Entrustment Agreement for the Asset Operation and Management of Zhangguizhuang Recycled Water Plant and Supporting Pipeline with Related Parties was considered and approved on the forty-seventh session of the seventh board meeting of the Company. Water Recycling Company, the subsidiary of the Company, intended to enter into the Entrustment Agreement for the Asset Operation and Management of Zhangguizhuang Recycled Water Plant and Supporting Pipeline with Tianjin Investment Group, a related party. Water Recycling Company expected to obtain the sale revenue for recycled water of RMB9.50 million under this agreement.

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

- b. On 3 April 2018, the Company announced that the Company and Water Recycling Company, the subsidiary of the Company, entered into 14 property service contracts with Tianjin Jinrongcheng Property Management Company Limited* (天津金融城物業管理有限公司) (“**Tianjin Jinrongcheng**”), in respect of property services provided by Tianjin Jinrongcheng for five sewage water treatment plants (such as Jingu Sewage Water Treatment Plant), the office building of the Company and premises of Water Recycling Company, respectively. The contract term is for the first quarter and second quarter of 2018, and the total service fees thereunder will not exceed to RMB3,440,352.

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

- c. On 24 April 2018, the Company entered into 4 entrusted project construction contracts with Tianjin Investment Group, pursuant to which the Company shall provide relevant entrusted construction and project management services to Tianjin Investment Group in respect of Xianyanglu-water Recycling Plant project, Xianyanglu Sewage Treatment Plant project, Zhangguizhuang Sewage Water Treatment Plant project, Dongjiao Sewage Treatment Plant and Recycling Plant project. The total service fees thereunder are expected to be not more than RMB26.45 million.

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

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

- d. On 31 May 2018, Jiayuanxing, a wholly-owned subsidiary of the Company, entered into the Cold Supply Agreement with TLP and TYCOM for the provision of cold supply services to TLP at a unit price of RMB65 per m². The total service area is 363,042 m² and the cold supply service fees will amount to RMB23,597,730.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TLP is an indirectly wholly-owned subsidiary of Tianjin Investment Group, the ultimate controlling shareholder of the Company. TYCOM is a subsidiary of TLP.

- e. On 29 June 2018, the Company renewed the Zhangguizhuang Sewage Water Treatment Plant Entrusted Operation Agreement with Tianjin Investment Group, pursuant to which the Company shall continue to provide operation and maintenance service for the Zhangguizhuang Sewage Water Treatment Plant invested in and constructed by Tianjin Investment Group for a service period of 12 months from 1 July 2018 to 30 June 2019 at an operation service fee of RMB4.198 million per month, with the total amount of operation service fees expected to be RMB50.376 million.

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

- f. On 29 June 2018, the Company renewed the Zhangguizhuang Sewage Water Treatment Plant Sludge Disposal Centre Entrusted Operation Agreement with Tianjin Investment Group, pursuant to which the Company shall operate and maintain the Zhangguizhuang Sewage Water Treatment Plant Sludge Disposal Centre for Tianjin Investment Group for a service period of 12 months from 1 July 2018 to 30 June 2019, with the total amount of service fees expected to be not more than RMB9.52 million.

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

- g. On 10 July 2018, the Board considered and approved the resolution for the Company to enter into a joint venture contract with Beijing OriginWater Technology Co., Ltd. (北京碧水源科技股份有限公司), Beijing Jiuan Construction & Investment Group Co., Ltd. (北京久安建設投資集團有限公司) and Haihe Company, pursuant to which, inter alia, the parties agree to establish a project company for the implementation of the PPP project for the construction of Sponge City in South Jiefang Road area in Tianjin. The registered capital of the project company will be RMB650,000,000, and among other parties, the Company agreed to contribute in cash of RMB195,000,000, representing 30% of the registered capital of the project company. On the same day, the Board considered and approved the resolution for the Company, together with Beijing OriginWater Technology Co., Ltd. (北京碧水源科技股份有限公司), Beijing Jiuan Construction & Investment Group Co., Ltd. (北京久安建設投資集團有限公司) and Haihe Company, to enter into a project contract in relation to the aforesaid PPP project, with Tianjin Urban and Rural Construction Committee of China and Tianjin Water Bureau.

Connected relationship: Haihe Company is a wholly-owned subsidiary of Tianjin Investment Group, the ultimate controlling shareholder of the Company.

- h. On 9 November 2018, Jiayuanxing, a subsidiary of the Company, entered into the Heat Supply Agreement with TLP and TYCOM for the provision of heat supply services to TLP at a unit price of RMB40 per m². The total service area is 363,042 m² and the service fees will amount to RMB14,521,680.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TLP is an indirectly wholly-owned subsidiary of Tianjin Investment Group, the ultimate controlling shareholder of the Company. TYCOM is a subsidiary of TLP.

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

According to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the above-mentioned items (b), (e) and (f) are continuing connected transactions.

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that:

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

The Board also confirmed that the auditors of the Company had confirmed the matters as set out in Rules 14A.56 of the Listing Rules regarding the above-mentioned continuing connected transactions occurred in 2018 namely items (b), (e) and (f).

Save as disclosed above, there is no related party transaction or continuing related party transaction as set out in the Annual Report 2018 of the Company that falls under the definition of "connected transaction" or "continuing connected transaction" which requires disclosure in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

None

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

Not applicable

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

Not applicable

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

Not applicable

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

Not applicable

4. Discloseable performance for the reporting period of connected transactions with agreed-upon performance targets

Not applicable

(III) Significant Connected Transactions in Joint External Investment

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

Not applicable

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

Not applicable

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

Not applicable

XIV. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

Not applicable

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

Not applicable

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

Not applicable

XV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

(I) Custody, Contracting and Leasing

1. Custody

Not applicable

2. Contracting

Not applicable

3. Leasing

Not applicable

XV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (Continued)

(II) Guarantees

Unit: 0'000 Currency: RMB

Guarantees provided to external parties by the Company (excluding guarantees provided to subsidiaries)	
Total amount of guarantees provided during the reporting period (excluding guarantees provided to subsidiaries)	0
Total balance of guarantees as at the end of the reporting period (A) (excluding guarantees provided to subsidiaries)	0
Guarantees provided to subsidiaries of the Company	
Total amount of guarantees provided to subsidiaries during the reporting period	103,211.70
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	223,115.98
Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)	
Total amount of guarantee (A+B)	223,115.98
Percentage of the total amount of guarantees to the net assets of the Company (%)	33.74
Of which:	
Amount of guarantees provided to shareholders, ultimate controller and their connected parties (C)	0
Amount of guarantees provided directly or indirectly to borrowers with a gearing ratio of over 70% (D)	0
Total amount of guarantees exceeding 50% of net assets (E)	0
Total of the above three classes of guarantees (C+D+E)	0
Explanation on contingent joint liability for undue guarantees	Not applicable
Explanation on guarantees	Not applicable

(III) Cash Asset Management Entrusted to Others

1. Entrusted wealth management

Not applicable

2. Entrusted loans

Not applicable

3. Other matters

Not applicable

(IV) Other Material Contracts

Not applicable

XVI. DETAILS OF OTHER MAJOR EVENTS

(I) Other disclosures

As at 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復)” (Zheng Jian Xu Ke [2018] No. 145) from the CSRC, pursuant to which the Company was approved to make the non-public issuance of not more than 285,445,686 new Shares and the approval shall be valid for six months from the issue date of the approval (18 January 2018).

After obtaining the above 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 of A Shares within the six-month validity period (i.e., on or before 17 July 2018) specified in the approval of the CSRC. The approval of the CSRC on the non-public issuance of shares of the Company 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.

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

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

(III) Corporate Governance Code

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

XVI. DETAILS OF OTHER MAJOR EVENTS (Continued)**(IV) Model Code for Securities Transactions by the Directors**

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

(V) Public Float

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

(VI) Pre-emptive Rights

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

(VII) Tax Concession

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

(VIII) Charge of Assets

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

(IX) Audit Committee

On 31 July 2001, the Board approved the establishment of the Audit Committee which is responsible for reviewing and supervising the financial reporting process and internal control of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the audited accounts for the year ended 31 December 2018 with the Directors.

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY

(I) Poverty Alleviation Work of the Company

1. Targeted Poverty Alleviation Plan

In accordance with the overall arrangement of Tianjin's targeted poverty alleviation work, Tianjin Investment Group and its subsidiaries have undertaken six assistance tasks and formulated a three-year plan for assistance. In order to undertake its social responsibility, the Company has been participating in the assistance works, the counterpart of which was Nancaicun Town (南蔡村鎮) government and the Xixiaoliang Village (西小良村) thereunder, and the relevant assistance agreement was signed during the reporting period. According to the assistance agreement, the assistance to be provided includes the maintenance of the main road in Xixiaoliang Village, the construction of a new road leading to the village committee from Xixiaoliang Village, the dredging and renovation of ditches and ponds in Xixiaoliang Village and the construction of public facilities and others for Nancaicun Town government. The total investment capital demand for the assistance project is RMB4,167,100, RMB100,000 of which has been paid by the Company at the end of 2017, and the remaining amount of RMB4,067,100 will be paid in three installments with RMB102,800 to be paid before 31 January 2019, RMB2,276,300 to be paid before 31 March 2019 and the remaining RMB1,688,000 to be paid before 31 January 2020. The assistance funds are subject to special account management and the "fixed sum for fixed purpose" policy, and are to be used in accordance with the principle of "special account accounting and special usage only". Special income and expenditure account will be established individually, and the funds for each village will be accounted for separately. The resident assistance team sent out by Tianjin Investment Group will be responsible for supervising and verifying the usage of assistance funds. Up to now, the above-mentioned assistance project has been on the rails.

According to the decomposition of poverty alleviation task in Fuyang City, Fuyang Company has been participating in the targeted poverty alleviation work in Linquan County (臨泉縣) since 2017, and has provided assistance to 24 people from 9 poor households in Fenglou Village, Gaotang Country(高塘鄉馮樓村), Linquan County. Since 2017, Fuyang Company has contributed a total of RMB110,000 during the participation in the targeted poverty alleviation projects in Fenglou Village, which include installing LED lights for the lighting project, purchasing pecans or landscape plants to help the targets of assistance obtaining economic income through planting, acquiring daily necessities for poor households and providing them with consolation money for festivals, as well as helping poor households obtain subsidies for the renovation of dilapidated houses, free compulsory education and subsidies, and enjoy the benefits from health care policies, subsistence allowances, micro-credits with capital investment and profit sharing from village collective assets; At the end of 2018, all of the 9 poor households have been verified by the relevant authority in Anhui Province to be out of poverty and the poverty alleviation mission was completed one year ahead of schedule.

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

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

2. Summary of Annual Targeted Poverty Alleviation

N/A

3. Achievements in Targeted Poverty Alleviation

N/A

4. Subsequent Targeted Poverty Alleviation Plan

Please refer to the above targeted poverty alleviation plan.

(II) Social Responsibility Work

The Company has disclosed its corporate social responsibility report. For details, please refer to the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) on 28 March 2019.

(III) Environment Information

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

(1) *Pollutant Discharging*

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 or local government, the effluent of sewage treatment plants is allowed to contain certain types and amounts of pollutants, mainly comprising chemical oxygen demand (COD), biochemical oxygen demand (BOD), suspended solids (SS), total nitrogen, ammonia nitrogen and total phosphorus, etc. 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.

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

(III) Environment Information (Continued)

1. EXPLANATION ON ENVIRONMENTAL PROTECTION OF THE COMPANY AND ITS IMPORTANT SUBSIDIARIES CLASSIFIED AS KEY POLLUTANT DISCHARGING ENTITIES AS PUBLISHED BY ENVIRONMENTAL PROTECTION AUTHORITIES (Continued)

(1) *Pollutant Discharging* (Continued)

As at the end of the reporting period, the Company owned 31 sewage treatment projects, each of which has 1 or 2 effluent outfall(s) confirmed by industry competent authorities and experts upon examination and verification. 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	BODs		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 2005	1	1.5
		Constructed after 1 January 2006	0.5	1
10	Chroma (dilution multiple)		30	30
11	PH		6-9	
12	Number of fecal coliforms/L		10 ³	10 ⁴

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

(III) Environment Information (Continued)

1. EXPLANATION ON ENVIRONMENTAL PROTECTION OF THE COMPANY AND ITS IMPORTANT SUBSIDIARIES CLASSIFIED AS KEY POLLUTANT DISCHARGING ENTITIES AS PUBLISHED BY ENVIRONMENTAL PROTECTION AUTHORITIES (Continued)

(1) *Pollutant Discharging* (Continued)

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 27,400 tonnes, 6,900 tonnes, 7,200 tonnes, 14,300 tonnes, 1,100 tonnes and 400 tonnes, respectively. In aggregate, environmental pollutants, namely, the COD, BOD, SS, total nitrogen, ammonia nitrogen and total phosphorus, were eliminated by approximately 395,500 tonnes, 177,100 tonnes, 216,100 tonnes, 42,100 tonnes, 41,300 tonnes and 6,100 tonnes, respectively, representing a significant contribution to water environmental governance.

2. Construction and operation of pollution prevention 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.

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

(III) Environment Information (Continued)

2. Construction and operation of pollution prevention and facilities (Continued)

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 Xianyang Road 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 Xianyang Road 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回饋意見整改方案》) issued in August 2017, “at the end of April 2019, the Xianyang Road Sewage Treatment Plant shall complete relocation and upgrading and meet the requirements for commissioning. The operation and management of the sewage plant shall be strengthened and enhanced measures shall be formulated and adopted 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 Xianyang Road 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”, which has practically improved the effluent quality. Meanwhile, the construction of the new plant has been speeded up as it is scheduled to achieve Grade A under the discharge standards on 1 August 2019 as a landmark of Tianjin, and the “supervision and handling” rectification task will then be fully implemented. 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.

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)**(III) Environment Information** (Continued)**3. 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.

4. 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.

5. 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.

6. Other environmental information that should be disclosed

N/A

XVII. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITY (Continued)

(III) Environment Information (Continued)

7. Description of environmental protection information of companies other than those falling under key pollutant discharge entities

N/A

8. Explanation of reasons for non-disclosure of environmental information of companies other than those falling under key pollutant discharge entities

N/A

9. Description of the follow-up progress or changes in the disclosure of environmental information during the reporting period

N/A

(IV) Other Explanations

N/A

XVIII. CONVERTIBLE BONDS

N/A

6. Details of Changes in Ordinary Shares and Shareholders

I. CHANGES IN ORDINARY SHARE CAPITAL

(I) Changes in Ordinary Shares

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

(II) Changes in Restricted Shares

Not applicable

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of Securities as at the End of the Reporting Period

Unit: share Currency: RMB

Types of stock and its derivative securities	Date of issue	Issue price (or interest rate)	Volume of issue	Listing date	Authorized trading	Date of termination of trading
					volume in respect of the listing	
<i>Convertible corporate bonds, bonds with warrants, debentures</i>						
Corporate bonds	25 October 2016	0.0313	7,000,000	—	—	25 October 2021
Corporate bonds	26 April 2018	0.0517	11,000,000	—	—	26 April 2023

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

Not applicable

(III) Existing Employee Shares

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

(I) Total Number of Shareholders

Total number of ordinary shareholders as at the end of the reporting period	96,008
Total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report	93,412
Total number of shareholders of preferred shares whose voting rights have been restored as at the end of the reporting period	Not applicable
Total number of shareholders of preferred shares whose voting rights have been restored at the end of last month prior to the date on which the annual report shall be disclosed	Not applicable

Note: The total numbers of shareholders above represent the sum of holders of A Shares and H Shares. The total number of ordinary shareholders as at the end of the reporting period is 96,008, among which 65 are holders of H Shares. The total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report is 93,412, among which 65 are holders of H Shares.

(II) Shareholdings of the Top Ten Shareholders and the Top Ten Shareholders of Circulating Shares (or Shareholders of Non-Restricted Shares) at the End of the Reporting Period

Unit: Share

Name of shareholder	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	Pledged or frozen Status	Number (shares)	Nature of the shareholder
TMICL	0	715,565,186	50.14	0	None	—	State-owned legal person
HKSCC Nominees Limited	30,000	337,854,900	23.67	0	Unknown	—	Others
Cental Huijin Investment Co., Ltd.	0	14,169,800	0.99	0	None	—	State-owned legal person
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund (中證500交易型開放式指數 證券投資基金)	27,733,225	4,614,008	0.32	0	None	—	Others
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	None	—	Domestic non- state-owned legal person
Su Li (蘇麗)	2,320,000	2,320,000	0.16	0	None	—	Domestic natural person
Wu Zuoja (吳作佳)	2,241,219	2,241,219	0.16	0	None	—	Domestic natural person
Tan Cunling (譚存靈)	2,240,700	2,240,700	0.16	0	None	—	Domestic natural person
Shenzhen Qianhai Hourunde Wealth Management Company Limited - Houderun Small Cap Phase III Private Investment Fund (深圳前海厚潤德財富管理 有限公司-厚潤德小市值三期 私募投資基金)	1,700,000	1,700,000	0.12	0	None	—	Others
Bank of China Limited - Guangfa China Securities Environmental Protection Industry Index Open-ended Fund (中國銀行股份有限公司— 廣發中證環保產業交易型 開放式指數證券投資基金)	1,537,017	1,537,017	0.11	0	None	—	Others

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER (Continued)

(II) Shareholdings of the Top Ten Shareholders and the Top Ten Shareholders of Circulating Shares (or Shareholders of Non-Restricted Shares) at the End of the Reporting Period (Continued)

Name of shareholder	Shareholdings of the top ten shareholders of non-restricted circulating shares		Type and number of shares	
	Number of non-restricted circulating shares held	Type	Number	
TMICL	715,565,186	Ordinary RMB Shares	715,565,186	
HKSCC Nominees Limited	337,854,900	Overseas listed Foreign Shares	337,854,900	
Cental Huijin Investment Co., Ltd.	14,169,800	Ordinary RMB Shares	14,169,800	
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund (中證500交易型開放式指數證券投資基金)	4,614,008	Ordinary RMB Shares	4,614,008	
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	
Su Li (蘇麗)	2,320,000	Ordinary RMB Shares	2,320,000	
Wu Zuojia (吳作佳)	2,241,219	Ordinary RMB Shares	2,241,219	
Tan Cunling (譚存靈)	2,240,700	Ordinary RMB Shares	2,240,700	
Shenzhen Qianhai Hourunde Wealth Management Company Limited - Houderun Small Cap Phase III Private Investment Fund (深圳前海厚潤德財富管理有限公司-厚潤德小市值三期私募投資基金)	1,700,000	Ordinary RMB Shares	1,700,000	
Bank of China Limited - Guangfa China Securities Environmental Protection Industry Index Open-ended Fund (廣發中證環保產業交易型開放式指數證券投資基金)	1,537,017	Ordinary RMB Shares	1,537,017	
Notes on the connected relationship or parties acting in concert among the above shareholders	<p>It is not certain whether there is any connected relationship among the top 10 shareholders.</p> <p>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.</p> <p>Notes: (1) According to the register of members as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. There was no client who owned 5% or more interest in the total share capital of the Company.</p> <p>(2) The top ten shareholders are not strategic investors of the Company.</p>			

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

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

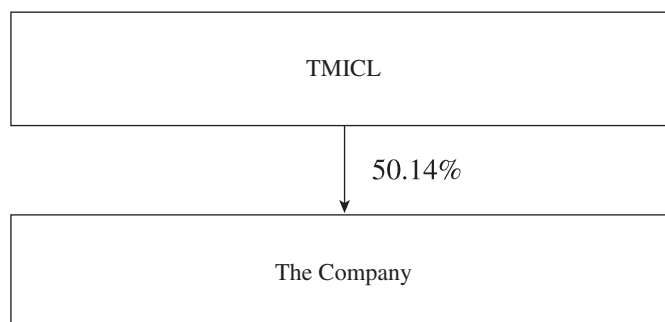
IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

(I) Controlling Shareholder

1 Legal person

Name	TMICL
Head of the entity or legal representative	Yu Zhongpeng
Date of incorporation	20 January 1998
Principal operations	Investment, operation and management of commerce, service industry, real estate industry, city infrastructure, road construction and auxiliary facilities with internal funds; property management; leasing of self-owned housings; corporation management and consultation (for the above business covering the industry license, operating with the license within the validity period; for specific projects and operations, in accordance with the State regulations) (projects subject to approval according to law may be operated upon the approval of relevant departments).
The shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested during the reporting period	Nil
Notes on other information	Nil

(I) Flowchart on the shareholding interests and relationship of control between the Company and its controlling shareholder



IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

(Continued)

(II) Ultimate Controller

1 Legal person

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

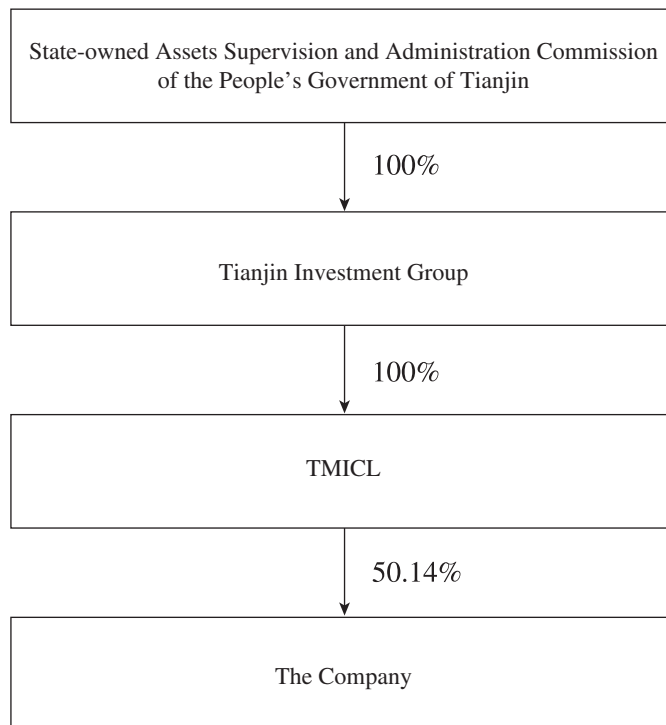
6. Details of Changes in Ordinary Shares and Shareholders

IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

(Continued)

(II) Ultimate Controller (Continued)

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



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

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

VI. DESCRIPTION OF RESTRICTION ON DECREASE OF SHAREHOLDINGS

Not applicable

VII. SUBSTANTIAL SHAREHOLDERS INTERESTS

- (a) As at 31 December 2018, so far as is known to or can be ascertained after reasonable enquiries by the Directors, Supervisors or chief executive of the Company, the following entities (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the “SFO”):

Name of shareholder	Capacity	Number and class of securities (Note)	Approximate percentage of the relevant class of securities	Approximate percentage of the total issued share capital of the Company
TMICL	Beneficial owner	715,565,186 A Shares (L)	65.82%	50.14%
ISIS Asset Management Plc	Investment manager	17,286,000 H Shares (L)	5.08%	1.21%
UBS Group AG	Person having a security interest in shares	18,005,000 H Shares (L)	5.30%	1.26%
	Interest of controlled corporation	438,502 H Shares (L)	0.13%	0.03%
	Interest of controlled corporation	18,000 H Shares (L)	0.00%	0.00%

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

- (b) Save as disclosed above, there is no other person (other than the Directors, Supervisors or chief executive of the Company) so far as is known to the Directors, Supervisors or chief executives of the Company who, as at 31 December 2018, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 5% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

7. Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDINGS AND THE REMUNERATION

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

Name	Position held (note)	Sex	Age	Appointment date	Termination date	No. of shares held at the beginning of the year (shares)	No. of shares held at the end of the year (shares)	Changes in no. of shares for the year	Reason for changes	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether remuneration was received from related parties of the Company
Liu Yujun	Executive Director, Chairman	M	53	13 March 2015	17 December 2021	0	0	0	No change	87.67	No
Tang Fusheng	General manager, former Executive Director	M	45	26 January 2017 14 March 2017	17 December 2021 17 December 2018	0	0	0	No change	86.96	No
Fu Yana	Deputy general manager, former Executive Director	F	48	18 December 2012 18 December 2012	17 December 2021 17 December 2018	0	0	0	No change	75.22	No
Peng Yilin	Chief accountant, former Executive Director	F	38	29 January 2016 16 March 2016	17 December 2021 17 December 2018	0	0	0	No change	77.08	No
Wang Jing	Executive Director, former Chairwoman of Supervisory Committee	F	48	18 December 2018 24 November 2016	17 December 2021 17 December 2018	0	0	0	No change	82.59	No
Niu Bo	Executive Director, Secretary of the Board	M	42	18 December 2018 29 January 2016	17 December 2021 17 December 2021	0	0	0	No change	68.40	No
Yu Zhongpeng	Non-executive Director	M	39	15 May 2018	17 December 2021	0	0	0	No change	0	Yes
Han Wei	Non-executive Director	M	41	15 May 2018	17 December 2021	0	0	0	No change	0	Yes
Si Xiaolong	Non-executive Director	M	42	18 December 2018	17 December 2021	0	0	0	No change	0	Yes
Wang Xiangfei	Independent non-executive Director	M	66	18 December 2015	17 December 2021	0	0	0	No change	22.00	No
Guo Yongqing	Independent non-executive Director	M	44	18 December 2015	17 December 2021	0	0	0	No change	22.00	No
Di Xiaofeng	Independent non-executive Director	M	57	18 December 2018	17 December 2021	0	0	0	No change	0	No
An Pindong	Former non-executive Director	M	50	20 December 2003	12 April 2018	0	0	0	No change	0	Yes
Chen Yinxing	Former non-executive Director	F	45	18 December 2009	12 April 2018	0	0	0	No change	0	Yes
Gao Zongze	Former independent non-executive Director	M	79	15 April 2014	17 December 2018	0	0	0	No change	22.00	No
Lu Hongyan	Supervisor, Chairwoman of Supervisory Committee	F	49	17 May 2017 18 December 2018	17 December 2021 17 December 2021	0	0	0	No change	67.85	No
Wu Baolan	Supervisor	F	52	24 August 2011	17 December 2021	0	0	0	No change	46.62	No
Niu Jing	Supervisor	F	48	18 December 2015	17 December 2021	0	0	0	No change	46.04	No
Li Zongqiang	Supervisor	M	48	18 December 2012	17 December 2021	0	0	0	No change	0	Yes
Shen Yue	Supervisor	F	43	18 December 2018	17 December 2021	0	0	0	No change	37.41	No
Huang Lan	Supervisor	F	47	18 December 2018	17 December 2021	0	0	0	No change	37.32	No
Nie Youzhuang	Former Supervisor	M	50	19 December 2003	17 December 2018	959	959	0	No change	77.97	No
Li Xiaoshen	Former Supervisor	M	60	18 December 2012	17 December 2018	0	0	0	No change	0	Yes
Zhao Yi	Deputy general manager	M	48	18 October 2010	17 December 2021	0	0	0	No change	82.86	No
Zhang Jian	Deputy general manager	M	49	17 January 2012	17 December 2021	822	822	0	No change	75.90	No
Zhang Qiang	Deputy general manager	M	55	5 March 2009	17 December 2021	0	0	0	No change	76.16	No
Li Yang	Deputy general manager	M	50	15 March 2017	17 December 2021	0	0	0	No change	99.72	No
Qi Lipin	Chief economist	F	41	29 October 2015	17 December 2021	0	0	0	No change	77.49	No
Li Jinhe	Chief engineer	M	48	29 August 2017	17 December 2021	0	0	0	No change	67.59	No
Total	/	/	/	/	/	1,781	1,781	0	/	1,336.85	/

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Liu Yujun	Mr. Liu is now the deputy chief accountant of Tianjin Investment Group and chairman of the Company. Mr. Liu was the chief accountant of Tianjin No. 4 Municipal Engineering Company from December 1996 to August 2000; the chief accountant of Tianjin Metro General Company from August 2000 to October 2007; the deputy general manager and the chief accountant of Tianjin City Metro Group from October 2007 to November 2008; the deputy chief accountant of Tianjin Investment Group and the deputy general manager and the chief accountant of Tianjin City Metro Group from November 2008 to April 2011; the deputy chief accountant of Tianjin Investment Group, the deputy general manager and chief accountant of Tianjin City Metro Group and the secretary of the party branch, chairman of the board and general manager of Tianjin Metro Resources Investment from April 2011 to April 2013. He has been the deputy chief accountant of Tianjin Investment Group since April 2013; and the general manager, secretary of the party general branch and director of Tianjin Haihe Jinan Investment Construction Development Company Limited from January to March 2015. Mr. Liu Yujun has been a Director and chairman of the Company since 13 March 2015.
Tang Fusheng	Mr Tang is now the general manager of the Company. Mr. Tang Fusheng served as the head of development department, deputy general manager and general manager of Water Recycling Company, a wholly-owned subsidiary of the Company, from July 2001 to April 2009. He served as the assistant to the general manager of the Company, and at the same time served as the director and general manager of Water Recycling Company from April 2009 to February 2010. He served as the deputy general manager of the Company from March 2010 to February 2015. During his tenure as the deputy general manager of the Company, Mr. Tang concurrently served as the director of Water Recycling Company and the general manager of the Company's energy and resources department. His role as the general manager of Water Recycling Company ceased in June 2014 as a result of work rearrangement. He has been serving as the chairman of Hong Kong Company, a wholly owned subsidiary of the Company, since June 2011, and has been serving as an executive director of Jiayuanxing, a wholly owned subsidiary of the Company, since June 2014. In February 2015, Mr. Tang resigned from all of the abovementioned positions as a result of work rearrangement and was transferred to Tianjin Urban Pipe Network Construction Investment Company Limited (天津城市道路管網配套建設投資有限公司) and served as a director and general manager of that company. Mr. Tang has been serving as the general manager of the Company since 26 January 2017 and served as the Director of the Company from 14 March 2017 to 17 December 2018.
Fu Yana	Ms. Fu is now the deputy general manager and also the officer to the office of general manager of the Company. She was appointed as the Director, deputy general manager and the secretary to the Board of the Company since December 2003 and served as the manager of the human resources department from November 2010 to November 2018 and she has also been the officer to the office of general manager since November 2015. She ceased to be the secretary to the Board of the Company from 28 January 2016, and ceased to be the Director of the Company from 18 December 2018.
Peng Yilin	Ms. Peng is now the chief accountant of the Company. Ms. Peng worked as project manager of the investment management department of Tianjin Haitai Technology Development Company Limited (天津海泰科技發展股份有限公司) from October 2005 to March 2008. From March 2008 to September 2015, she worked for Tianjin Investment Group, acting as assistant department head of the financing development department and financial central manager, respectively. Ms. Peng has been the assistant general manager of the Company since 29 October 2015, chief accountant of the Company since 29 January 2016 and a Director of the Company from 16 March 2016 to 17 December 2018.
Wang Jing	Ms. Wang is now a Director and the deputy secretary of the Communist Party Committee and chairwoman of the labour union of the Company. Ms. Wang served as the deputy director, director and minister of the administration department of Tianjin Municipal Construction Group Co. Ltd. (天津市政建設集團) from June 2007 to December 2010, served as a party branch member, deputy secretary, secretary of the party general branch, chairwoman of the labour union and director of Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited (天津子牙循環經濟產業投資發展有限公司) from December 2010 to July 2016, acted as a member of the management committee, deputy secretary, deputy director of Tianjin Ziya Circular Economy Industrial District (天津子牙循環經濟產業區) from September 2012 to July 2016; Ms. Wang has been serving as the deputy secretary of the Communist Party Committee and chairwoman of the labour union of the Company since August 2016. Ms. Wang served as the staff representative Supervisor and chairwoman of the Supervisory Committee of the Company from 24 November 2016 to 17 December 2018. Ms. Wang has been serving as a Director of the Company since 18 December 2018.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Niu Bo	Mr. Niu is now a Director, the secretary to the Board and deputy chief economist of the Company, and is concurrently the chairman of Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd. Mr. Niu Bo joined the Company in August 2004, and from then to December 2009, he has acted as the project manager and assistant department manager of the market development department and department manager of the strategic investment department of the Company. He has been the deputy chief economist of the Company since December 2009. He also served as the chairman of Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd. since February 2015. Mr. Niu has been the secretary to the Board of the Company since 29 January 2016. Mr. Niu has been a Director of the Company since 18 December 2018.
Yu Zhongpeng	Mr. Yu graduated from School of Economics of Nankai University with a master's degree in economics. He currently serves as a Director of the Company, and secretary of party general branch, chairman and general manager of Tianjin Municipal Investment Company Limited, and member and deputy secretary (temporary post) of the party leadership group of the fourteenth session of the Communist Youth League of Tianjin. From July 2004 to July 2007, Mr. Yu Zhongpeng worked for the development department of Tianjin Expressway Investment & Construction Development Corporation (天津高速公路投資建設發展公司). From July 2007 to August 2016, he worked for Tianjin Investment Group and successively served as assistant to head, deputy head and head of the finance development department and deputy manager of the finance centre, during which he temporarily served as assistant to the director of office of the Tianjin Municipal Infrastructure Project Financing Leading Group. From August 2016, he has served as secretary of party general branch, chairman and general manager of Tianjin Municipal Investment Company Limited. From January 2018, he has temporarily served as member and deputy secretary of the party leadership group of the fourteenth session of the Communist Youth League of Tianjin. Mr. Yu Zhongpeng has been a Director of the Company since 14 May 2018.
Han Wei	Mr. Han graduated from School of Management of Tianjin University with a degree in management. He currently serves as a Director of the Company and deputy head (in charge of overall operation) of the investment and development department of Tianjin Investment Group. From March 2009 to September 2015, Mr. Han Wei worked for Tianjin Financial City Development Co., Limited (天津金融城開發有限公司), and successively served as deputy head of the asset management department, head of the asset management department and deputy chief economist. From October 2015 to March 2018, he served as deputy head of the asset management department of Tianjin Investment Group. Since April 2018, he served as deputy head (in charge of overall operation) of the investment and development department of Tianjin Investment Group. Mr. Han Wei has been a Director of the Company since 14 May 2018.
Si Xiaolong	Mr. Si, a senior economist, currently serves as a Director of the Company and the deputy head of the corporation management department (office of the board) of Tianjin Investment Group. Mr. Si Xiaolong graduated from School of Management of Tianjin University with a master's degree in business administration. He had worked for Tianjin Road Pipe Network Supporting Construction Investment Limited (天津道路管網配套建設投資有限公司). He joined Tianjin Investment Group in April 2009, engaging in asset management, corporate governance and other work for a long term. He served as the deputy head of the office of the board of Tianjin Investment Group since July 2016 and acted as the deputy head of corporation management department of Tianjin Investment Group since March 2018. Mr. Si has been a Director of the Company since 18 December 2018.
Wang Xiangfei	Mr. Wang is now an independent non-executive Director of the Company, the financial advisor of China Development Bank International Investment Limited*(國開國際投資有限公司) and China Sonangol International Holding Limited and an executive director of Nan Nan Resources Enterprise Limited. Mr. Wang is a senior accountant, graduated from Renmin University of China, majoring in finance and received a bachelor degree in economics. He also has worked in senior management teams of a couple of companies engaging in banking and other financial services. He was the independent non-executive director of China CITIC Bank Co., Ltd., SSEC Media Group Limited, Chongqing Iron and Steel Company Limited and Shandong Chenming Paper Holdings Limited and an internal supervisor Shenzhen Rural Commercial Bank Limited, and was the independent non-executive Director of the Company from April 2002 to April 2008. Mr. Wang Xiangfei has been an independent non-executive Director of the Company since 18 December 2015.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Guo Yongqing	Mr. Guo is a post-doctorate, professor in accounting and certified public accountant in the PRC. Mr. Guo is now an independent non-executive Director of the Company and an accounting professor of the Shanghai National Accounting Institute, and concurrently serving as an independent director of Huangshan Tourism Development Co., Ltd., Chongqing Brewery Co., Ltd., and Chongqing Porton Pharmacy Science & Technology Co., Ltd. Mr. Guo has been the department head of Shanghai National Accounting Institute. Mr. Guo Yongqing has been the independent non-executive Director of the Company since 18 December 2015.
Di Xiaofeng	Mr. Di is now a partner of the Commerce & Finance Law Offices in Beijing and an independent non-executive Director of the Company. Mr. Di received a bachelor's degree of law from Peking University in 1983 and a master's degree of law from the Chinese Academy of Social Sciences in 1986. From September 1986 to February 1988, he worked for the law department of the China Council for the Promotion of International Trade, specializing in legal affairs. From March 1988 to April 1992, he worked as a full-time lawyer for the China Legal Affairs Centre under the supervision of the Ministry of Justice of the PRC. Mr. Di was qualified as a solicitor in 1989. Mr. Di was the independent non-executive Director of the Company from April 2008 to April 2014 and has been the independent non-executive Director of the Company since 18 December 2018.
An Pindong	Mr. An was a non-executive Director of the Company during the reporting period and ceased to be the non-executive Director of the Company from 12 April 2018.
Chen Yinxing	Ms. Chen was a non-executive Director of the Company during the reporting period and ceased to be the non-executive Director of the Company from 12 April 2018.
Gao Zongze	Mr. Gao was an independent non-executive Director of the Company during the reporting period and ceased to be the independent non-executive Director of the Company from 17 December 2018.
Lu Hongyan	Ms. Lu obtained a doctoral degree in laws from Nankai University. She is the chairman of the Supervisory Committee and the general counsel of the Company. Ms. Lu served in Tianjin Winners Law Firm (天津金諾律師事務所) and Tianjin Hongyi Law Firm (天津泓毅律師事務所) consecutively from January 2001 to December 2009 as a lawyer. She joined the Company in January 2010 and served as a legal specialist, and has been the general counsel of the Company since January 2016. She is responsible for the legal affairs of the Company. Ms. Lu has vast legal experience in economic and corporate governance. Ms. Lu has been a Supervisor of the Company since 17 May 2017 and the chairman of the Supervisory Committee of the Company since 18 December 2018.
Wu Baolan	Ms. Wu is now the Supervisor of the Company and the head of the party-masses department of the Company. Ms. Wu joined the Company since December 2000 and was the assistant to the general manager of human resource department of the Company. Ms. Wu was director of office of Rijiyuan Company under Tianjin Municipal Investment Company Limited from December 2004 to December 2005. Ms. Wu joined the Company again in December 2005, and acted as the vice head of the party-masses department of the Company, and chairman of the institutional labour union of the Company, head of the party-masses department of the Company. Ms. Wu has been elected as the Supervisor on behalf of the Company's staff since 24 August 2011.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Niu Jing	Ms. Niu is now a Supervisor of the Company, the manager of the legal and audit department and an assistant accountant. Ms. Niu Jing graduated from Tianjin University of Finance and Economics in 1993, majoring in finance. She worked as accountant in Tianjin Xianda Hotel (天津先達酒店) from 1993 to 1995; worked as financial controller in Tianjin Shandong McDonald's Food Company Limited (天津山東麥當勞食品有限公司) from 1995 to 2002; and worked as financial manager and internal control manager of Tianjin Jiafu Commercial Company Limited (天津家福商業有限公司) from 2002 to 2009. She joined the Company since July 2009 and served as manager of the legal and audit department of the Company since then. Ms. Niu was appointed as the Supervisor of the Company since 18 December 2015.
Li Zongqiang	Mr. Li is now an accountant and the head of the risk management department of Tianjin Municipal Investment Company Limited. Mr. Li Zongqiang graduated from Tianjin University of Finance and Economics, majoring in accounting and received a bachelor's degree in economics. He is a certified public accountant, a registered tax advisor, and a registered asset appraiser. He had worked for Tianjin Jinhua Accounting Firm (天津津華會計師事務所), Tianjin Jiwei Accounting Firm (天津吉威會計師事務所) and Tianjin Tianao Sports Industry Company (天津天奧體育產業公司). He joined Tianjin Municipal Investment Company Limited in 2007, and successively served as the deputy manager of finance department, the chief accountant of Wanning Kaide Investment Company (萬寧凱德投資公司), the chief financial officer of Yuanyicheng Business Operations Management Company (元易誠商業運營管理公司) and other positions, engaging financial auditing and management for a long term. He has acted as the deputy head (in charge of overall operation) of the risk management department of Tianjin Municipal Investment Company Limited since April 2017, the head of the risk management department of Tianjin Municipal Investment Company Limited since January 2019 and the Supervisor of the Company since 18 December 2018.
Shen Yue	Ms. Shen is now a senior economist and a Supervisor and the head of the organizational department under the Communist Party Committee of the Company, and the secretary of the first party general branch. Ms. Shen graduated from Nankai University with a master's degree in laws. She joined the Company in 2006, worked in the party committee and affairs department (黨群工作部). From January 2011 to May 2018, she successively served as an assistant to head and the deputy head of party committee and affairs department of the Company, and also acted as the secretary of the first party general branch. Since January 2014, she has served as the deputy head of the party committee and affairs department of the Company. She was appointed as the deputy head of the party committee and affairs department of the Company and the secretary of the first party general branch from November 2016 and was appointed as the head of the organizational department under the Communist Party Committee of the Company from October 2018. Ms. Shen has acted as the Supervisor of the Company since 18 December 2018.
Huang Lan	Ms. Huang is a Supervisor, deputy manager of the operation management department and the secretary of the 4th institutional party branch of the Company. Ms. Huang joined the preparatory office of the Haihe river basin wastewater treatment project of the Company in March 2002 and has been the director of the general office of the Xianyang Road wastewater treatment plant of the Company since March 2005. She has successively served as the deputy director and director of the general office of the Tianjin water services department of the Company since December 2009. She has been the director of the general office of the Company's branch company for water services since January 2016 and has concurrently served as the secretary of the 4th institutional party branch of the Company since June 2016. She has been the deputy manager of the operation management department and the secretary of the 4th institutional party branch of the Company since April 2017. Ms. Huang is the staff representative Supervisor of Company since 18 December 2018.
Nie Youzhuang	Mr. Nie was a Supervisor of the Company during the reporting period and ceased to be the Supervisor of the Company from 18 December 2018.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Li Xiaoshen	Mr. Li was a Supervisor of the Company during the reporting period and ceased to be the Supervisor of the Company from 18 December 2018.
Zhao Yi	Mr. Zhao is now the deputy general manager of the Company. From August 2005 to March 2009, Mr. Zhao held the positions of the general manager of Qujing Capital Water Co., Ltd. and Tianjin Caring Technology Development Co., Ltd, subsidiaries of the Company. He was the deputy general manager of Tianjin Beiyangyuan Investment Development Company Limited from April 2009 to October 2010. He has been the deputy general manager of the Company since 18 October 2010. He served as the general manager of the non-local water business division from November 2010 to January 2016. Also, he acted as the chairman of eight controlling subsidiaries under the non-local business division from November 2010 to September 2015.
Zhang Jian	Mr. Zhang is now the deputy general manager of the Company, the general manager of the Company in Eastern China, chairman of Hangzhou Tianchuang Capital Water Co., Ltd., and the director and chairman of Baoying Capital Water Company Limited. From April 2006 to December 2009, Mr. Zhang was the administrative deputy general manager (presiding over the work) of Hangzhou Company. He has been the general manager of the non-local water business division of the Zhejiang region and the general manager of Hangzhou Company since December 2009. He has been the chairman of Hangzhou Company, and the director and chairman of Baoying Company since September 2015. He has been the deputy general manager of the Company since January 2012.
Zhang Qiang	Mr. Zhang is now the deputy general manager of the Company. From October 2007 to February 2009, Mr. Zhang Qiang was appointed as the chairman and general manager of Tianjin Seventh Municipal Highway Engineering Company Limited in charge of the overall work. Mr. Zhang joined and served as the deputy general manager of the Company since 5 March 2009. During the period, he was also the general manager of the business department of the urban projects of the Company, and was the general manager of the 2nd engineering branch company from December 2010 to January 2016.
Li Yang	Mr. Li is now the deputy general manager of the Company, the general manager of the northwest region of the Company, and the chairman of Xi'an Capital Water Co., Ltd. From November 2005 to April 2009, he was the general manager of Fuyang Capital Water Co., Ltd., the wholly-owned subsidiary of the Company. From April 2009 to December 2009, he was the general manager of the 2nd water operation branch of the Company. He was the general manager of the eastern region of Tianjin water business division from January 2010 to February 2011 and was the general manager of Xi'an Company since February 2011 to May 2017 and has been the general manager of the northwest region of the Company since February 2011. Mr. Li was appointed as the assistant to general manager of the Company since January 2012, and as the chairman of Xi'an Company since September 2015. Mr. Li Yang was a Supervisor of the Company from 8 September 2009 to 15 March 2017. Mr. Li was appointed as the deputy general manager of the Company since 15 March 2017.
Qi Lipin	Ms Qi is now the chief economist and the manager of investment and management department of the Company. Ms Qi worked for Binhai City Municipal Construction and Development Company Limited from July 1999 to February 2001. She joined the Company in February 2001, acted successively as an officer of project development department, assistant to the manager of market development department, deputy manager of the department of assets management and corporate development and research, deputy manager of planning department, and manager of operation and management department. She was appointed as the deputy chief economist and manager of operation and management department of the Company since January 2010. She was appointed as the chief economist of the Company since October 2015. Ms. Qi was the Supervisor of the Company from June 2009 to October 2015.
Li Jinhe	Mr. Li is now the chief engineer of the Company and also the chairman of Caring Company and a senior engineer. Mr. Li graduated from the department of environmental engineering of Hebei University of Science and Technology in 1993 majoring in environmental engineering. Mr. Li has served in the 9th design institute of North China Municipal Engineering Design & Research Institute Co., Ltd. since March 1999 and acted successively as a technician, leader of the 2nd Process Group, deputy chief engineer and chief engineer. Mr. Li has been engaged in municipal engineering design and research works for years and has extensive experience in such fields as water treatment facilities and designing, research and operation of process. Mr. Li Jinhe has been the chief engineer of the Company since 29 August 2017.

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

7. Directors, Supervisors, Senior Management and Employees

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

Not applicable

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

As at 31 December 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, including interests and short positions which were taken as or deemed to have pursuant to the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name	Company/name of associated corporations	Capacity	Number and class of securities (Note)	Approximate percentage in the total issued share capital of the Company/ associated corporations
The former Supervisor Nie Youzhuang	Company	Beneficial owner	959 domestic shares (non-restricted circulating shares) (L)	0.000067%
Deputy general manager Zhang Jian	Company	Beneficial owner	822 domestic shares (non-restricted circulating shares) (L)	0.000058%

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

As at 31 December 2018, none of the Directors, Supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

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

(i) Positions held at the shareholder's entity

Name	Name of shareholder's entity	Position held in shareholder's entity	Date of appointment	Date of termination
Yu Zhongpeng	TMICL	Secretary of the party general branch, chairman and general manager	16 August 2016	—
Li Zongqiang	TMICL	Head of the risk management department	18 January 2019	—
Li Xiaoshen	TMICL	Deputy secretary of the party general branch and chairman of the labour union	7 May 2012 16 July 2012	24 January 2019 31 January 2019

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

(ii) Positions held at the other entities

Not applicable

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The procedures for determining the remuneration of the Directors, Supervisors and senior management	The remuneration of the Directors and Supervisors will be determined in accordance with the remuneration standard for the Directors and Supervisors as approved at the Company's general meetings. The remuneration of the senior management officers will be determined on the basis of the remuneration plan approved by the Board and the operation result of the Company, and implements an annual salary system and year-end award system for completion above the annual operating target. The Directors (other than the independent Directors) and Supervisors of the Company do not receive remuneration for acting as directors or supervisors.
The basis for determining the remuneration of the Directors, Supervisors and senior management	The remuneration of the Company's senior management will be distributed in accordance with their achievements in production and operation tasks and their usual management activities. The annual performance remuneration and bonus will be distributed according to the achievement of annual operating targets and performance appraisal results.
Actual payment of the remuneration to the Directors, Supervisors and senior management	The remuneration distributed by the Company to the Directors, Supervisors and senior management is in line with the salaries and performance evaluation requirements of the Company and distributed according to the requirements.
Actual remuneration received by all Directors, Supervisors and senior management as at the end of the reporting period (in total)	RMB13.3685 million

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

7. Directors, Supervisors, Senior Management and Employees

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

Name	Position held	Changes	Reason for changes
Tang Fusheng	Director	Resignation	Work engagement
Fu Yana	Director	Resignation	Work engagement
Peng Yilin	Director	Resignation	Work engagement
An Pindong	Director	Resignation	Work engagement
Chen Yinxing	Director	Resignation	Work engagement
Wang Jing	Director	Appointment	Election at the general meeting
Niu Bo	Director	Appointment	Election at the general meeting
Yu Zhongpeng	Director	Appointment	Election at the general meeting
Han Wei	Director	Appointment	Election at the general meeting
Si Xiaolong	Director	Appointment	Election at the general meeting
Wang Jing	Supervisor	Resignation	Work engagement
Nie Youzhuang	Supervisor	Resignation	Re-designation
Li Xiaoshen	Supervisor	Resignation	Retirement
Shen Yue	Supervisor	Appointment	Election at the general meeting
Huang Lan	Supervisor	Appointment	Election at the staff representative meeting
Li Zongqiang	Supervisor	Appointment	Election at the general meeting

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

Not applicable

VI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(I) Employees

Number of on-duty employees of the Company	457
Number of on-duty employees of major Subsidiaries	1,282
Total number of on-duty employees	1,739
Number of retired employees to whom the Company and its major Subsidiaries are required to pay charges	0

Composition by profession

Category of profession	Number
Production	868
Sales	76
Technical	410
Finance	92
Administration	147
Corporate management	146
Total	1,739

Education

Category of education	Number (persons)
Doctor	5
Master	95
Undergraduate	872
Tertiary	469
Secondary	140
Below secondary	158
Total	1,739

(II) Remuneration policy

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

(III) Training programs

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

(IV) Subcontracting labor

Not applicable

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY

(i) Corporate Governance of the Company

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

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

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

In order to further improve the structure of the corporate governance of the Company and protect the interests of shareholders, the Company amended the "Rules of Procedures for Board Meetings" during the reporting period.

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

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(ii) Corporate Governance Report

1. About Corporate Governance Practices

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

2. About Securities Transactions by the Directors

According to the Company's Articles of Association and the "Management System for Inside Information"* (《内幕信息管理制度》), the Company has formulated the "Management System for the Shareholding of Directors, Supervisors and Senior Management"* (《董事、監事、高級管理人員持股管理制度》), which requires that the Directors, Supervisors, managers and other senior management shall during their terms of office make regular reports to the Company on the Company's shares they held, shall not transfer more than a total of 25% of the shares of the Company they held for each year during their terms of office, and shall not transfer the Company's shares they held within six months after their resignation, etc.

After making detailed enquiries by the Board, as at the end of the reporting period, save of Mr. Nie Youzhuang and Mr. Zhang Jian holding 959 and 822 domestic Shares of the Company respectively, none of the Directors of the Company held any other share of the Company and they did not conduct any share transaction during the reporting period.

3. About the Board

According to the Articles of Association of the Company, the Board of the Company consists of nine Directors. During the reporting period, the seventh session of the Board of the Company expired on 17 December 2018 and the 2018 first extraordinary general meeting of the Company held on the same day elected the members of the eighth session of the Board of the Company, including Mr. Liu Yujun (Chairman of the Board), Ms. Wang Jing and Mr. Niu Bo as executive Directors; Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong as non-executive Directors; Mr. Di Xiaofeng, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors. Terms of the Directors of the eighth session of the Board were from 18 December 2018 to 17 December 2021. The former non-executive Directors, Mr. An Pindong and Ms. Chen Yinxing, applied for resignation as non-executive Directors on 12 April 2018 due to work adjustments. The former executive Directors Mr. Tang Fusheng, Ms. Fu Yana and Ms. Peng Yilin no longer served as executive Directors of the Company since 18 December 2018 due to their work needs. Former independent non-executive Director, Mr. Gao Zongze, ceased to be an independent non-executive Director of the Company since 18 December 2018 due to personal reasons.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(ii) Corporate Governance Report (Continued)

3. About the Board (continued)

There was no relationship including financial, business, family or other material and relevant relationship between the members of the Board of the Company. All of the Board members possess immense qualifications and management experience. The qualifications and professional experiences of the independent non-executive Directors have fully complied with the requirements under the Listing Rules. The Board of the Company has accepted the declaration of independence for the year 2018 by each independent non-executive Director, and confirms that they comply with the relevant independence requirements as set out under Rule 3.13 of the Listing Rules.

The Company held 26 Board meetings and two general meetings during the reporting period. For details of the attendance of Directors, please refer to “Attendance of Directors at the Board meetings and general meetings” in this section.

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

Trainings for Directors in 2018

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

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(ii) Corporate Governance Report (Continued)

4. About the Chairman and the Chief Executive Officer

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

During the reporting period, Mr. Tang Fusheng was the General Manager of the Company.

5. About Non-executive Director

The tenures of Mr. An Pindong and Ms. Chen Yinxing as non-executive Directors, Mr. Gao Zongze, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors, of the seventh Board of the Company, who were elected on 17 December 2015, expired on 17 December 2018. Mr. An Pindong and Ms. Chen Yinxing have applied for resignation as non-executive Directors on 12 April 2018 due to the redeployment of work. Upon the election at the 2017 annual general meeting, Mr. Yu Zhongpeng and Mr. Han Wei acted as non-executive Directors of the Company for a term commencing on 15 May 2018 and ending on 17 December 2018.

The tenures of Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong as non-executive Directors, and Mr. Di Xiaofeng, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors, of the eighth Board of the Company, who were elected on 17 December 2018, were from 18 December 2018 to 17 December 2021.

Mr. Gao Zongze as the independent non-executive Director ceased to be the independent non-executive Director of the Company from 18 December 2018 for personal reasons.

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(ii) Corporate Governance Report (Continued)

6. About Committees under the Board

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

During the reporting period, the Company held 5 meetings of the Remuneration and Assessment Committee which mainly discussed the performance of the Company and its evaluation for the year 2017 (including the performance of executive Directors and its evaluation, the advice on remuneration of the eighth session of Directors, Supervisors and Senior Management and the advice on adjustments to the wages of employees). The members of the Remuneration and Assessment Committee attended all the meetings held during the reporting period.

- (2) Members of the seventh Nomination Committee of the Company comprised two executive Directors (being Mr. Liu Yujun, the Chairman, and Mr. Tang Fusheng, the General Manager) and three independent non-executive Directors (Mr. Di Xiaofeng, Mr. Guo Yongqing and Mr. Wang Xiangfei) of the Company with Mr. Gao Zongze as its chairman. On 18 December 2018, members of the eighth Nomination Committee of the Company elected by the Board comprised two executive Directors (being Mr. Liu Yujun, the Chairman, and Ms. Wang Jing, the executive Director) and three independent non-executive Directors (Mr. Di Xiaofeng, Mr. Guo Yongqing and Mr. Wang Xiangfei) of the Company with Mr. Di Xiaofeng as its chairman. The primary duties of the Nomination Committee are to study and propose candidates, selection criteria and procedures of Directors and senior management of the Company. For its written working scope, please refer to the Implementation Rules for the Nomination Committee of the Company which is available on the website of the Stock Exchange.

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)**(ii) Corporate Governance Report** (Continued)**6. About Committees under the Board** (Continued)**(2)** (Continued)

In respect of the nomination procedures as well as the selection and recommendation of candidates for the Director, the Articles of Association of the Company provides that, the Board of the Company and shareholders representing, in aggregate, more than 10% of the total shares of the Company may nominate candidates for the Director of the Company. The Nomination Committee under the Board of the Company shall make suggestions to the Board regarding the nomination, selection and recommendation of candidates of Directors pursuant to the Implementation Rules for the Nomination Committee of the Company. The appointment of executive Directors is determined by the general meetings. The nomination and appointment of the executive Directors and non-executive Directors have been carried out in accordance with the above-mentioned procedures of nomination, selection and recommendation. In addition, the qualifications for acting as independent non-executive Directors are subject to review and approval by SSE.

The Board of the Company has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having regard to the Company's own business model and specific needs from time to time. The board diversity policy of the Company is in line with the Implementation Rules for the Nomination Committee of the Company as well as the present situation and future development plan of the Company.

During the reporting period, the Company held 4 meetings of the Nomination Committee which discussed matters in relation to, among other things, the nomination of company secretary (Hong Kong) and candidates for the Director, the nomination and appointment of general manager, deputy general manager and chief engineer.

The members of the Nomination Committee attended all the meetings held during the reporting period.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(ii) Corporate Governance Report (Continued)

6. About Committees under the Board (Continued)

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

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

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

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

- (4) The seventh Strategy Committee of the Company consists of three executive Directors (Mr. Liu Yujun, Mr. Tang Fusheng and Ms. Fu Yana), one non-executive Director (Mr. Yu Zhongpeng) and one independent non-executive Director (Mr. Guo Yongqing) of the Company with Mr. Liu Yujun, the Chairman, as its chairman. The eighth Strategy Committee of the Board consists of two executive Directors (Mr. Liu Yujun and Ms. Wang Jing), two non-executive Directors (Mr. Yu Zhongpeng and Mr. Han Wei) and one independent non-executive Director (Mr. Guo Yongqing) of the Company with Mr. Liu Yujun, the Chairman, as its chairman. Its primary duties are to study and propose the medium and long-term development strategies and major investment decisions of the Company.

No Strategy Committee meeting was held during the reporting period.

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(ii) Corporate Governance Report (Continued)

7. About the Remuneration of Auditors

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

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

8. About Company Secretary

On 9 February 2018, the Board of the Company appointed Ms. Cho Yee Yung, Mona of Li & Partners as company secretary and the authorised representative of the Company under Rule 3.05 of the Listing Rules. Ms. Cho Yee Yung, Mona attended not less than 15 hours of relevant professional trainings during 2018 financial year 2018 in accordance with Rule 3.29 of the Listing Rules. Ms. Cho Yee Yung, Mona generally contacts Mr. Niu Bo, the secretary to the Board of the Company.

9. About Shareholders' Rights

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

10. About Investor Relationship

During the reporting period, in order to further enhance corporate governance and protect the interests of investors, the Company amended its Articles of Association, the "Rules of Procedures for General Meetings" and the "Rules of Procedures for Board Meetings".

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE OF THE COMPANY (Continued)

(ii) Corporate Governance Report (Continued)

11. Risk Management and Internal Control

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

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

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

12. About Other Specific Disclosures

The Directors are responsible for supervising the compilation of the accounts for each financial period, in order to ensure that those accounts reflect genuinely and fairly the business and results of the Company for the period. In compiling the accounts for the year ended 31 December 2018, the Directors have chosen and thoroughly applied the appropriate accounting policies with due and reasonable judgment and estimates having been made, and prepared the accounts on a going concern basis.

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

The Board of the Company has been much concerned about the internal control of the Company. At the eighth meeting of the eighth Board held on 27 March 2019, the resolution in respect of the internal control of the Company in 2018 was solely considered and a self-assessment report on the internal control was issued. PricewaterhouseCoopers Zhong Tian LLP has audited the internal control of the Company during 2018, and has issued a standard unqualified audit opinion.

II. SHAREHOLDERS' GENERAL MEETINGS

Session of meeting	Date of meeting	Inquiry index for the designated website for publishing the voting results	Date of disclosure of the resolutions
2017 annual general meeting	14 May 2018	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	15 May 2018
2018 first extraordinary general meeting	17 December 2018	Website of the SSE at www.sse.com.cn ; Website of the Stock Exchange at www.hkex.com.hk ; Website of Merrill IFN at http://www.ifn.com.hk/ir/tjcep/	18 December 2018

III. PERFORMANCE OF DUTIES BY DIRECTORS

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

Name of Director	Independent non-executive Director	Attendance at the Board meetings						Attendance at the general meetings
		Number of Board meetings required to attend during the year	Attending in person (times)	Attending by way of other communication method (times)	Attending by proxies (times)	Absence (times)	Absence for two consecutive meetings in person	
Liu Yujun	No	26	26	22	0	0	No	2
Tang Fusheng	No	24	24	20	0	0	No	2
Fu Yana	No	24	24	20	0	0	No	2
Peng Yilin	No	24	24	20	0	0	No	2
An Pindong	No	6	5	5	1	0	No	0
Chen Yinxing	No	6	6	6	0	0	No	0
Gao Zongze	Yes	24	24	20	0	0	No	2
Wang Xiangfei	Yes	26	26	22	0	0	No	2
Guo Yongqing	Yes	26	26	22	0	0	No	2
Wang Jing	No	2	2	2	0	0	No	0
Niu Bo	No	2	2	2	0	0	No	0
Yu Zhongpeng	No	19	18	18	1	0	No	2
Han Wei	No	19	19	17	0	0	No	2
Si Xiaolong	No	2	2	2	0	0	No	0
Di Xiaofeng	Yes	2	2	2	0	0	No	0

Number of Board meetings held during the year (times)	26
Among which: Physical Meetings (times)	0
Meetings held by way of other communication method (times)	22
Meetings held physically together with by way of other communication method (times)	4

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

Not applicable.

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

- (1) During the reporting period, the Company held 7 meetings of the Audit Committee which reviewed 4 periodic reports of the Company, appointment of accounting firms and internal control evaluation reports etc., and no disagreement was raised.
- (2) During the reporting period, the Company held 4 meetings of the Nomination Committee which made respective proposals for the nominations of Ms. Cho Yee Yung, Mona as the company secretary (Hong Kong), Mr. Yu Zhongpeng and Mr. Han Wei as candidates for the Director of the seventh Board of the Company, candidates for the Director of the eighth Board of the Company; the new session of senior management of the eighth Board of the Company, including the general manager, the deputy general manager, the chief engineer, chief accountant and chief economist, the secretary to the Board and the company secretary (Hong Kong) etc., all of which were approved by the Board and the general meeting of the Company.
- (3) During the reporting period, the Company held 5 meetings of the Remuneration and Assessment Committee which reviewed the proposed appointment of Ms. Cho Yee Yung, Mona as the company secretary (Hong Kong), the achievement of operating objectives of the Company and year-end assessment for 2017, the remunerations of director candidates Mr. Yu Zhongpeng and Mr. Han Wei, the proposed appointment of Mr. Li Yang as the deputy general manager, the remuneration of directors of the eighth Board of the Company, the remuneration and assessment proposal of the eighth senior management of the Company and the remuneration of the company secretary (Hong Kong), all of which were approved by the Board and the general meeting of the Company.
- (4) During the reporting period, the Company held no meeting of the Strategy Committee.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

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

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

Name	<i>Unit: RMB (Yuan)</i> Contribution to pension scheme
Li Yang	37767.06
Liu Yujun	37767.06
Tang Fusheng	37767.06
Zhao Yi	37767.06
Wang Jing	37767.06

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

VIII. THE DISCLOSURE OF INTERNAL CONTROL ASSESSMENT REPORT

For details, please refer to “2018 Internal Control Assessment Report” disclosed at the website of the SSE on 28 March 2019.

Descriptions of Material Defects Relating Internal Control during the Reporting Period

Not applicable

IX. EXPLANATION IN RESPECT OF THE INTERNAL CONTROL AUDIT REPORT

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

For details of the internal control audit report, please refer to the “2018 Internal Control Audit Report” disclosed on the website of the SSE on 28 March 2019.

9. Relevant Details of Corporate Bonds

I. BASIC DETAILS OF CORPORATE BONDS

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	25 October 2016	25 October 2021	700,000,000	3.13	Interest shall be paid annually, while the principal shall be fully repaid upon maturity. Principal will be repaid upon maturity together with interest payable for the last period.	SSE
Public Issue of Corporate Bonds of Tianjin Capital Environmental Protection Group Company Limited in 2018 (Phase I)	18津創01	143609.SH	25 April 2018	26 April 2023	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

Interests payment and bonds repayment of the Company

During the reporting period, the Company has completed interest payment of “16津創01” for the year 2018 as scheduled, while “18津創01” was not due to pay any interest 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 has 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 CORPORATE BOND TRUSTEE AND MEANS OF COMMUNICATION OF CREDIT RATING AGENCY

Bond trustee	Name	Ping An Securities Co. Ltd.
	Office address	16/F, North Tower, Financial Street Centre, 9 Financial Street, Xicheng Beijing
	Contact person	Li Chuan, Jia Xuan (賈軒)
	Contact number	010-56800258
Credit rating agency	Name	United Credit Rating Co., Ltd.
	Office address	12th Floor, PICC Office Tower, No.2 Jianguomen Outer Street, Chaoyang District, Beijing

During the reporting period, the Company did not change the bond trustee and credit rating agency engaged.

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 is fully utilized as intended as mentioned in the prospectus, remaining amount is nil.

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, RMB1,088,099,490.64 of the proceed was utilized as intended as mentioned in the prospectus and the remaining amount was RMB9,260,509.36.

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.

9. Relevant Details of Corporate Bonds

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 United Credit Rating Co., Ltd. will perform updated ongoing credit rating for the Company for corporate bond within two months upon disclosure of the annual report and relevant disclosure will be made in the Shanghai Stock Exchange website (www.sse.com.cn).

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

During the reporting period, both repayment schedule and repayment protection mechanism of “16津創01” 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

Not applicable

VII. PERFORMANCE OF CORPORATE BOND TRUSTEE

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

Investors should be aware that corporate bond trustee shall issue its corporate bond trustee management report (2018) before 30 June 2019 and is expected to disclose on the Shanghai Stock Exchange website (www.sse.com.cn).

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

Unit: 0'000 Currency: RMB

Major Indicators	2018	2017	Increase/ decrease for the period as compared to the same period last year (%)	Reasons
Profit before EBITDA	128,487.0	119,036.8	7.94	Increases in interest expenses and amortisation of intangible assets
Current ratio	1.56	1.31	19.08	The debentures payable due within one year included in the current liabilities in the same period last year were repaid in the current period, and the corresponding current liabilities decreased
Quick ratio	1.56	1.31	19.08	The debentures payable due within one year included in the current liabilities in the same period last year were repaid in the current period, and the corresponding current liabilities decreased
Assets liability ratio (%)	57.83	56.53	2.30	Increase in total liabilities
Debt to EBITDA ratio	0.28	0.41	-31.71	a year-on-year increase in total debt
Interest protection multiples	4.50	6.47	-30.50	Significantly increase in interest expenses in the current year
Cash interest protection multiples	5.94	10.22	-41.88	Decrease in net cash inflow generated from operation activities and increase in interest expenses
EBITDA interest protection multiples	6.46	9.06	-28.70	Increase in interest expenses
Debt service ratio (%)	100	100	0.00	
Interest coverage rate (%)	100	100	0.00	

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

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

X. BANK CREDIT OF THE COMPANY DURING THE REPORTING PERIOD

As of the end of the reporting period, the Company has obtained, in aggregate, a credit facility of RMB6.973 billion from various banks, of which approximately RMB1,151 million was utilized with a remaining balance of approximately RMB5.822 billion. During the reporting period, the Company has repaid each bank loans as scheduled and there is no renewal or concession for such loans.

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

During the reporting period, the Company has strictly performed the relevant agreements or commitments as set out in the corporate bond prospectus. This is no major impact to the bondholders.

9. Relevant Details of Corporate Bonds

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

During the reporting period, there are following major events of the Company:

1. The Company's cumulative new borrowings (including but not limited to funds raised by the Company and its subsidiaries through bank loans, entrusted loans, finance lease borrowings, microfinance loans and the issuance of corporate bonds, enterprise bonds, financial bonds, and non-financial corporate debt financing instruments) 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 Fourty 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 the Shanghai Stock Exchange website (www.sse.com.cn). As of the end of the reporting period, the Company's cumulative new borrowings for the current year amounted to RMB1,639.7451 million which represented 30.29% 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.
2. The term of office of the seventh session of the Board of the Company expired on 17 December 2018. The Company held the first extraordinary general meeting in 2018 on 17 December 2018, at which Mr. Liu Yujun, Ms. Wang Jing and Mr. Niu Bo were elected as executive directors of the eighth session of the Board of the Company; Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong were elected as non-executive directors of the eighth session of the Board of the Company; Mr. Wang Xiangfei, Mr. Guo Yongqing and Mr. Di Xiaofeng were elected as independent non-executive directors of the eighth session of the Board of the Company. Among the above directors, Ms. Wang Jing, Mr. Niu Bo, Mr. Si Xiaolong and Mr. Di Xiaofeng are newly elected members of the eighth session of the Board of the Company. Ms. Fu Yana, Ms. Peng Yilin and Mr. Tang Fusheng, the former executive directors of the Board of the Company, will no longer serve as executive directors of the Board; and Mr. Gao Zongze, a former independent non-executive director of the Board of the Company, will no longer serve as an independent non-executive director of the Board. The above major events have no material adverse impact on the daily management, production operation and solvency of the Company, and have no material impact on the effectiveness of the previous resolutions of the Board of the Company. Upon this change, the number of the Board of the Company has not changed, and the Company's governance structure complies with relevant laws and the Company's Articles of Association.

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

10. Financial Report

For details, please refer to the accounting statements and audited reports for 2018 of the Company.

11. Report of the Auditors



Auditor's Report

PwC ZT Shen Zi (2019) No. 10031

(Page 1 of 5)

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

OPINION

What we have audited

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

- the consolidated and company balance sheets as at 31 December 2018;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Capital Environmental Protection as at 31 December 2018, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises (“CASs”).

PricewaterhouseCoopers Zhong Tian LLP

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BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing (“CSAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

KEY AUDIT MATTERS

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

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

Key Audit Matter

Measurement of expected credit losses for trade receivables

Refer to Notes 4 to the consolidated financial statements

As at 31 December 2018, the Group’s gross trade receivables amounted to RMB 2,131,049 thousand and a loss allowance of RMB 49,584 thousand was recognised on these trade receivables. The balance of loss allowance for trade receivables represent the management’s best estimates on the expected credit losses (“ECL”) for these trade receivables as of the balance sheet date.

Management has assessed whether the credit risk of trade receivables had been significantly increased after initial recognition, and measured the ECL through applying a lifetime expected loss allowance for all trade receivables. In making such assessment, management has considered the credit default history in prior years and exercised judgement in developing its expectation on the credibility of debtors and economic indicators for forward-looking measurement.

How our audit addressed the Key Audit Matter

We evaluated and validated the Group’s control procedures over the measurement of ECL.

We evaluated the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, key parameters estimation and significant judgements and assumptions as adopted by management in the assessment of ECL.

We assessed the appropriateness of management’s identification of any trade receivables with significant increase in credit risk or trade receivables being defaulted or impaired by examining the financial and non-financial information of the major debtors. Regarding the information of the major debtors as obtained, we have examined the underlying relevant supporting documents such as historical payment records, subsequent settlements, settlement plan and other correspondence documents.

For forward-looking measurement, we reviewed management’s model analysis of their selection of economic indicators, economic scenarios and weightings employed; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.

11. Report of the Auditors

PwC ZT Shen Zi (2019) No. 10031

(Page 3 of 5)

KEY AUDIT MATTERS (Continued)

Key Audit Matter

Measurement of expected credit losses for trade receivables (Continued)

The measurement of ECL involves significant management judgments and assumptions, mainly including the following:

- (1) Segmentation of debtors sharing similar credit risk characteristics and determination of relevant key measurement parameters;
- (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- (3) Selection of economic indicators for forward-looking measurement, and application of economic scenarios and weightings.

We focussed on this area due to the significance of the trade receivables balance and significant management judgements and assumptions were involved in the assessment of ECL.

How our audit addressed the Key Audit Matter

We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

We considered that management's judgements and estimates on the ECL of trade receivables are supportable by the evidence as obtained from our procedures performed.

OTHER INFORMATION

Management of the Capital Environmental Protection is responsible for the other information. The other information comprises all of the information included in 2018 annual report of the Capital Environmental Protection other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

11. Report of the Auditors

PwC ZT Shen Zi (2019) No. 10031

(Page 5 of 5)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Capital Environmental Protection's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Capital Environmental Protection to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Capital Environmental Protection to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

27 March 2019

Signing CPA Li Jun
(Engagement Partner)

Signing CPA Song Yijing

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

As at 31 December 2018

(All amounts in RMB thousand unless otherwise stated)

ASSETS	Note	31 December 2018 Consolidated	31 December 2017 Consolidated	1 January 2017 Consolidated	31 December 2018 Company	31 December 2017 Company	1 January 2017 Company
Current assets							
Cash at bank and on hand	4(1)	1,826,201	1,905,678	1,199,058	595,990	784,959	459,678
Notes and trade receivables	4(2)/14(1)	2,091,760	1,932,058	1,815,820	1,687,179	1,663,178	1,489,342
Advances to suppliers	4(3)	23,531	124,770	153,198	822	1,114	423
Other receivables	4(4)/14(2)	36,162	93,708	150,872	134,560	241,959	296,410
Inventories	4(5)	13,991	18,112	24,491	3,992	4,116	4,333
Current portion of non-current assets	4(7)	22,789	—	—	22,789	—	—
Other current assets	4(6)	156,688	85,449	49,107	824,650	173,452	103,843
Total current assets		4,171,122	4,159,775	3,392,546	3,269,982	2,868,778	2,354,029
Non-current assets							
Available-for-sale financial assets	4(9)	—	2,000	2,000	—	2,000	2,000
Long-term receivables	4(7)	253,686	294,956	309,148	253,686	294,956	309,148
Long-term equity investments	4(8)/14(3)	195,000	—	—	3,520,705	2,081,302	1,746,349
Other equity instruments investment	4(9)	2,000	—	—	2,000	—	—
Investment properties	4(10)	84,052	86,820	97,590	63,289	65,552	75,818
Fixed assets	4(11)	346,641	383,831	413,486	107,316	116,730	125,374
Construction in progress	4(11)	150,939	20,657	4,396	—	—	—
Intangible assets	4(12)	10,374,827	6,906,418	6,233,987	4,092,295	3,321,141	3,393,326
Other non-current assets	4(6)	109,181	598,433	187,744	190,519	726,085	237,480
Total non-current assets		11,516,326	8,293,115	7,248,351	8,229,810	6,607,766	5,889,495
TOTAL ASSETS		15,687,448	12,452,890	10,640,897	11,499,792	9,476,544	8,243,524

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

As at 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	31 December 2018 Consolidated	31 December 2017 Consolidated	1 January 2017 Consolidated	31 December 2018 Company	31 December 2017 Company	1 January 2017 Company
Current liabilities							
Short-term borrowings	4(16)	200,000	499,000	—	200,000	499,000	—
Notes and accounts payables	4(14)	176,398	128,254	107,239	46,500	42,027	20,089
Advances from customers	4(14)	—	930,888	955,507	—	5,123	5,994
Contract liabilities	4(14)	469,185	—	—	4,541	—	—
Taxes payable	4(14)	68,893	63,741	69,080	250	7,802	38,154
Other payables	4(14)	1,458,045	629,121	409,549	961,291	700,314	753,333
Accrued payroll	4(15)	53,942	44,550	34,411	24,868	26,067	22,920
Current portion of non-current liabilities	4(16)	243,369	870,092	212,327	81,417	724,449	25,927
Other current liabilities	4(16)	—	7,827	9,645	—	86,463	86,463
Total current liabilities		2,669,832	3,173,473	1,797,758	1,318,867	2,091,245	952,880
Non-current liabilities							
Long-term borrowings	4(16)	2,051,953	581,517	510,428	1,318,713	—	—
Debentures payable	4(16)	1,796,363	697,984	1,394,313	1,796,363	697,984	1,394,313
Long-term payables	4(16)	266,367	263,887	285,208	266,367	263,887	285,208
Provisions	4(17)	10,069	32,930	32,930	10,069	32,930	32,930
Deferred income	4(18)	2,101,085	2,129,064	1,446,971	1,662,338	1,719,380	1,129,013
Deferred tax liabilities	4(19)	138,812	120,259	126,108	67,841	61,929	54,224
Other non-current liabilities	4(16)	38,000	40,000	43,364	290,000	210,000	210,000
Total non-current liabilities		6,402,649	3,865,641	3,839,322	5,411,691	2,986,110	3,105,688
Total liabilities		9,072,481	7,039,114	5,637,080	6,730,558	5,077,355	4,058,568
Shareholder's equity							
Share capital	4(20)	1,427,228	1,427,228	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	4(21) (a)	431,024	399,115	399,115	380,788	380,788	380,788
Surplus reserve	4(21) (b)	517,107	479,907	444,925	517,107	479,907	444,925
Undistributed profits	4(21) (c)	3,442,844	2,810,790	2,473,109	2,444,111	2,111,266	1,932,015
Total equity attributable to equity owners of the parent		5,818,203	5,117,040	4,744,377	4,769,234	4,399,189	4,184,956
Minority interests		796,764	296,736	259,440	—	—	—
Total owners' equity		6,614,967	5,413,776	5,003,817	4,769,234	4,399,189	4,184,956
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		15,687,448	12,452,890	10,640,897	11,499,792	9,476,544	8,243,524

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:

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

Item	Note	2018 Consolidated	2017 Consolidated	2018 Company	2017 Company
1. Revenue	4(22)/14(4)	2,447,515	2,148,341	1,024,217	999,237
Less: Cost of sales	4(22)/14(4)	(1,558,556)	(1,282,699)	(596,526)	(517,053)
Taxes and surcharges	4(23)	(49,688)	(57,464)	(18,225)	(27,596)
Selling and distribution expenses	4(24)	(5,417)	(6,467)	—	—
General and administrative expenses	4(24)	(129,096)	(139,749)	(72,622)	(81,782)
Research and development expenses	4(25)	(10,439)	(8,472)	—	—
Financial expenses-net	4(27)	(161,986)	(100,339)	(161,371)	(83,497)
Including: interest expense		(198,774)	(131,432)	(158,872)	(107,794)
interest income		53,779	19,293	14,055	12,252
Asset impairment losses	4(28)	—	(21,928)	—	(4,540)
Credit impairment losses	4(29)	(12,973)	—	(1,200)	—
Add: Other income	4(30)	172,823	185,270	96,256	107,801
Investment gains	4(31)/14(5)	200	400	174,809	65,882
Including: Share of profit of associates		—	—	—	—
Losses on disposals of assets		(373)	—	(373)	—
2. Operating profit		692,010	716,893	444,965	458,452
Add: Non-operating income	4(32)	6,884	3,870	1,736	175
Less: Non-operating expenses	4(33)	(4,050)	(1,975)	(1,824)	(462)
3. Total profit		694,844	718,788	444,877	458,165
Less: Income tax expenses	4(34)	(168,064)	(199,593)	(72,868)	(108,344)
4. Net profit		526,780	519,195	372,009	349,821
Classified by continuity of operations					
Net profit from continuing operations		526,780	519,195	372,009	349,821
Net profit from discontinued operations		—	—	—	—
Classified by ownership of the equity					
Minority interests		25,612	10,944	—	—
Attributable to equity owners of the Company		501,168	508,251	372,009	349,821
5. Other comprehensive income after deduction of impact of income tax		—	—	—	—
6. Total comprehensive income		526,780	519,195	372,009	349,821
Attributable to equity owners of the Company		501,168	508,251	372,009	349,821
Attributable to minority shareholders		25,612	10,944	—	—
Earnings per share (in RMB Yuan)					
Basic		0.35	0.36	—	—
Diluted		0.35	0.36	—	—

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:

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

Item	Note	2018 Consolidated	2017 Consolidated	2018 Company	2017 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		2,628,476	2,344,694	1,199,555	1,005,222
Refund of taxes and surcharges		98,829	152,825	42,751	76,350
Cash received relating to other operating activities	4(36) (c)	180,281	1,029,497	88,484	951,450
Sub-total of cash inflows		2,907,586	3,527,016	1,330,790	2,033,022
Cash paid for goods and services		(1,166,271)	(827,475)	(503,401)	(318,242)
Cash paid to and on behalf of employees		(291,716)	(256,738)	(126,426)	(118,310)
Payments of taxes and surcharges		(646,414)	(497,074)	(200,671)	(272,901)
Cash paid relating to other operating activities	4(36) (d)	(68,934)	(306,816)	(53,448)	(349,499)
Sub-total of cash outflows		(2,173,335)	(1,888,103)	(883,946)	(1,058,952)
Net cash flows from operating activities	4(36) (a)	734,251	1,638,913	446,844	974,070
2. Cash flows from investing activities					
Cash received from disposal of investments		—	—	99,330	—
Cash received from returns on investments		200	400	171,787	39,900
Net cash received from disposal of fixed assets	4(36) (c)	743	531	1,096	144
Cash received from subsidiaries		—	—	410,061	506,528
Cash received from restricted bank deposits		5,901	6,100	—	—
Sub-total of cash inflows		6,844	7,031	682,274	546,572
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(1,867,624)	(860,892)	(493,662)	(143,368)
Cash paid to acquire investments		(591,957)	(380,000)	(1,145,863)	(719,493)
Cash paid for restricted bank deposits		(11,570)	(151)	(3,950)	(151)
Cash paid to subsidiaries		—	—	(1,024,554)	(610,295)
Sub-total of cash outflows		(2,471,151)	(1,241,043)	(2,668,029)	(1,473,307)
Net cash flows from investing activities		(2,464,307)	(1,234,012)	(1,985,755)	(926,735)

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

Item	Note	2018 Consolidated	2017 Consolidated	2018 Company	2017 Company
3. Cash flows from financing activities					
Cash received from borrowings		2,085,288	727,632	1,770,713	500,000
Cash received from issuance of debentures		1,100,000	—	1,100,000	—
Cash received from capital contributions		174,273	27,132	—	—
Including: Cash received from capital contributions by minority shareholders of subsidiaries		174,273	27,132	—	—
Sub-total of cash inflows		3,359,561	754,764	2,870,713	500,000
Cash repayments of borrowings		(1,550,440)	(201,482)	(1,399,000)	(1,000)
Cash payments for distribution of interest expenses		(163,282)	(109,720)	(125,722)	(86,091)
Payments for distribution of dividends or profits		(929)	(135,894)	—	(135,114)
Including: Dividends and profits paid to minority shareholders by subsidiaries		(929)	(780)	—	—
Sub-total of cash outflows		(1,714,651)	(447,096)	(1,524,722)	(222,205)
Net cash flows from financing activities		1,644,910	307,668	1,345,991	277,795
4. Effect of foreign exchange rate changes on cash					
		—	—	—	—
5. Net (decrease)/increase in cash		(85,146)	712,569	(192,920)	325,130
Add: Cash at beginning of year		1,893,689	1,181,120	779,808	454,678
6. Cash at end of year	4(36) (b)	1,808,543	1,893,689	586,888	779,808

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:

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

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 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		1,427,228	399,115	444,925	2,473,109	259,440	5,003,817
Movements for the year ended 31 December 2017							
Total comprehensive income							
Net profit		—	—	—	508,251	10,944	519,195
Total comprehensive income for the year		—	—	—	508,251	10,944	519,195
Capital contribution by shareholders		—	—	—	—	27,132	27,132
Profit distribution							
Appropriation to surplus reserves		—	—	34,982	(34,982)	—	—
Dividend distribution to shareholders		—	—	—	(135,588)	(780)	(136,368)
Balance at 31 December 2017		1,427,228	399,115	479,907	2,810,790	296,736	5,413,776
Balance at 31 December 2017		1,427,228	399,115	479,907	2,810,790	296,736	5,413,776
Changes of accounting policies		—	—	—	168,086	—	168,086
Balance at 1 January 2018		1,427,228	399,115	479,907	2,978,876	296,736	5,581,862
Movements for the year ended 31 December 2018							
Total comprehensive income							
Net profit		—	—	—	501,168	25,612	526,780
Total comprehensive income for the year		—	—	—	501,168	25,612	526,780
Capital contribution by shareholders	4(21) (a)	—	31,909	—	—	475,345	507,254
Profit distribution							
Appropriation to surplus reserves		—	—	37,200	(37,200)	—	—
Dividend distribution to shareholders		—	—	—	—	(929)	(929)
Balance at 31 December 2018		1,427,228	431,024	517,107	3,442,844	796,764	6,614,967

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:

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

Company Statement of Changes in Owners' Equity

For the year ended 31 December 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	1,427,228	380,788	444,925	1,932,015	4,184,956
Movements for the year ended 31 December 2017					
Total comprehensive income					
Net profit	—	—	—	349,821	349,821
Total comprehensive income for the year	—	—	—	349,821	349,821
Profit distribution					
Appropriation to surplus reserves	—	—	34,982	(34,982)	—
Dividend distribution to shareholders	—	—	—	(135,588)	(135,588)
Balance at 31 December 2017	<u>1,427,228</u>	<u>380,788</u>	<u>479,907</u>	<u>2,111,266</u>	<u>4,399,189</u>
Balance at 31 December 2017	1,427,228	380,788	479,907	2,111,266	4,399,189
Changes of accounting policies	—	—	—	(1,964)	(1,964)
Balance at 1 January 2018	1,427,228	380,788	479,907	2,109,302	4,397,225
Movements for the year ended 31 December 2018					
Total comprehensive income					
Net profit	—	—	—	372,009	372,009
Total comprehensive income for the year	—	—	—	372,009	372,009
Profit distribution					
Appropriation to surplus reserves	—	—	37,200	(37,200)	—
Balance at 31 December 2018	<u>1,427,228</u>	<u>380,788</u>	<u>517,107</u>	<u>2,444,111</u>	<u>4,769,234</u>

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:

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

Notes to the Financial Statements

For the year ended 31 December 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 31 December 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 (Changed to Hangzhou Municipal Facilities Supervision Center)
Jinghai, Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an, Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Anguo, Hebei	14 October 2008	An Guo Municipal Government
Xianning, Hubei	16 October 2008	Xianning Construction Committee
Yingdong, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Qujing, Yunnan	16 August 2011	Qujing Housing and Urban Construction Bureau
Chaohu, Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau
Jingu, Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission (“TUCC”) and Tianjin Water Authority Bureau (“TWAB”)
Xianyanglu, Tianjin	18 February 2014	TUCC and TWAB
Dongjiao, Tianjin	18 February 2014	TUCC and TWAB
Beicang, Tianjin	18 February 2014	TUCC and TWAB
Yingshang, Anhui	16 June 2016	Yingshang Housing and Urban Construction Bureau
Karamay, Xinjiang	4 November 2016	Karamay Construction Bureau
Linxia, Gansu	13 May 2017	Linxia Housing and Urban Construction Bureau

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(a) Processing of sewage water (Continued)

Location	Agreement date	Authorized by
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 and Bayannur Hetao Water Group Company, Ltd
Ningxiang, Changsha	27 April 2018	Ningxiang Economic and Technological Development Zone Management Committee
Honghu, Hubei	9 June 2018	Honghu Housing and Urban Construction Bureau
Shibing, Guizhou	12 July 2018	Shibing Water Bureau
Hefei, Anhui	28 November 2018	Hefei Urban Construction 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 27 March 2019.

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

For the year ended 31 December 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 mainly reflected in the measurement of expected credit losses of receivables and contract assets (Note 2(9)), depreciation and amortization of fixed assets and intangible assets (Note 2(13) and (16)), recognition and amortization of concession rights (Note 2(16) (b)), timing of revenue recognition (Note 2(21)) and so on.

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

(1) Basis of preparation

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

The financial statements are prepared on a going concern basis.

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

The financial statements of the Company for the year ended 31 December 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 31 December 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.

(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 except the recording currency of Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd. which is HK dollar, the remaining subsidiary companies’ recording currency is RMB. The financial statements are presented in RMB.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Business Combination

(a) *Business combinations involving enterprises not under common control*

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. The cost of combination over the fair value share of identifiable net assets acquired on the purchase date, is recognised as goodwill; the cost of the combination is less than the 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 acquisition if the difference 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.

(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.

For subsidiaries acquired from business combinations not under common control, the financial statements are adjusted based on the fair value of the identifiable net assets at the acquisition date.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Preparation of consolidated financial statements (Continued)

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 recognised 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.

(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 recognised in profit or loss for the current year, 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.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Foreign currency translation (Continued)

(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 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 recognise financial assets or financial liabilities when become one party of the financial instruments contracts.

(a) Financial assets

(i) Classification and measurement

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 measured at fair value and through other comprehensive income; (3) financial assets measured at fair value and through profit or loss.

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. Notes and trade receivables 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.

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

For the year ended 31 December 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)

(i) Classification and measurement (Continued)

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 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.

For the year ended 31 December 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) Impairment of financial assets

The Group recognises the loss provision based on expected credit losses (“ECL”) for financial assets and contract 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 since 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 since initial recognition belongs to “Stage 2”, and the Group makes the loss provision based on the lifetime ECL. Financial instrument that suffered credit impairment since 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 since 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.

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

For the year ended 31 December 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) Impairment of financial assets (Continued)

When the expected credit loss cannot be assessed at a reasonable cost for an individual financial asset, 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	Government clients except those in provincial capitals and municipalities
Other clients group	Other clients
Project deposit group	Project deposits
Others group	Other receivables excluding VAT refund and project deposits

For notes receivable that are classified into above 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 above 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 above 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.

(iii) 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.

For the year ended 31 December 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) Derecognition of financial assets (Continued)

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 and trade payables, 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.

(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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Inventories

(a) *Classification*

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

(b) *Costing of inventories*

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

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

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

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

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

(11) Long-term equity investments

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

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

(a) *Determination of investment cost*

For long-term equity investment acquired from business combinations not under common control, the cost of the combination is the investment cost of the long-term equity investment.

For long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid.

(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 recognised 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 year 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

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

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

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

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

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

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

(12) Investment properties

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Investment properties (Continued)

An investment property is derecognised 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 recognised in profit or loss for the current year.

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

(13) Fixed assets

(a) Recognition and initial measurement of fixed assets

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

Fixed assets are recognised 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 derecognised. All the other subsequent expenditures are recognised in profit or loss in the year 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%

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Fixed assets (Continued)

(b) Depreciation methods of fixed assets (Continued)

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

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

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

(d) Disposal of fixed assets

A fixed asset is derecognised 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 recognised in profit or loss for the current year.

(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)).

(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 recognised in profit or loss for the current year. 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 year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Borrowing costs (Continued)

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

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

(16) Intangible assets

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

(a) Land use rights

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Intangible assets (Continued)

(b) *Concession rights* (Continued)

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 recognised as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (concession) to charge users of the public service and shall recognise 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 recognised as intangible assets- concession rights by the Group, which are amortized on a straight-line basis over the terms of operation ranging from 25 to 30 years.

(c) *Technical know-how and software*

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

(d) *Periodical review of useful life and amortisation method*

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

(e) *Research and development*

Expenditures for internal research and development projects are classified into research phase expenditures and development phase expenditures according to their nature and whether the intangible assets ultimately formed by research and development activities have greater uncertainty.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Intangible assets (Continued)

(e) *Research and development* (Continued)

Expenditures for the planned investigation, evaluation and selection phases for the study of the production process are expenditures for the research phase, which are included in the current profit and loss when incurred; prior to mass production, expenditure in the relevant design and testing phases for the final application of the environmental protection equipment production process is capitalized during the development phase, while meeting the following conditions:

- The development of the environmental protection equipment production has been fully demonstrated by the technical team;
- Management has approved the budget for environmental protection equipment production development;
- Research and analysis of previous market research indicates that the products produced by the environmental protection equipment production have marketing capabilities;
- Adequate technical and financial support for the development of the environmental protection equipment production and subsequent mass production; and
- Expenditure on environmental protection equipment production development can be reliably collected.

Expenditure in the development phase that does not meet the above conditions is recognised in profit or loss in the period in which it is incurred. Development expenditures that have been charged to profit or loss in the previous period are not reconfirmed as assets in subsequent periods. Expenditures that have been capitalized during the development phase are listed as development expenditures on the balance sheet and are converted to intangible assets from the date the project reaches its intended use.

(f) *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)).

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets which are not available for their intended use are tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised 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.

(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.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Employee benefits (Continued)

(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 recognised 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 year 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 year or the cost of relevant assets.

(19) Dividends distribution

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Provisions

Provisions for maintenance of the sewage water processing facilities are recognised 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 recognised 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

The sales are recognised when control of the products or services has been transferred, and the amount is determined in accordance with the consideration received or receivables by authority. Revenue is stated net of discounts, rebates and returns.

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

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue (Continued)

(b) *Construction of sewage water facilities*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised 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 recognised as contract revenue. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

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

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

The Group provides the pipeline connection for recycled water services, and recognises 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 recognises 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 provision 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 recognised as contract liabilities and the Group shall list the assets and liabilities under the same contract on a net basis.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue (Continued)

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

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 recognised as operating cost according to the completing schedule included in the carrying forward cost of labor when recognise income. The incremental cost incurred by the Group to obtain the contract for the connection of water pipes is recognised 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, recognise the same basic amortization as the income of the project connected to the recycled water pipeline into profit and loss. If the Book Value 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 recognise 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 recognised, 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.

(e) *Sales of environmental protection equipment*

If the stage of completion can be measured reliably, revenue and cost are recognised 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 recognised on the accrual basis according to the service agreement.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Revenue (Continued)

(g) *Technical services income*

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

(22) Government grants

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

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

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

The Group recognises government grants related to assets as deferred income and amortizes in profit or loss in a reasonable and systematic manner over the useful lives of related 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 year. 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.

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

For the year ended 31 December 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 recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised 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 recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised 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 recognised 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 recognised 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 recognised.

Deferred tax assets and liabilities are offset when:

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

(24) Leases

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

(a) *Operating leases*

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Segment information

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

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

(26) Critical accounting estimates and judgements

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

(a) *Critical judgments in applying the accounting policies*

(i) Classification of financial assets

Significant judgements 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting estimates and judgements (Continued)

(a) *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.

For the year ended 31 December 2018
(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 accounting estimates and key assumptions

The critical accounting estimates and key judgement 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies

In 2017, the Ministry of Finance promulgated the revised “Accounting Standards for Business Enterprises No. 14 – Revenue” (hereinafter referred to as the “New Revenue Standards”) and the revised “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, “Accounting Standards for Business Enterprises No. 23 - Transfer of Financial Assets” and “Accounting Standards for Business Enterprises No. 37 - Presentation of Financial Instruments” (hereinafter collectively referred to as “Guidelines for New Financial Instruments”), and in 2018, the Ministry of Finance issued the ‘Circular on the A to the formats of Corporate Financial Statements for the Year of 2018’ (CaiKuai [2018]), the Group has adopted the above standards and notices to prepare the 2018 financial statements, and the impacts on the Group and the Company’s statements are as follows:

(a) General enterprise report format modification

- (i) The impact on the consolidated balance sheet and income statement is as follows (increase/(decrease)):

Content and reasons for changes in accounting policies	Line items affected	Amount affected	
		31 December 2017	1 January 2017
The Group grouped notes receivable and trade receivable as notes and trade receivables.	Trade receivable	(1,930,158)	(1,815,420)
	Notes receivable	(1,900)	(400)
	Notes and trade receivable	1,932,058	1,815,820
The Group grouped dividends payable and other payables as other payables.	Dividend payable	(1,912)	(1,438)
	Other payables	1,912	1,438
			2017
The Group presented the Research and development expenses separately from cost of sales.	Research and development expenses		8,472
	Cost of sales		(8,472)

- (ii) The impacts on the consolidated cash flow statement are as follows:

The Group reclassified the government grants received related to assets from cash received relating to other investing activities to cash received relating to other operating activities. The impact for 2017 is RMB726,861 thousand.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies (Continued)

(a) General enterprise report format modification (Continued)

(iii) The impacts on the Company's balance sheet and income statement are as follows (increase/(decrease)):

Content and reasons for changes in accounting policies	Line items affected	Amount affected	
		31 December 2017	1 January 2017
The Company grouped dividends payable and other payables as other payables.	Dividends payable	(1,912)	(1,438)
	Other payables	1,912	1,438
2017			
The Company reclassified interests arising from entrusted loan from financial expenses to investment income	Financial expenses		20,815
	Investment income		(20,815)

(iv) The impact on the Company's cash flow statement is as follows:

The Company reclassified the government grants received related to assets from cash received relating to other investing activities to cash received relating to other operating activities. The impact for 2017 is RMB664,990 thousand.

(b) Revenue

According to the new revenue standard, the Group and the Company adjusted the cumulative impact of initial adoption of the standard to the opening retained earnings of 2018 and other related items in the financial statements. The comparatives for 2017 were not restated (increase/(decrease)).

The nature and the reasons of the changes in accounting policies	Line items affected	Amount affected	
		1 January 2018 Group	Company
Due to the adoption of new revenue standards, the Group and the Company reclassified the advance receipts which have signed the contract but not met the revenue recognition conditions to the contract liabilities.	Contract liabilities	591,017	5,123
	Advances from customers	(591,017)	(5,123)
Due to the adoption of new revenue standards, the Group and the Company recognised revenue of recycled water pipes connection service based on the percentage of completion method.	Prepayments	(91,230)	—
	Advances from customers	(339,871)	—
	Trade payables	9,866	—
	Taxes payable	68,031	—
Due to the adoption of new revenue standards, the Group and the Company reclassified the balance of which the goods transferred to the customer but without unconditional collection right from constructions projects to the contract assets.	Undistributed profit	170,744	—
	Inventory	(6,249)	—
	Contract assets	6,249	—

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

For the year ended 31 December 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) Revenue (Continued)

Compared with the original revenue standards, impacts from the adoption of new revenue standards on financial statements items for 2018 are as follows (increase/(decrease)):

Balance sheet items affected	Amount affected 31 December 2018	
	The Group	The Company
Contract liabilities	469,093	4,541
Advances from customers	(469,093)	(4,541)
Income statement items affected	Amount affected 2018	
	The Group	The Company
Revenue	115,636	—
Cost of sales	42,737	—

(c) Financial instruments

According to the regulation of the New Financial Instruments Standards, the Group and the Company adjusted the cumulative impact of the first implementation of the standard to the opening retained earnings of 2018 and other related items in the financial statements. The 2017 comparative financial statement of the Group were not restated.

(i) As at 1 January 2018, the classification and measurement of financial assets in accordance with the original and the new standards on financial instruments in consolidation financial standards 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 and trade receivables	Amortised cost	1,932,058	Notes and trade receivables	Amortised cost	1,932,058
Other receivables (Excluding VAT refund)	Amortised cost	84,183	Other receivables (Excluding VAT refund)	Amortised cost	84,183
Available-for-sale financial assets	Equity instruments measured at cost	2,000	Other equity instruments investment	FVOCI	2,000
Long-term receivables (Including non-current assets within one year)	Amortised cost	294,956	Long-term receivables (Including non-current assets within one year)	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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies (Continued)

(c) Financial instruments (Continued)

- (ii) As at 1 January 2018, the classification and measurement of financial assets in accordance with the original and the new standards on financial instruments in the financial statement of the Company 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	784,959	Cash at bank and on hand	Amortised cost	784,959
			Financial assets held for trading	At fair value through profit or loss	—
Notes and trade receivables	Amortised cost	1,663,178	Notes and trade receivables	Amortised cost	1,663,178
Other receivables (Excluding VAT refund) [#]	Amortised cost	236,616	Other receivables (Excluding VAT refund)	Amortised cost	236,616
Available-for-sale financial assets	Equity instruments measured at cost	2,000	Other equity instruments investment	FVOCI	2,000
Long-term receivables (Including non-current assets within one year)	Amortised cost	294,956	Long-term receivables (Including non-current assets within one year)	Amortised cost	294,956

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

- (iii) As at 1 January 2018, the Group and the Company reconciled the 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 standard on financial instruments

	Carrying amount	
	The Group	The Company
Cash at bank and on hand		
31 December 2017 and 1 January 2018	1,905,678	784,959
Receivables (Note 1)		
31 December 2017	2,311,197	2,194,750
Remeasurement: Total ECL	(2,658)	(1,964)
1 January 2018	2,308,539	2,192,786
Total financial assets measured at amortised cost (new standards on financial instruments)	<u>4,214,217</u>	<u>2,977,745</u>

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 (including non-current assets within one year).

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies (Continued)

(c) Financial instruments (Continued)

- (iii) As at 1 January 2018, the Group and the Company reconciled the 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 under new standards on financial instruments

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

As at 31 December 2017, the carrying amount of the Group and the Company's unlisted equity investments measured at cost was RMB2 million with no impairment provision provided. As at 1 January 2018, the Group and the Company designated the equity investments as financial assets at FVOCI with consideration of strategic investment instrument and presented as other equity instruments investment.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies (Continued)

(c) Financial instruments (Continued)

(iv) As at 1 January 2018, The Group reconciled the original financial asset impairment to the impairment in accordance with the new standards on financial instruments:

Measurement category	Impairment under original standards on financial instruments	Reclassification	Remeasurement	Impairment under the new standards on financial instruments
Financial assets measured at amortised cost -				
Impairment provision for notes 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 equity instruments investment	—	—	—	—
Impairment of contract assets	—	—	—	—
Total	<u>34,101</u>	<u>—</u>	<u>2,658</u>	<u>36,759</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(27) Significant changes in accounting policies (Continued)

(c) Financial instruments (Continued)

- (v) As at 1 January 2018, the Company reconciled the original financial asset impairment to the impairment in accordance with the new standards on financial instruments:

Measurement category	Impairment under original standards on financial instruments	Reclassification	Remeasurement	Impairment under the new standards on financial instruments
Financial assets measured at amortised cost -				
Impairment provision for notes and trade receivables	—	—	1,964	1,964
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 equity instruments investment	—	—	—	—
Impairment of contract assets	—	—	—	—
Total	—	—	1,964	1,964

Due to the implementation of the above revised standards, the relevant adjustments affecting the shareholders' equity attributable to the parent company in the consolidated financial statements of the Group is RMB2.7 million, of which the undistributed profit is RMB2.7 million. The impact of the relevant adjustment on the shareholders' equity of the Company is RMB2 million, of which the undistributed profit is RMB2 million.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 TAXATION

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

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	0%-25%
Value added tax ("VAT") (Note(a))	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current year)	3%-17%
City maintenance and construction tax	The payment amount of VAT	5%-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 2018	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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 TAXATION (Continued)

(2) Preferential tax policies for enterprise income tax (Continued)

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

Name of subsidiaries	Enterprise income tax rate for 2018	Reason for the preferential tax policy
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.
Linxia 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 2018 for the first 3 years and reduction half for the next 3 years.
Bayannur Capital Water Co., Ltd.	Sewage water: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 2018 for the first 3 years and reduction half for the next 3 years.
	recycled water: 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.
Yingshang 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 2018 for the first 3 years and reduction half for the next 3 years.

(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 utilize resources Caishui [2015] No.78 (hereinafter referred to as the No. 78). According to the No.78, the sewage water processing and recycled water business are required to pay value-added tax since July 1, 2015. 70% of value-added tax paid by the sewage water processing business and 50% value-added tax paid by recycled water business will be refunded.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	31 December 2018	31 December 2017
Cash on hand	61	144
Cash at bank	1,808,482	1,893,545
Other cash balances	17,658	11,989
	<u>1,826,201</u>	<u>1,905,678</u>
Including: Bank deposits overseas	<u>8,499</u>	<u>8,203</u>

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

	31 December 2018	31 December 2017
Cash at bank and on hand	1,826,201	1,905,678
Less: Restricted bank deposits (Note (i))	<u>(17,658)</u>	<u>(11,989)</u>
Cash listed in cash flow statement (Note 4(36))	<u>1,808,543</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 and trade receivables

	31 December 2018	31 December 2017
Notes receivable (a)	10,295	1,900
Trade receivables (b)	<u>2,081,465</u>	<u>1,930,158</u>
	<u>2,091,760</u>	<u>1,932,058</u>

(a) Notes receivable

	31 December 2018	31 December 2017
Bank acceptance notes	10,295	1,900
Less: Provision for bad debts	<u>—</u>	<u>—</u>
	<u>10,295</u>	<u>1,900</u>

- (i) As at 31 December 2018, the Group has no pledged notes receivable.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes and trade receivables (Continued)

(b) Trade receivables

	31 December 2018	31 December 2017
Trade receivables	2,131,049	1,964,259
Less: Provision for bad debts	(49,584)	(34,101)
	<u>2,081,465</u>	<u>1,930,158</u>

(i) The ageing analysis of trade receivable is as follows:

	31 December 2018	31 December 2017
Within 1 year	1,457,744	1,266,494
1 to 2 years	649,268	666,168
2 to 3 years	15,464	11,914
3 to 4 years	7,024	19,683
4 to 5 years	1,549	—
Total	<u>2,131,049</u>	<u>1,964,259</u>

(ii) As at 31 December 2018, the trade receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Amount	Provision for bad debts	% of total balance
Trade receivables from the top five debtors	<u>1,845,187</u>	<u>(35,673)</u>	<u>87%</u>

(c) Provision for bad debts:

	31 December 2018	31 December 2017
Notes receivable	—	—
Trade receivables	(49,584)	(34,101)
	<u>(49,584)</u>	<u>(34,101)</u>

For the Group's notes and trade receivable, regardless of whether there is a significant financing component, the Group measures the loss according to the expected credit loss for the entire life.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes and trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(i) As at 31 December 2018, provision for bad debts by individual is analyzed as below:

	Carrying amount	ECL rate	Provision	Reasons
TWAB	1,582,240	0.05%	(791)	1)
Qujing Sewage Company	140,296	24.49%	(34,357)	2)
Hangzhou Municipal Facilities Supervision Center	43,545	0.05%	(21)	1)
Guiyang water bureau	39,243	0.05%	(2)	1)
Hangzhou Sewage Company	18,198	0.05%	(9)	1)
Xi'an Infrastructure Investment Group	16,608	0.05%	(14)	1)
Tianjin Qudong Culture Media Co. Ltd	7,910	100.00%	(7,910)	3)
Total	<u>1,848,040</u>		<u>(43,104)</u>	

- 1) 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 Hangzhou Municipal Facilities Supervision Center, 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 Group estimates that the lifetime ECL rate of the receivables is 0.05%.
- 2) 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 concludes that the receivables of price compensation have been defaulted and estimates that the lifetime ECL rate is 100%. In summary, the Group expects that the expected credit loss rate of receivables from Qujing City Water General Company in the whole period is 24.49%.
- 3) Receivables from Tianjin Qudong Culture Media Co., Ltd. has applied enforcement and got approval from People's court. Thus, the Company concludes that the receivables have been defaulted and estimates that the lifetime ECL is 100%.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes and trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(ii) As at 31 December 2018, provision for bad debts by group is analyzed as below:

Group - banker's acceptance

As at 31 December 2018, the Group measures bad debt provision in accordance with the lifetime expected credit loss for the entire duration, and no provision is deemed necessary. 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 - Non-provincial government customers

	31 December 2018		
	Carrying amount Amount	Provision ECL rate	Amount
Undue	42,605	0.010%	(4)
1-90 days overdue	37,570	0.050%	(19)
90-180 days overdue	26,128	0.200%	(52)
>180 days overdue	64,790	0.500%	(324)
	<u>171,093</u>		<u>(399)</u>

Group - others

	31 December 2018		
	Carrying amount Amount	Provision ECL rate	Amount
Undue	34,276	0.100%	(34)
1-30 days overdue	27,749	0.500%	(139)
30-90 days overdue	19,172	2.000%	(383)
>90 days overdue	14,314	5.000%	(1,190)
	<u>95,511</u>		<u>(1,746)</u>

(iii) The bad debts provision accrued in this year is RMB18,731 thousand, and bad debts provision collected or reversed is RMB5,906 thousand. The main collected or reversed amounts are as follow:

	Reason for collection or reversal	Basis and rationality of bad debts provision	Amount collected or reversed	Method of collection or reversal
Tianjin Xinghe Paper Company Ltd.	Trade receivables collected	Long Aging	4,020	Collected by cash
Others	Trade receivables collected	Long Aging	1,886	Collected by cash
			<u>5,906</u>	

In 2018, the amount of bad debt provision reversed of Tianjin Xinghe Paper Company Ltd. is RMB4,020 thousand, and the corresponding book balance is RMB4,020 thousand.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Advances to suppliers

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

	31 December 2018		31 December 2017	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	22,431	95%	43,069	35%
1 to 2 years	202	1%	71,489	57%
Over 2 years	898	4%	10,212	8%
	<u>23,531</u>	<u>100%</u>	<u>124,770</u>	<u>100%</u>

As at 31 December 2018, advances to suppliers of RMB1.1 million (31 December 2017: RMB82 million) with aging over one year were mainly for recycled water pipeline connection service. The amount has not been settled because the construction progress is slower than the payment progress.

(b) As at 31 December 2018, the top five advances to suppliers in respect of outstanding balance of the Group are analyzed as follows:

	Amount	% of total balance
Total amounts of advances to suppliers to the top five debtors in respect of outstanding balance	<u>4,172</u>	<u>18%</u>

(4) Other receivables

	31 December 2018	31 December 2017
Project deposits	18,922	74,284
VAT refund	10,379	9,525
Others	<u>6,871</u>	<u>9,899</u>
	36,172	93,708
Less: Provision for bad debts	<u>(10)</u>	<u>—</u>
	<u>36,162</u>	<u>93,708</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

(a) As at 31 December 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:				
Project deposits	18,922	0.05%	(7)	(ii)
Others	6,871	0.10%	(3)	(ii)
	<u>25,793</u>		<u>(10)</u>	

(i) The VAT refund is due from the local tax authorities, that belong to government grants rather than financial assets.

(ii) The project deposits are the construction deposit handed over to the local government during the construction period of the concession project. The project deposits have lower credit risk, so the ECL rate for next 12 months is 0.05%, and the ECL rate for next 12 months of other receivables is 0.1%.

(b) As at 31 December 2018, the Group has no other receivables belonging to stage 2 and stage 3.

(c) In 2018, the changes of other receivables' provision of the Group is not significant.

(d) As at 31 December 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 City Water Supply and Sewerage Company	Project deposits	8,000	1 to 2 years	22%	(4)
Xi'an Hi-tech District State Taxation Bureau	VAT refund receivable	2,619	Within 1 year	7%	—
Tianjin State Taxation Bureau	VAT refund receivable	2,036	Within 1 year	6%	—
Linxia Human Resources and Social Security Bureau	Others	1,803	1 to 2 years	5%	(1)
Fuyang State Taxation Bureau	VAT refund receivable	1,538	Within 1 year	4%	—
		<u>15,996</u>		<u>44%</u>	<u>(5)</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Other receivables (Continued)

- (e) As at 31 December 2018, the Group's analysis of government grants confirmed by the amount receivables is as follows:

	Government grants program	Amount	Aging	Estimated timing, amount and basis of collection
Xi'an Capital Water Co., Ltd.	VAT refund	2,619	Within 1 year	VAT refund receivable, fully collected in 2019
The Company	VAT refund	2,036	Within 1 year	VAT refund receivable, fully collected in 2019
Fuyang Capital Water Co., Ltd.	VAT refund	1,538	Within 1 year	VAT refund receivable, fully collected in 2019
Inner Mongolia Bayannur Capital Water Co., Ltd.	VAT refund	1,030	Within 1 year	VAT refund receivable, fully collected in 2019
Tianjin Water Recycling Co., Ltd.	VAT refund	965	Within 1 year	VAT refund receivable, fully collected in 2019
Guizhou Capital Water Co., Ltd.	VAT refund	838	Within 1 year	VAT refund receivable, fully collected in 2019
Hangzhou Capital Water Co., Ltd.	VAT refund	485	Within 1 year	VAT refund receivable, fully collected in 2019
Baoying Capital Water Co., Ltd.	VAT refund	288	Within 1 year	VAT refund receivable, fully collected in 2019
Wendeng Capital Water Co., Ltd.	VAT refund	244	Within 1 year	VAT refund receivable, fully collected in 2019
Qujing Capital Water Co., Ltd.	VAT refund	231	Within 1 year	VAT refund receivable, fully collected in 2019
Anguo Capital Water Co., Ltd.	VAT refund	105	Within 1 year	VAT refund receivable, fully collected in 2019
		10,379		

(5) Inventories

- (a) The Group's inventory is classified as follows:

	31 December 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	9,897	—	9,897	8,251	—	8,251
Finished goods	3,746	—	3,746	3,198	—	3,198
Spare parts and low cost consumables	348	—	348	414	—	414
Contract performance cost	—	—	—	6,249	—	6,249
	13,991	—	13,991	18,112	—	18,112

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Inventories (Continued)

(b) The changes in the book balance of the Group's inventory this year are as follows:

	31 December 2017	Accounting Policies change	1 January 2018	Increase in the current year	Decrease in the current year	31 December 2018
Raw materials	8,251	—	8,251	245,736	(244,090)	9,897
Finished goods	3,198	—	3,198	2,244	(1,696)	3,746
Spare parts and low cost consumables	414	—	414	943	(1,009)	348
Contract performance cost	6,249	(6,249)	—	—	—	—
	<u>18,112</u>	<u>(6,249)</u>	<u>11,863</u>	<u>248,923</u>	<u>(246,795)</u>	<u>13,991</u>

(6) Other current and non-current assets

	31 December 2018	31 December 2017
Other current assets:		
Input VAT to be deducted	98,605	47,219
Assets of Anguo	36,913	36,913
Income tax prepaid	10,598	—
Input VAT to be verified	10,572	38
Others	—	1,279
	<u>156,688</u>	<u>85,449</u>
	31 December 2018	31 December 2017
Other non-current assets:		
Prepayments of construction	50,927	209,824
Input VAT to be deducted	49,122	—
Acquisition prepayments of Bayannur Projects	—	380,000
Others	9,132	8,609
	<u>109,181</u>	<u>598,433</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Long-term receivables and non-current assets due within one year

	31 December 2018	31 December 2017
Toll road concession	276,613	294,956
Less: Bad debt provision	(138)	—
	<u>276,475</u>	<u>294,956</u>
Less: Listed in non-current assets due within one year	(22,789)	—
	<u><u>253,686</u></u>	<u><u>294,956</u></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 receivables within the agreed period. Therefore, the Company estimates that the ECL rate of this receivable item is 0.05%.

(8) Long-term equity investments

	31 December 2018	31 December 2017
Investment in an associate (note (a))	217,358	22,358
Less: Impairment of Long-term equity investments (note (c))	(22,358)	(22,358)
	<u>195,000</u>	<u>—</u>

(a) Investment in associate

	Type	Place of registration	Registered capital	Shareholding/ voting rights (%)
Tianjin International Machinery Co., Ltd. (i)	Limited company	Tianjin	120,000	27.50%
Tianjin Bihai Sponge City Co., Ltd. (ii)	Limited company	Tianjin	650,000	30.00%

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Long-term equity investments (Continued)

(a) Investment in associate (Continued)

- (i) 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	New investment	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	31 December 2018	Provision for impairment at the end of the year
International Machinery	33,000	—	—	—	—	—	—	(22,358)

The Group fully provided provision of impairment of RMB22 million for long-term equity investment in International Machinery in 2016.

- (ii) Tianjin Bihai Sponge City Co., Ltd. (“Bihai Sponge City”) is a limited liability company registered in Tianjin. The businesses of Bihai Sponge City include construction and operation of water treatment projects; procurement and maintenance of water treatment equipment; ecological maintenance; tourism development; ecological management; construction, operation and management of sponge city project; construction and operation of municipal engineering. Bihai Sponge City was registered and established on 30 July 2018 and is still in the initial construction period.

The movements of the Group’s investment in Bihai Sponge City are as follows:

	Initial investment cost	31 December 2017	New investment	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	31 December 2018	Provision for impairment at the end of the year
Bihai Sponge City	195,000	—	195,000	—	—	—	195,000	—

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Long-term equity investments (Continued)

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

	Accumulated unrecognised losses at the beginning of the period	Unrecognised income in the current year	Accumulated unrecognised losses at the end of the period
International Machinery	644	(164)	480

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

	31 December 2017	Additions	Disposals	31 December 2018
International Machinery	22,358	—	—	22,358

(9) Other equity instruments investment

	31 December 2018	31 December 2017
Equity instruments		
Equity of unlisted company (Notes 2 (27(c)))		
– Tianjin Beifang Rencaigang Company Ltd.	2,000	—
	31 December 2018	31 December 2017
Tianjin Beifang Rencaigang Company Ltd.		
– Cost	2,000	—
– Accumulated fair value changes	—	—
	2,000	—

Other equity instruments investment is the unlisted equity investments of Tianjin Beifang Rencaigang Company Limited held by the Group and the shareholding ratio is 6.10%. The Group does not participate in or influence the financial and operational decisions of Tianjin Beifang Rencaigang Company Limited in any way. Therefore, the Group has no significant influence on the above-mentioned invested company and accounts for it as other equity instruments.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Investment properties

	Buildings
Cost	
1 January 2017	137,374
Transfer to fixed assets	(18,966)
	<hr/>
31 December 2017 and 31 December 2018	118,408
	<hr/>
Accumulated depreciation	
1 January 2017	(39,784)
Increase in the current year	(3,673)
Transfer to fixed assets	11,869
	<hr/>
31 December 2017	(31,588)
	<hr/>
Charge for the year	(2,768)
	<hr/>
31 December 2018	(34,356)
	<hr/>
Net Book Value	
31 December 2018	84,052
	<hr/> <hr/>
31 December 2017	86,820
	<hr/> <hr/>

The Group's investment properties mainly represent the apportioned cost of its office building of the Company and property of Tianjin Water Recycling Co., Ltd. located in Tianjin held for long-term rental. Based on the management's assessment, the fair value of leased office building of the Company at 31 December 2018 was approximately RMB122 million (2017: RMB122 million) and its carrying amount was approximately RMB63 million. The fair value of leased property of Tianjin Water Recycling Co., Ltd. at 31 December 2018 was approximately RMB94 million (2017: RMB117 million) and its carrying amount was approximately RMB21 million.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

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	—	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
Adjustment in final settlement of account (note (ii))	5,669	(26,886)	4,673	(16,544)
Additions in the current year	10,427	6,570	6,062	23,059
Disposals in the current year	(3,182)	(230)	(8,341)	(11,753)
31 December 2018	312,739	299,585	69,933	682,257
Accumulated depreciation –				
1 January 2017	(72,144)	(129,024)	(51,821)	(252,989)
Transfers from investment properties	(11,869)	—	—	(11,869)
Charge for the year (note (iii))	(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)
Adjustment in final settlement of account (note (ii))	11,928	(10,744)	(1,184)	—
Charge for the year (note (iii))	(13,488)	(24,885)	(3,689)	(40,062)
Disposals in the current year	3,023	218	6,869	10,110
31 December 2018	(101,369)	(183,760)	(50,487)	(335,616)
Net Book Value –				
31 December 2018	211,370	115,825	19,446	346,641
31 December 2017	196,993	171,782	15,056	383,831

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Fixed assets (Continued)

- (i) All of the Group's buildings and structures are located in the PRC.
- (ii) As at 31 December 2018, the construction cost of Jingu sewage water recycling factory has been finalised. Accordingly, the management adjusted the estimated book value of cost and accumulated depreciation.
- (iii) The Group's depreciation expenses of RMB37 million (2017: RMB36 million) have been included in cost of sales and RMB5 million (2017: RMB4 million) in general and administrative expenses.
- (iv) As at 31 December 2018, the certificate of title to outsourced assets included in fixed assets, land use rights and investment properties with cost of RMB173 million and carrying amount of RMB117 million (31 December 2017: cost of RMB175 million and carrying amount of RMB118 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Construction in progress

Name	Budgeted amount	31 December 2017	Increase in the current year	Transfer to Intangible assets	31 December 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 upgrading project	666,125	—	573,599	(573,599)	—	95%	100%	5,464	5,464	4.45%	Special loan/ Self-raised fund
Fuyang- Jieshou PPP Project of sewage operation	402,300	—	361,881	(361,881)	—	97%	100%	5,155	5,155	4.90%	Self-raised fund
Tianjin-Beichen sewage water processing plant upgrading project	338,442	—	288,309	(288,309)	—	95%	100%	2,487	2,487	4.45%	Special loan/ Self-raised fund
Honghu-Honghu township sewage water processing plant PPP project	437,770	—	204,328	(204,328)	—	46%	46%	1,860	1,860	4.90%	Self-raised fund
Xinjiang- Karamay PPP Project of sewage operation	235,660	—	157,282	(157,282)	—	90%	100%	3,970	3,970	4.50%	Self-raised fund
Shandong- Yishui&Tancheng City Solid Waste Treatment project	640,000	19,410	129,544	—	148,954	23%	23%	629	629	5.15%	Special loan/ Self-raised fund
Anhui-Yuwan sewage treatment project	198,143	—	89,239	(89,239)	—	95%	100%	4,003	3,925	4.87%	Special loan/ Self-raised fund
Dalian-Dalian Chunliuhe sewage operation project	220,730	—	80,189	(80,189)	—	74%	74%	1,792	1,792	4.81%	Special loan/ Self-raised fund
Changsha-Ningxiang sewage water processing and recycling project	95,730	—	77,811	(77,811)	—	81%	81%	1,050	1,050	4.35%	Self-raised fund
Linxia-sewage water processing PPP project	138,667	—	75,712	(75,712)	—	88%	100%	563	563	4.48%	Self-raised fund
Wuhan-Honghu sewage water processing plant upgrading project	80,366	—	73,301	(73,301)	—	90%	100%	1,244	1,244	4.35%	Self-raised fund
Wuhan-Xianning sewage water processing PPP project	44,842	—	42,982	(42,982)	—	95%	100%	884	884	4.35%	Self-raised fund
Tianjin- Heiniucheng Roads energy station project	148,000	—	42,972	(42,972)	—	88%	100%	167	167	4.48%	Self-raised fund
Tianjin-Xianyanglu sewage water processing project	39,690	—	34,665	(34,665)	—	87%	100%	450	450	4.45%	Self-raised fund
Changsha-Ningxiang sewage operation and supporting pipeline project	200,000	—	21,725	(21,725)	—	65%	65%	2,920	2,767	4.90%	Special loan/ Self-raised fund
Jinghai-Tianyu sewage water processing plant upgrading project	85,583	—	14,365	(14,365)	—	17%	17%	354	354	4.35%	Self-raised fund
Jinling-Ninghe sewage water processing plant upgrading project	25,649	—	12,799	(12,799)	—	53%	53%	274	274	4.35%	Self-raised fund
Yingshang-Chengnan sewage water plants	114,000	—	10,188	(10,188)	—	94%	100%	1,540	1,489	4.90%	Special loan/ Self-raised fund
Others		1,247	9,427	(8,689)	1,985			276	276	4.48%	Self-raised fund
		<u>20,657</u>	<u>2,300,318</u>	<u>(2,170,036)</u>	<u>150,939</u>			<u>35,082</u>	<u>34,800</u>		

As at 31 December 2018, bank borrowing of RMB80 million (31 December 2017: nil) is secured by property and equipment under construction with original cost of RMB149 million.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets

	31 December 2018	31 December 2017
Concession rights (note (a))	10,309,775	6,864,596
Land use rights (note (b))	60,358	36,717
Technical know-how and computer software (note (c))	4,694	5,105
	<u>10,374,827</u>	<u>6,906,418</u>

(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	<u>287,574</u>
37 December 2017	8,649,998
Transfers from construction in progress (Note 4(11) (b))	2,170,036
Business combination (Note 5(1))	1,124,058
Other additions	<u>495,049</u>
31 December 2018	<u>12,439,141</u>
Accumulated amortisation	
1 January 2017	(1,437,970)
Charge for the year	<u>(295,349)</u>
31 December 2017	(1,733,319)
Charge for the year	<u>(343,964)</u>
31 December 2018	<u>(2,077,283)</u>
Provision for impairment	
31 December 2017 and 31 December 2018	<u>(52,083)</u>
Net Book Value	
31 December 2018	<u>10,309,775</u>
31 December 2017	<u>6,864,596</u>

(i) As at 31 December 2018, certain concession right with carrying amount of approximately RMB2,758 million (cost of RMB3,323 million) (31 December 2017: carrying amount of RMB181 million with cost of RMB302 million) has been used as collateral for the loan of RMB321 million (31 December 2017: RMB25 million) (Note 16(a)).

(ii) The remaining amortization period of concession rights range from 11 to 30 years.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

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 year	25,283
	<hr/>
31 December 2018	65,445
	<hr/>
Accumulated amortisation	
1 January 2017	(2,855)
Charge for the year	(590)
	<hr/>
31 December 2017	(3,445)
Charge for the year	(1,642)
	<hr/>
31 December 2018	(5,087)
	<hr/>
Net Book Value	
31 December 2018	60,358
	<hr/> <hr/>
31 December 2017	36,717
	<hr/> <hr/>

(i) As at 31 December 2018, bank borrowing of RMB80 million (31 December 2017: Nil) is secured by land use right with carrying amount of RMB27 million and original cost of RMB28 million (31 December 2017: Nil).

(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 year	405
	<hr/>
31 December 2018	11,946
	<hr/>
Accumulated amortisation	
1 January 2017	(5,962)
Charge for the year	(474)
	<hr/>
31 December 2017	(6,436)
Charge for the year	(816)
	<hr/>
31 December 2018	(7,252)
	<hr/>
Net Book Value	
31 December 2018	4,694
	<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 RMB345 million (2017: RMB295 million) and RMB1 million (2017: RMB1 million), respectively.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) 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 Reversal	Write-off	31 December 2018
Provision for notes and trade receivables (Notes(i))	34,101	2,658	36,759	18,731	(5,906)	—	49,584
Including: Individual provision for bad debts	28,238	4,833	33,071	14,053	(4,020)	—	43,104
Combined provision for bad debts	5,863	(2,175)	3,688	4,678	(1,886)	—	6,480
Provision for other receivables	—	—	—	10	—	—	10
Provision for long-term receivables (including other non-current assets due with one year)	—	—	—	138	—	—	138
Provision for contract assets	—	—	—	—	—	—	—
Subtotal	<u>34,101</u>	<u>2,658</u>	<u>36,759</u>	<u>18,879</u>	<u>(5,906)</u>	<u>—</u>	<u>49,732</u>
Provision for intangible assets	52,083	—	52,083	—	—	—	52,083
Provision for other current assets	39,435	—	39,435	—	—	—	39,435
Provision for Long-term equity investments	22,358	—	22,358	—	—	—	22,358
Subtotal	<u>113,876</u>	<u>—</u>	<u>113,876</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>113,876</u>
Total	<u>147,977</u>	<u>2,658</u>	<u>150,635</u>	<u>18,879</u>	<u>(5,906)</u>	<u>—</u>	<u>163,608</u>

(i) In 2018, the Company's subsidiary Tianjin Caring Technology Development Co., Ltd. has collected part of the trade receivables which had been recognised bad debt provision.

(14) Notes and trade payables, advances from customers, other payables, taxes payable and contract liabilities

	31 December 2018	31 December 2017
Notes and trade payables (note (a))	176,398	128,254
Advances from customers (note (b))	—	930,888
Other payables (note (c))	1,458,045	629,121
Taxes payable (note (d))	68,893	63,741
Contract liabilities (note (e))	469,185	—
	<u>2,172,521</u>	<u>1,752,004</u>

(a) As at 31 December 2018, notes and trade payables are mainly for inventory purchase. Trade payables aged over one year are RMB33 million (31 December 2017: RMB30 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Notes and trade payables, advances from customers, other payables, taxes payable and contract liabilities (Continued)

(b) Advances from customers:

	31 December 2018	31 December 2017
For pipeline connection service	—	916,513
Received from project of Han Gu	—	4,467
For heating service	—	4,749
Others	—	5,159
	<u>—</u>	<u>930,888</u>

(c) Other payables comprise:

	31 December 2018	31 December 2017
Construction costs payable and deposits	1,328,505	525,603
Interests payable for debentures payable	43,768	26,586
Payable for purchase of fixed assets and concession rights	13,892	13,892
Dividends payable	1,912	1,912
Others	69,968	61,128
	<u>1,458,045</u>	<u>629,121</u>

As at 31 December 2018, other payables of RMB453 million (31 December 2017: RMB226 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.

(d) Balances of taxes payable

	31 December 2018	31 December 2017
Enterprise income tax payable	34,658	39,477
Unpaid VAT	26,213	15,463
Others	8,022	8,801
	<u>68,893</u>	<u>63,741</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Notes and trade payables, advances from customers, other payables, taxes payable and contract liabilities (Continued)

(e) Contract Liabilities

	31 December 2018	31 December 2017
For pipeline connection service	453,602	—
Received from project of Han Gu	4,467	—
For heating service	4,074	—
Others	7,042	—
	<u>469,185</u>	<u>—</u>

As at 1 January 2018, the Group's contract liabilities was RMB591,017 thousand, among which RMB257,192 thousand has been transferred to revenue in 2018.

(15) Accrued payroll

	31 December 2018	31 December 2017
Short-term employee benefits payable (note (a))	53,724	44,413
Defined contribution plans payable (note (b))	218	137
	<u>53,942</u>	<u>44,550</u>

(a) Short-term employee benefits payable

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Wages and salaries, bonuses, allowances and subsidies	37,936	194,717	(185,706)	46,947
Staff welfare	—	9,455	(9,455)	—
Social security contributions	102	15,553	(15,564)	91
Including: Medical insurance	95	14,210	(14,223)	82
Work injury insurance	1	534	(534)	1
Maternity insurance	6	809	(807)	8
Housing funds	12	34,522	(34,515)	19
Labour union funds and employee education funds	6,363	5,435	(5,131)	6,667
	<u>44,413</u>	<u>259,682</u>	<u>(250,371)</u>	<u>53,724</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Accrued payroll (Continued)

(b) *Defined contribution plans payable*

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Basic pensions	132	31,797	(31,718)	211
Annuity	—	8,895	(8,895)	—
Unemployment	5	734	(732)	7
	<u>137</u>	<u>41,426</u>	<u>(41,345)</u>	<u>218</u>

(c) *Directors' emoluments*

The remuneration of every director for the year ended 31 December 2018 is set out below:

	Fees	Salaries and other emoluments	Total
Executive directors (note (ii)):			
Liu Yujun	—	877	877
Tang Fusheng	—	837	837
Peng Yilin	—	742	742
Fu Yana	—	724	724
Wang Jing	—	31	31
Niu Bo	—	26	26
Non-executive directors (note (ii)):			
Gao Zongze	212	—	212
Wang Xiangfei	220	—	220
Guo Yongqing	220	—	220
Di Xiaofeng	8	—	8
Yu Zhongpeng	—	—	—
Han Wei	—	—	—
Si Xiaolong	—	—	—
	<u>660</u>	<u>3,237</u>	<u>3,897</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Accrued payroll (Continued)

(c) Directors' emoluments (Continued)

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

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

- (i) In 2016, Mr. Lin Wenbo was the executive director and General Manager of the Group. On 25 January 2017, the Board of Directors of the Company approved the retirement of Mr. Lin Wenbo from above positions. Mr. Tang Fusheng took these positions after the resignation of Mr. Lin Wenbo and became an Executive Director of the Group.
- (ii) On 17 December 2018, the Group held the 2018 First Extraordinary General Meeting (the "EGM") and approved the appointment of Mr. Liu Yujun, Ms. Wang Jing and Mr. Niu Bo as Executive Directors of the Group; approved the appointment of Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong as Non-executive Directors of the Group; and approved the appointment of Mr. Wang Xiangfei, Mr. Guo Yongqing and Mr. Di Xiaofeng as Independent non-executive Director of the Group. Ms. Wang Jing, Mr. Niu Bo, Mr. Si Xiaolong and Mr. Di Xiaofeng are new members of the Board of Directors. Ms. Fu Yana, Ms. Peng Yilin and Mr. Tang Fusheng no longer served as Executive Directors of the Board of Directors. Mr. Gao Zongze no longer served as the Independent non-executive director of the Board of Directors.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Note	31 December 2018	31 December 2017
Non-current:			
Long-term borrowings	(a)	2,265,905	727,160
Less: Current portion due within one year	(a)	(213,952)	(145,643)
		<u>2,051,953</u>	<u>581,517</u>
Debentures payable	(b)	1,796,363	1,396,941
Less: Current portion due within one year	(b)	—	(698,957)
		<u>1,796,363</u>	<u>697,984</u>
Long-term payables	(c)	295,784	289,379
Less: Current portion due within one year	(c)	(29,417)	(25,492)
		<u>266,367</u>	<u>263,887</u>
Other non-current liabilities	(e)	<u>38,000</u>	<u>40,000</u>
Current:			
Current portion of long-term borrowings	(a)	213,952	145,643
Current portion of debentures payable	(b)	—	698,957
Current portion of long-term payables	(c)	29,417	25,492
Current portion of non-current liabilities		<u>243,369</u>	<u>870,092</u>
Short-term borrowings	(d)	<u>200,000</u>	<u>499,000</u>
Other current liabilities	(e)	<u>—</u>	<u>7,827</u>

(a) Long-term borrowings

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

	31 December 2018	31 December 2017
Borrowings from:		
Industrial and Commercial Bank of China (“ICBC”)	608,042	168,517
The Export-Import Bank of China (“EIBOC”)	500,000	—
China Construction Bank (“CCB”)	397,000	199,000
China Development Bank (“CDB”)	369,313	64,100
Bank of China (“BOC”)	190,444	67,372
China Minsheng Bank (“CMBC”)	102,200	124,000
Industrial Bank (“IB”)	42,206	46,571
Bank of Communications (“BC”)	40,500	30,000
Agriculture Bank of China (“ABC”)	16,200	27,600
	<u>2,265,905</u>	<u>727,160</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Long-term borrowings (Continued)

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

	Note	31 December 2018	31 December 2017
Secured	(i)	2,220	25,000
Guaranteed	(ii)	37,000	27,000
Unsecured		174,732	93,643
		<u>213,952</u>	<u>145,643</u>

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

	Note	31 December 2018	31 December 2017
Secured	(iii)	77,700	—
Guaranteed	(iv)	110,000	147,000
Unsecured		1,543,540	434,517
Pledged	(v)	320,713	—
		<u>2,051,953</u>	<u>581,517</u>

- (i) As at 31 December 2018, the current portion of bank borrowings of RMB2 million is mortgaged by land use right (Note 4(12) (b)) and property and equipment under construction (Note 4(11) (b)) of Shandong Capital Environmental Protection Technology Development Co., Ltd. As at 31 December 2017, bank borrowings of RMB 25 million is secured by the concession right (Note 4(12) (a)).
- (ii) As at 31 December 2018, the current portion of bank borrowings of RMB37 million (2017: RMB27 million) is guaranteed by City Infrastructure Construction and Investment for Xi'an Capital Water Co., Ltd, the subsidiary of the Company (Note 8(5) (b)).
- (iii) As at 31 December 2018, the current portion of bank borrowings of RMB78 million (31 December 2017: nil) is mortgaged by land use right (Note 4(12) (b)) and property and equipment under construction (Note 4(11) (b)) of Shandong Capital Environmental Protection Technology Development Co., Ltd.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Long-term borrowings (Continued)

- (iv) As at 31 December 2018, the non-current portion of bank borrowings of RMB110 million ((31 December 2017: RMB147 million) is guaranteed by City Infrastructure Construction and Investment for Xi'an Capital Water Co., Ltd, the subsidiary of the Company (Note 8(5) (b)).
- (v) As at 31 December 2018, bank borrowing of RMB 321 million (31 December 2017: nil) is pledged by all earnings and equity of Jingu and Beicang upgrading project under the Group's concession right(Note 4(12) (a)).
- (vi) As at 31 December 2018, these long-term borrowings bear interest rates between 4.275% and 5.463% (31 December 2017: between 4.275% and 7.830%).
- (vii) Borrowings were repayable as follows:

	31 December 2018	31 December 2017
Within 1 year	213,952	145,643
1 to 2 years	763,828	142,332
2 to 5 years	959,302	316,488
Over 5 years	328,823	122,697
	<u>2,265,905</u>	<u>727,160</u>

- (viii) Top five of current portion of long-term borrowings at 31 December 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%	37,000
CMBC	2016.06.27	2019.06.27	RMB	4.28%	23,500
CMBC	2016.06.17	2019.06.17	RMB	4.28%	16,800
BOC	2018.04.03	2019.12.30	RMB	4.90%	12,000
					<u>139,300</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Long-term borrowings (Continued)

(ix) Top five of non-current portion of long-term borrowings at 31 December 2018 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%	248,000
CDB	2018.11.12	2033.11.22	RMB	4.45%	212,018
CCB	2008.09.28	2022.09.27	RMB	4.66%	110,000
					<u>1,320,018</u>

(x) The exposure of the Group's borrowings to interest rate changes according to contracts are as follows:

	31 December 2018	31 December 2017
6 to 12 months	<u>2,265,905</u>	<u>727,160</u>

(xi) As at 31 December 2018, the Group has the following committed undrawn banking facilities:

	31 December 2018	31 December 2017
Floating rate expiring within 1 year	4,138,900	3,228,000
Floating rate expiring over 1 year	<u>1,683,178</u>	<u>700,000</u>
	<u>5,822,078</u>	<u>3,928,000</u>

(b) Debentures payable

	31 December 2017 (including due within 1 year)	Increase	Payment	Amortization	31 December 2018
Debentures payable					
– Par value	1,400,000	1,100,000	(700,000)	—	1,800,000
– Transaction cost	(3,059)	(2,491)	—	1,913	(3,637)
	<u>1,396,941</u>	<u>1,097,509</u>	<u>(700,000)</u>	<u>1,913</u>	<u>1,796,363</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Debentures payable (Continued)

General information of debentures payable are as follows:

	Per Value	Issuance date	Maturity	Issuance amount
Mid-term Debenture II (note (i))	700,000	2013-05-29	5 years	700,000
Corporate Debenture (note (ii))	700,000	2016-10-25	5 years	700,000
Corporate Debenture (note (iii))	1,100,000	2018-04-25	5 years	1,100,000

Interests payable of debentures are analyzed as follows:

	31 December 2017	Interest Accrued		31 December 2018
		Interest accrued in the current year	Interest paid in the current year	
Mid-term Debenture II (note (i))	22,554	15,596	(38,150)	—
Corporate Debenture (note (ii))	4,021	21,910	(21,910)	4,021
Corporate Debenture (note (iii))	—	38,952	—	38,952
	26,575	76,458	(60,060)	42,973

- (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. The principal of the debenture has been repaid on 30 May 2018.
- (ii) On 25 October 2016, the Company issued a debenture at par value of RMB700 million on The Shanghai Stock Exchange as 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 RMB1,100 million on The Shanghai Stock Exchange as 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Long-term payables

	31 December 2018			31 December 2017		
	Payables	Unrecognised financial charges	Total	Payables	Unrecognised financial charges	Total
Payable for assets acquisition	<u>462,321</u>	<u>(166,537)</u>	<u>295,784</u>	<u>462,123</u>	<u>(172,744)</u>	<u>289,379</u>

(i) Information of long-term payables is as follows:

	Maturity date	Original balance	Effective interest rate	Total	Current portion	Ending balance
Tianjin Sewage Company ("Sewage Company")	20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>295,784</u>	<u>29,417</u>	<u>266,367</u>

As at 31 December 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 unrecognised 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 certain sewage processing assets. The down payment is RMB261 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 calculated based on discounted future cash payments and discount rate of 5.94%.

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

	31 December 2018	31 December 2017
JPY	205,116	197,719
USD	<u>90,668</u>	<u>91,660</u>
	<u>295,784</u>	<u>289,379</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Long-term payables (Continued)

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

	31 December 2018	31 December 2017
JPY	351,147	345,507
USD	111,174	116,616
	<u>462,321</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 31 December 2018, the current portion of long-term payables of RMB29 million (31 December 2017: RMB25 million) was classified as current liabilities.

	31 December 2018	31 December 2017
Within 1 year	29,417	25,492
1-2 years	28,551	24,691
2-5 years	81,380	70,080
Over 5 years	156,436	169,116
	<u>295,784</u>	<u>289,379</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(d) Short-term borrowings

	31 December 2018	31 December 2017
Borrowings from:		
China Merchants Bank	200,000	—
Industrial and Commercial Bank of China	—	200,000
Tianjin Rural Commercial Bank	—	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

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

(e) Other liabilities

	31 December 2018	31 December 2017
Non-current:		
– Cooling service fee	<u>38,000</u>	<u>40,000</u>
	<u>38,000</u>	<u>40,000</u>
Current:		
– Provisions expected to be paid within one year (Note 4(17))	—	6,463
– Current portion of government loan for water recycling plants construction (note (i))	—	1,364
– Others	<u>92</u>	<u>—</u>
	<u>92</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 fully repaid in May 2018.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Provisions

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Maintenance cost of sewage water processing plants	39,393	—	(29,324)	10,069
Less: Provisions expected to be paid within one year	(6,463)	—	6,463	—
	<u>32,930</u>	<u>—</u>	<u>(22,861)</u>	<u>10,069</u>

(18) Deferred income

Deferred revenue represents the subsidies received from governmental authorities with respects to Group's certain construction and research and development projects. Details of deferred revenue are as below:

	31 December 2017	Increase in the current year	Recognised in other income	Recognised in non-operating income	31 December 2018	Related to assets/incomes
Sewage water processing plants						
– Jingu sewage water processing plant	1,311,533	—	(51,285)	(1,703)	1,258,545	Assets
– Jingu sewage water processing plant upgrading project	163,000	—	—	—	163,000	Assets
– Beichen sewage water processing plant upgrading project	90,000	—	—	—	90,000	Assets
– Xianyang Road upgrading project	61,442	—	(2,363)	—	59,079	Assets
– Dongjiao upgrading project	43,114	—	(1,658)	—	41,456	Assets
– Ningxiang Economic and Technological Development Zone sewage water processing plant upgrading project	—	18,900	(621)	—	18,279	Assets
– Beishiqiao plant upgrading project	11,073	—	(719)	—	10,354	Assets
– Linxia sewage water processing plant reconstruction and extension project	—	7,600	—	—	7,600	Assets
Water recycling plants						
– Jingu water recycling project	210,678	—	(4,285)	—	206,393	Assets
– Dongjiao water recycling project	21,756	—	(675)	—	21,081	Assets
– Beichen water recycling project	18,637	—	(525)	—	18,112	Assets
– Xianyang Road water recycling project	13,227	—	(27)	—	13,200	Assets
Heating and cooling supply project	171,670	14,634	(5,947)	—	180,357	Assets
Others	12,934	1,165	(470)	—	13,629	Incomes
	<u>2,129,064</u>	<u>42,299</u>	<u>(68,575)</u>	<u>(1,703)</u>	<u>2,101,085</u>	

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred tax assets and deferred tax liabilities

(a) *Deferred income tax assets*

- (i) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analyzed as follows:

	31 December 2018	31 December 2017
Deductible temporary difference - provision for asset impairment (Note 4(13))	163,608	147,977
Deductible losses	43,950	43,261
Maintenance cost of sewage water processing plants (Note 4(19))	10,069	39,393
	<u>217,627</u>	<u>230,631</u>

- (ii) Deductible losses that are not recognised as deferred tax assets will expire in the following years:

Year	31 December 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	11,061	—
	<u>43,950</u>	<u>43,261</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Deferred tax assets and deferred tax liabilities (Continued)

(b) *Deferred income tax liabilities*

	31 December 2018		31 December 2017	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Amortization of intangible assets	125,082	500,328	120,259	481,036
Business combination	13,730	54,920	—	—
	<u>138,812</u>	<u>555,248</u>	<u>120,259</u>	<u>481,036</u>
Including:				
Expected to be recovered within one year (inclusive)	8,296		—	
Expected to be recovered after one year	<u>130,516</u>		<u>120,259</u>	
	<u>138,812</u>		<u>120,259</u>	

(20) Share capital

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

	Circulating A shares	Circulating H shares	Total
At 31 December 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Capital surplus, surplus reserve and undistributed profits

(a) Capital surplus

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Share premium	382,311	—	—	382,311
A subsidiary reformed as a stock limited company	16,804	—	—	16,804
Capital Increase by minority shareholders (ii)	—	31,909	—	31,909
	<u>399,115</u>	<u>31,909</u>	<u>—</u>	<u>431,024</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 reformed 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, the net assets calculated according to the accounting standards for enterprises was RMB37 million, the converted equity capital is RMB20 million as the total capital stock of Tianjin Caring Technology Development Co. Ltd. The remaining net assets was transferred to capital reserves.
- (ii) In March 2018, Beijing OriginWater Technology Co., Ltd. ("Beijing OriginWater") has contributed capital in cash to Caring, a then wholly-owned subsidiary of the Group. After the capital injection, the Group and Beijing OriginWater owned 48% and 40% equity interest respectively in the subsidiary. The amount as contributed by Beijing OriginWater in excess of its proportionate share of the net assets of the subsidiary of approximately RMB16.9 million has been credited to capital reserve during the year ended 31 December 2018.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Surplus reserve

	31 December 2017	Increase in the current year	Decrease in the current year	31 December 2018
Statutory surplus reserve	479,907	37,200	—	517,107
	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.

(c) Undistributed profits

	2018	2017
Undistributed profits at the beginning of the year (before adjustment)	2,810,790	2,473,109
Adjustment (note i)	168,086	—
Undistributed profits at the beginning of the year (after adjustment)	2,978,876	2,473,109
Add: Net profit attributable to owners of the parent for the current year	501,168	508,251
Less: Appropriation for statutory surplus reserve	(37,000)	(34,982)
Ordinary share dividends payable(note (ii))	—	—
Undistributed profits at the end of the year	3,442,844	2,810,790

- (i) In 2018, due to the first time adoption of the new income standard and the new financial instrument standard, the undistributed profits at the beginning of 2018 was adjusted by RMB168,086 thousand (Note 2 (27)).
- (ii) The Company didn't distribute profit in 2018.
- (iii) As at 27 march 2019, the board of directors proposed that the Company shall distribute a cash dividend of RMB0.106 per share to all shareholders, a total of RMB151,286 thousand based on the issued shares. The above proposal is subject to the approval of the general meeting of shareholders.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales

	2018		2017	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	2,260,132	1,413,986	1,931,928	1,159,216
Other operations	187,383	144,570	216,413	123,483
	<u>2,447,515</u>	<u>1,558,556</u>	<u>2,148,341</u>	<u>1,282,699</u>

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	2018		2017	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water and construction of related facility	1,626,375	1,046,667	1,412,489	860,803
Water recycling and connection project	349,860	219,724	300,897	181,881
Heating and cooling supply services	91,015	58,790	71,250	48,857
Tap water supplying	93,261	62,377	67,401	49,002
Sale of environmental protection equipment	35,282	18,418	16,200	10,723
Others	64,339	8,010	63,691	7,950
	<u>2,260,132</u>	<u>1,413,986</u>	<u>1,931,928</u>	<u>1,159,216</u>

Analysis by locations is as follows:

	2018		2017	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Tianjin	1,397,530	810,188	1,250,411	673,471
Hangzhou	284,062	197,866	252,000	177,408
Xi'an	120,122	89,835	120,860	85,352
Qijing	106,997	74,814	100,595	68,733
Others	351,421	241,283	208,062	154,252
	<u>2,260,132</u>	<u>1,413,986</u>	<u>1,931,928</u>	<u>1,159,216</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales (Continued)

(b) Revenue from other operations and cost of sales

	2018		2017	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	139,110	127,813	147,706	111,286
Technical service fee	23,258	7,472	56,802	5,491
Agent construction services	10,024	3,517	—	—
Rental	7,071	3,716	7,695	4,266
Others	7,920	2,052	4,210	2,440
	<u>187,383</u>	<u>144,570</u>	<u>216,413</u>	<u>123,483</u>

(c) The Group's operating income in 2018 listed as follows:

	2018								Group
	Processing of sewage and construction of related facility			Recycled water	Heating and cooling supply	Tap water	Sale of environmental protection equipment	Others	
	Tianjin	Hangzhou	Others						
Revenue	858,211	284,062	484,102	349,860	91,015	93,261	35,282	64,339	2,260,132
Of which: Confirm at a certain point in time	—	—	—	—	—	—	—	—	—
Confirm within a certain period of time	858,211	284,062	484,102	349,860	91,015	93,261	35,282	64,339	2,260,132
Other operating income	—	—	—	—	—	—	—	187,383	187,383
	<u>858,211</u>	<u>284,062</u>	<u>484,102</u>	<u>349,860</u>	<u>91,015</u>	<u>93,261</u>	<u>35,282</u>	<u>251,722</u>	<u>2,447,515</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Revenue and cost of sales (Continued)

(c) *The Group's operating income in 2018 listed as follows:* (Continued)

As at 31 December 2018, the Group's main service includes sewage water processing service, recycled water operations service and tap water operations service. Service bills are regularly issued to customers, based on contract agreed price and actual sewage water treatment capacity, tap water and recycling water supply. And the amount of bills represent the entity's progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to customers. And there is no consideration amount which is not included in the transaction price, thus it's not included in the required information to be disclosed for the transaction price allocated to the remaining performance obligation.

As at 31 December 2018, the consideration for pipeline connection services of RMB454 million of which the contracts were signed but the performance obligation is not yet fully completed, will be recognised by percentage of completion in following years.

As at 31 December 2018, the consideration for heating supply services of RMB8 million of which the contracts were signed but the performance obligations is not yet fully completed, will be recognised in 2019; the consideration for contract operation services of RMB61 million of which the contracts were signed but the performance obligations is not yet fully completed, will be recognised in 2019; the consideration for agent construction service of RMB14 million of which the contracts were signed but the performance obligations is not yet fully completed, will be recognised in 2019; a contract of road tolls service fee of RMB633 million was signed but the performance obligations is not yet fully completed, among which the Group expects to recognise RMB62 million as revenue in every year from 2019 to 2028, and RMB13 million as revenue in 2029.

(d) *As at 31 December 2018, revenue from the top five customers is analyzed as below:*

Revenue from the Group's top 5 customers is RMB 1,425 million, which accounts for 58% of the Group's total revenue (2017: RMB 1,261 million and 60%). The details are as follows:

	Revenue (in RMB Yuan)	% of the Group's total revenue
TWAB	847,242,006.76	35%
Hangzhou Sewage Company	284,062,203.88	12%
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd	120,121,637.59	5%
Qijing City Water General Company	106,997,111.30	4%
Tianjin Municipal and Highway Management Bureau	66,320,179.26	3%
	<u>1,424,743,138.79</u>	<u>58%</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Taxes and surcharges

	2018	2017	Tax base
Land use tax	15,705	20,259	RMB1.5-30 per square meter
City maintenance and construction tax	12,828	16,217	7%/5% of the VAT paid
Property tax	7,365	6,210	Self-use: 1.2% (deducted 30% of the original value of the property)
Educational surcharge	7,087	7,359	Rental: 12% of the rental income
Local educational surcharge	3,126	4,445	2%/3% of the VAT paid
Others	3,577	2,974	2% of the VAT paid
	<u>49,688</u>	<u>57,464</u>	

(24) Selling expenses and general and administrative expenses

	2018		2017	
	General and administrative expenses	Selling expenses(i)	General and administrative expenses	Selling expenses
Employee benefits	85,244	4,864	83,920	5,953
Consulting service fees	9,931	—	9,850	—
Travelling, meeting and business entertainment expenses	5,709	503	5,537	416
Depreciation of fixed assets	4,506	15	4,127	16
Expenses of secretary of the board	4,475	—	5,227	—
Audit fees	3,300	—	4,200	—
General office expenses	3,794	12	4,072	16
Repair and maintenance expenses	3,107	—	3,556	—
Power and gas fees	2,700	—	2,841	—
Other taxes	2,088	—	1,833	—
Amortisation of intangible assets	1,492	—	1,066	—
Others	2,750	23	13,520	66
	<u>129,096</u>	<u>5,417</u>	<u>139,749</u>	<u>6,467</u>

- (i) In 2018, the Group incurred selling expenses of RMB5 million, mainly representing the compensation for employees whose responsibilities are development of the market of deodorization equipment.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) Research and development expenses

	2018	2017
Environmental protection equipment	<u>10,439</u>	<u>8,472</u>

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

	2018	2017
Amortisation of intangible assets	346,422	296,413
Utilities	314,546	283,834
Employee benefits	286,101	266,877
Raw materials consumption	190,667	96,900
Recycled water pipeline connection cost	152,892	84,528
Repair and maintenance expenses	105,194	109,794
Sewage mud processing expenses	97,018	93,258
Depreciation of fixed assets and investment properties	44,830	43,735
Factory environment, detection and fire prevention fee	29,355	29,022
Construction cost of environmental equipments	18,613	2,762
Network maintenance expenses	17,416	19,175
Consulting service fees	15,274	19,043
Travelling, meeting and business entertainment expenses	14,403	17,892
Toll road management fee	7,120	7,120
General office expenses	7,054	6,811
Expenses of secretary of the board	4,475	5,227
Audit fees	3,300	4,200
Other taxes	2,464	2,183
Others	46,364	48,613
	<u>1,703,508</u>	<u>1,437,387</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Financial expenses

	2018	2017
Interest expenses	233,574	131,714
Less: Amount capitalized on qualifying assets	<u>(34,800)</u>	<u>(282)</u>
Interest expenses	198,774	131,432
Less: Interest income	(53,779)	(19,293)
Including: From long-term receivables	(10,029)	(10,511)
From bank deposits	(43,750)	(8,782)
Exchange losses (note (a))	16,543	(14,902)
Others	<u>448</u>	<u>3,102</u>
	<u><u>161,986</u></u>	<u><u>100,339</u></u>

(a) In 2018, the exchange loss on the long-term payables denominated in JPY and US dollar were RMB17 million (2017: RMB 15 million of the exchange gain).

(28) Asset impairment losses

	2018	2017
Provision for bad debts	—	11,698
Provision for impairment of other current assets	<u>—</u>	<u>10,230</u>
	<u><u>—</u></u>	<u><u>21,928</u></u>

(29) Credit impairment losses

	2018	2017
Notes and trade receivables losses	12,825	—
Long-term receivables losses	138	—
Other receivables losses	<u>10</u>	<u>—</u>
	<u><u>12,973</u></u>	<u><u>—</u></u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Other Income

	2018	2017	Related to assets/ incomes
VAT refund	99,512	134,540	Incomes
Government Grants (note (a))	73,140	50,730	Assets/Incomes
Withholding and paying individual income tax refund	171	—	Incomes
	<u>172,823</u>	<u>185,270</u>	

(a) Details of government grants

	2018	2017	Related to assets/ incomes
Compensation for construction of Jingu sewage processing plant	51,285	31,362	Assets
Capital Alternative cooling and heating subsidy	5,947	6,051	Assets/Incomes
Compensation for construction of Jingu recycling water plant	4,285	4,301	Assets
Special construction fund of Xianyanglu upgrading project	2,363	2,363	Assets
Special construction fund of Dongjiao sewage water processing plant	1,658	1,658	Assets
Special development fund of Caring's industry	1,500	—	Assets
Municipal sludge allowance of Xi'an company	1,200	1,200	Assets
Special allowance for sewage treatment in Qujing	1,045	—	Assets
Others	3,857	3,795	Assets/Incomes
	<u>73,140</u>	<u>50,730</u>	

(31) Investment Income

	2018	2017
Dividends income from other equity instruments investment	200	—
Investment income from available-for-sale financial assets	—	400
	<u>200</u>	<u>400</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Non-operating income

	2018	2017	Amount recognised in non-recurring profit or loss in 2018
Government Grants (note (a))	5,341	2,703	5,341
Others	1,543	1,167	1,543
	<u>6,884</u>	<u>3,870</u>	<u>6,884</u>

(a) Details of government grants

	2018	2017	Related to assets/incomes
Jizhuangzi sewage treatment plant relocation and tianjin jingu sewage treatment plant construction compensation	1,703	—	Incomes
Qujing land tax and property tax refund	907	—	Incomes
Caring share reform and technological innovation subsidy funds	720	—	Incomes
Xianning green industry support funds	614	—	Incomes
Subsidiary's listing subsidy for National Equities Exchange And Quotations	—	1,000	Incomes
Others	1,397	1,703	Incomes
	<u>5,341</u>	<u>2,703</u>	

(33) Non-operating expenses

	2018	2017	Amount recognised in non-recurring profit or loss in 2018
Jizhuangzi sewage treatment plant relocation expenditure	1,703	—	1,703
Losses on disposal of fixed assets	526	82	526
Others	1,821	1,893	1,821
	<u>4,050</u>	<u>1,975</u>	<u>4,050</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Income tax expenses

	2018	2017
Current income tax calculated based on tax law and related regulations	163,631	205,442
Deferred income tax	4,433	(5,849)
	<u>168,064</u>	<u>199,593</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:

	2018	2017
Total profit	<u>694,844</u>	<u>718,788</u>
Calculated at applicable income tax rates (25%)	173,711	179,697
Effect of favourable tax rates	(3,552)	(2,391)
Income not subject to tax	(47,596)	(21,307)
Costs, expenses and losses not deductible for tax purposes	46,675	41,308
Utilization of previously tax temporary differences for which no deferred income tax asset was recognised	(3,423)	—
Utilization of previously deductible tax losses for which no deferred income tax was recognised	(516)	(4,063)
Tax temporary differences for which no deferred income tax asset was recognised	—	5,482
Deductible losses for which no deferred income tax asset was recognised	2,765	867
Income tax expenses	<u>168,064</u>	<u>199,593</u>

(35) 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 501 million (2017: RMB508 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2017: 1,427 million shares).

	For the year ended 31 December 2018	For the year ended 31 December 2017
Consolidated net profit attributable to ordinary shareholders of the Company	501,168	508,251
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>0.35</u>	<u>0.36</u>
Including:		
– Basic earnings per share for operations on a going concern	0.35	0.36
– Basic earnings per share for discontinued operations	—	—

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Earnings per share (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2018 (2017: nil), diluted earnings per share equal to basic earnings per share.

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

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

	2018	2017
Net profit	526,780	519,195
Add:		
Provision for asset impairments	—	10,230
Credit impairment losses	12,973	11,698
Depreciation of fixed assets and investment properties	44,830	43,735
Amortisation of intangible assets	346,422	296,413
Net losses from disposal of fixed assets	900	82
Net financial expenses	215,317	116,530
Investment gains	(200)	(400)
Amortisation of deferred income	(70,278)	(46,576)
Increase/(decrease) in deferred tax liabilities	4,433	(5,849)
Decrease in inventories	4,121	6,379
Increase in operating receivables	(210,182)	(75,925)
(Decrease)/increase in operating payables	(140,865)	763,401
Net cash flows from operating activities	734,251	1,638,913
Net movement in cash		
Cash at the end of the year	1,808,543	1,893,689
Less: Cash at the beginning of the year	(1,893,689)	(1,181,120)
Net (decrease)/increase in cash	(85,146)	712,569

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	2018	2017
Cash		
Including: Cash on hand	61	144
Cash at bank	1,808,482	1,893,545
	<u>1,808,543</u>	<u>1,893,689</u>
Cash listed in cash flow statement	<u>1,808,543</u>	<u>1,893,689</u>

(c) Cash received relating to other operating activities

	2018	2017
Deposit on project bids received	84,495	284,021
Government grants received	50,502	729,887
Interest income from bank deposits	43,750	8,782
Others	1,534	6,807
	<u>180,281</u>	<u>1,029,497</u>

(d) Cash paid relating to other operating activities

	2018	2017
Deposit on project bids paid	29,133	238,139
Consulting service fees	13,231	18,250
Travelling, meeting and business entertainment expenses	6,213	5,953
Expenses of secretary of the board	4,475	5,227
Repair and maintenance expenses	3,107	3,556
Others	12,775	35,691
	<u>68,934</u>	<u>306,816</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(e) Net cash received from disposals of fixed assets

	2018	2017
Carrying amount of disposals of fixed assets	1,643	613
Net losses from disposal of fixed assets	(900)	(82)
	743	531
	743	531

(f) Obtaining a subsidiary

	2018	2017
Cash and cash equivalents paid for Inner Mongolia Bayannur Capital Water Co.Ltd. ("Bayannur Company") during this year	396,957	—
Less: the cash and cash equivalents held by the company on the date of purchase	—	—
	396,957	—
Net cash paid for acquisition of the subsidiary	396,957	—
Price paid for acquisition of the subsidiaries in 2018 Bayannur Company	776,957	—
	776,957	—
Net assets of Bayannur Company on the purchase date in 2018		
Current assets	—	—
Non-current assets	1,124,058	—
Current liabilities	—	—
Non-current liabilities	(14,120)	—
	1,109,938	—
	1,109,938	—

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

5 CHANGE IN CONSOLIDATION SCOPE

(1) Business combination involving entities not under common control

(a) Business combination 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)	Mar 2018	776,957	70%	Cash	Mar 2018	Changes in the industrial and commercial registration completed	55,016	1,256	9,446	8,328

(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	776,957
Goodwill	—

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

5 CHANGE IN CONSOLIDATION SCOPE (Continued)

(1) Business combination involving entities not under common control (Continued)

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

	Fair value at acquisition date	Carrying amount at acquisition date	31 December 2017 Carrying amount
Cash at bank and on hand	—	—	4
Fixed assets	—	—	—
Intangible assets	1,124,058	1,067,578	1,067,276
Less: Account Payables	—	—	(5)
Deferred income tax liabilities	(14,120)	—	—
Net assets	1,109,938	1,067,578	1,067,275
Less: Minority interests	(32,981)	(32,273)	(32,183)
Net assets obtained	<u>776,957</u>	<u>747,305</u>	<u>747,092</u>

The Group adopts valuation technology to determine the fair value of the assets and liabilities of Bayannur Company on the purchase date. The evaluation methods and key assumptions of major assets are listed as follows:

The method of assessing intangible assets is the income approach, and the key assumptions used are as follows:

The recoverable amount of intangible assets is based on the forecast of cash flow in the remaining years up to the end of the relevant franchise service period. The main assumptions used for forecasting include sewage and water supply volumes up to the end of the relevant franchise service period, the unit price of sewage and water supply treatment, and the respective gross margins of sewage and water supply operations. The discount rate used in the cash flow forecast is between 10% and 12%. The above discount rate is determined by referring to the average discount rate of similar industries and the business risks of relevant business units.

(2) Change in business combination for other reasons

- (i) In 2018, the Company contributed RMB15 million to set up Changsha Tianchuang Capital Water Co., Ltd; RMB206 million to set up up Hefei Capital Water Co., Ltd and RMB54 million to set up up Deqing Capital Water Co., Ltd. The shareholding ratio is 80%, 100%, 85% and 90% respectively.
- (ii) As at 24 October 2018, the 66th meeting of the seventh board of directors of the Company resolved on liquidation and deregistration of subsidiaries Tianjin Capital Water Co., Ltd and Tianjin Zichuang Project Investment Co., Ltd. As at 31 December 2018, the Company has completed the deregistration of those subsidiaries.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES

(a) Subsidiaries

Name of subsidiaries	Type of subsidiary	Major business location	Place of registration	Nature of business and business activity	Shareholding(%)		Establishment
					Direct	Indirect	
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.	A	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 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.	A	Shandong	Shandong	Investment in and construction of sewage water processing facilities	55	—	Capital contribution
Changsha Tianchuang Environmental Protection Co., Ltd.	A	Changsha	Changsha	Processing of sewage water	81	—	Capital contribution
Karamay Tianchuang Capital Water Co., Ltd.	A	Karamay	Karamay	Processing of sewage water	90	—	Capital contribution
Anhui Tianchuang Capital Water Co., Ltd.	B	Hefei	Hefei	Processing of sewage water	100	—	Capital contribution
Linxia Capital Water Co., Ltd.	B	Linxia	Linxia	Processing of sewage water	100	—	Capital contribution
Dalian Oriental Chunliuhe Water Quality 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 saling of recycled water, supplying tap water	70	—	Business combination
Honghu Tianchuang Capital Water Co., Ltd.	A	Honghu	Honghu	Processing of sewage water	85	—	Capital contribution
Hefei Capital Water Co., Ltd.	B	Hefei	Hefei	Processing of sewage water	100	—	Capital contribution
Deqing Capital Water Co., Ltd.	A	Deqing	Deqing	Processing of sewage water	90	—	Capital contribution

A: Holding subsidiary

B: Wholly-owned subsidiary

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests

Name	Minority interests ratio	Minority interests in 2018	Declared distribution of cash dividends in 2018	Minority interests as at 31 December 2018
Hangzhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")	30.00%	17,997	—	204,730
Qujing Capital Water Co., Ltd. ("Qujing Company")	13.44%	1,131	—	36,024
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd. ("Dalian Company")	36.12%	235	—	23,988
Bayannur Company	30.00%	377	—	333,358
Baoying Capital Water Co., Ltd. ("Baoying Company")	30.00%	1,279	780	33,103
Tianjin Caring Technology Development Co., Ltd. ("Caring Company")	40.00%	3,045	—	46,136
Shandong Capital Environmental Protection Technology Development Co., Ltd. ("Shandong Company")	45.00%	(336)	—	55,378

The major financial information of the significant holding subsidiaries of the Group is listed below:

Balance Sheet

	31 December 2018					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	325,273	784,561	1,109,834	158,784	268,617	427,401
Qujing Company	129,511	265,004	394,515	72,858	58,124	130,982
Dalian Company	12,294	171,341	183,635	61,879	55,692	117,571
Bayannur Company	36,593	1,095,010	1,131,603	6,680	13,728	20,408
Baoying Company	25,427	81,683	107,110	2,191	259	2,450
Caring Company	133,640	10,342	143,982	28,340	303	28,643
Shandong Company	35,503	207,963	243,466	42,705	77,700	120,405
	<u>698,241</u>	<u>2,615,904</u>	<u>3,314,145</u>	<u>373,437</u>	<u>474,423</u>	<u>847,860</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
Baoying Company	16,751	81,351	98,102	7,362	17,741	25,103
	<u>474,423</u>	<u>1,289,209</u>	<u>1,763,632</u>	<u>305,560</u>	<u>442,096</u>	<u>747,656</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests (Continued)

Income Statement

	2018				
	Revenue	Total profit	Income tax expenses	Net profit	Total comprehensive income
Hangzhou Company	284,476	83,305	(23,314)	59,991	59,991
Qijing Company	110,327	15,616	(7,202)	8,414	8,414
Dalian Company	4,726	673	(23)	650	650
Bayannur Company	55,016	864	392	1,256	1,256
Baoying Company	19,189	5,643	(1,381)	4,262	4,262
Caring Company	114,129	9,933	(480)	9,453	9,453
Shandong Company	368	(3,623)	—	(3,623)	(3,623)
	<u>588,231</u>	<u>112,411</u>	<u>(32,008)</u>	<u>80,403</u>	<u>80,403</u>
	2017				
	Revenue	Total profit	Income tax expenses	Net profit	Total comprehensive income
Hangzhou Company	252,381	68,312	(30,435)	37,877	37,877
Qijing Company	103,002	22,385	(6,462)	15,923	15,923
Dalian Company	115	(9,699)	—	(9,699)	(9,699)
Baoying Company	19,763	7,418	(1,941)	5,477	5,477
	<u>375,261</u>	<u>88,416</u>	<u>(38,838)</u>	<u>49,578</u>	<u>49,578</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests (Continued)

Cash Flow Statement

	2018			Cash at the beginning of the year/ Acquisition date	Cash at the end of the year
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities		
Hangzhou Company	138,010	(44,259)	(89,183)	255,739	260,307
Qijing Company	24,941	(621)	(18,022)	14,201	20,499
Dalian Company	257	(72,912)	66,911	12,144	6,400
Bayannur Company	9,466	(1,005)	(133)	—	8,328
Baoying Company	11,309	(5,695)	4,025	10,234	19,873
Caring Company	7,803	(4,492)	60,067	19,645	83,023
Shandong Company	(2,260)	(124,330)	79,920	73,116	26,446
	<u>189,526</u>	<u>(253,314)</u>	<u>103,585</u>	<u>385,079</u>	<u>424,876</u>
			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	153,338	(19,100)	20,782	101,618	256,638
Qijing Company	33,551	(2,113)	(25,160)	7,922	14,200
Dalian Company	(13,080)	(49,889)	75,113	—	12,144
Baoying Company	12,527	(330)	(10,428)	8,465	10,234
	<u>186,336</u>	<u>(71,432)</u>	<u>60,307</u>	<u>118,005</u>	<u>293,216</u>

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(c) Non-essential information of associates

	2018	2017
Joint ventures:		
Total book value of investment	195,000	—
The total of the following items calculated according to the shareholding ratio		
Net profit (i)	—	—
Other comprehensive income (i)	—	—
Total comprehensive income	—	—

- (i) Both net profit and other comprehensive income have considered the fair value of identifiable assets and liabilities at the time of investment and the adjustment effect of the unified accounting policies.

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 Group considers the business from both service and geographical perspective. From a service perspective, management assesses the performance of processing of sewage water, recycled water, pipeline connection, heating and cooling service, sales of tap water and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment sold by the Group is mainly the result of scientific research transformation of the technical know-how in the environment protection area. Other services include contract operation services, rental income and technical services etc. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT INFORMATION (Continued)

(a) Segment information as at and for the year ended 31 December 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	Hangzhou	Others						
Revenue from external customers (Note 4(22))	858,211	284,062	484,102	349,860	91,015	93,261	35,282	251,722	2,447,515
Cost for operations	(503,123)	(197,866)	(345,678)	(219,724)	(58,790)	(62,377)	(18,418)	(152,580)	(1,558,556)
Interest income (Note 4(27))	33,398	1,748	2,218	14,206	792	15	386	1,016	53,779
Interest expenses (Note 4(27))	(145,836)	(15,461)	(31,211)	(57)	(2,138)	(2,319)	(18)	(1,734)	(198,774)
Results before share of profits of an associate	250,901	82,976	107,125	136,315	33,110	16,842	6,238	61,337	694,844
Segment total profit	250,901	82,976	107,125	136,315	33,110	16,842	6,238	61,337	694,844
Income tax expenses	(60,718)	(23,281)	(17,708)	(37,366)	(8,366)	(4,619)	(163)	(15,843)	(168,064)
Segment net profit	190,183	59,695	89,417	98,949	24,744	12,223	6,075	45,494	526,780
Net profit									526,780
Depreciation expenses	(235)	—	(4,217)	(25,071)	(16)	(48)	(513)	(14,730)	(44,830)
Amortization	(131,095)	(60,781)	(114,353)	(5,157)	(18,310)	(14,061)	(1,026)	(1,639)	(346,422)
Segment assets	6,430,423	1,090,937	5,136,425	863,109	611,827	376,511	48,816	934,400	15,492,448
Long-term equity investment in associate									195,000
Total assets									15,687,448
Total liabilities	5,838,269	349,501	1,351,428	816,293	290,659	40,542	9,711	376,078	9,072,481
Non-current assets addition (i)	923,737	—	2,499,828	182,955	45,520	150,780	2,871	162,481	3,968,172

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT INFORMATION (Continued)

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

	Processing of sewage and construction of related facility			Recycled water	Heating and cooling supply	Tap water	Sale of environmental protection equipment	All other segments	Group
	Tianjin	Hangzhou	Others						
Revenue from external customers (Note 4(22))	798,592	252,000	361,897	300,897	71,250	67,401	16,200	280,104	2,148,341
Cost for operations	(424,062)	(177,408)	(259,333)	(181,881)	(48,857)	(49,002)	(10,723)	(131,433)	(1,282,699)
Interest income (Note 4(27))	13,504	1,389	1,566	1,769	682	20	—	363	19,293
Interest expenses (Note 4(27))	(77,589)	(18,458)	(26,997)	(194)	(2,785)	(3,345)	—	(2,064)	(131,432)
Results before share of profits of an associate	320,925	67,969	64,507	113,637	23,117	11,173	(6,805)	124,265	718,788
Segment total profit	320,925	67,969	64,507	113,637	23,117	11,173	(6,805)	124,265	718,788
Income tax expenses	(93,053)	(30,435)	(20,638)	(28,209)	(6,220)	(4,228)	—	(16,810)	(199,593)
Segment net profit	227,872	37,534	43,869	85,428	16,897	6,945	(6,805)	107,455	519,195
Net profit									519,195
Depreciation expenses	(120)	—	(343)	(37,206)	(127)	—	(776)	(5,163)	(43,735)
Amortization	(126,851)	(57,448)	(86,167)	(212)	(14,889)	(9,815)	—	(1,031)	(296,413)
Segment assets	5,679,104	1,147,042	2,690,885	1,549,175	593,280	215,711	13,508	564,185	12,452,890
Total assets									12,452,890
Total liabilities	4,262,871	424,806	791,116	1,099,796	240,864	42,317	3,583	173,761	7,039,114
Non-current assets addition (i)	54,723	47,713	700,929	1,720	141,813	—	—	42,130	989,028

(i) Non-current assets do not include 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 RMB847 million is derived from a single customer, accounting for 35% of the Group's total revenue (For the year ended 31 December 2017: RMB792 million, 39%).

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

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 City Infrastructure Construction and Investment.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2017	Increase in the year	Decrease in the year	31 December 2018
Municipal Investment	1,820,000	—	—	1,820,000

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

	31 December 2018		31 December 2017	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Municipal Investment	50.14%	50.14%	50.14%	50.14%

(2) Information of subsidiaries

The general information and other related information of the subsidiaries is set out in Note 6.

(3) Information of associates

The general information and other related information of the associates is set out in Note 4(8) (a).

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(4) Information of other related parties

	Relationship with the Group
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Metro Resources Investment Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Haihe Construction Developing Investment Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Jinrongcheng Property Management Co. Ltd.	Controlled by the same ultimate holding company
Tianjin Ruiding Real Estate Co. Ltd.	Controlled by the same ultimate holding company
Tianjin Metro Construction and Development Co. Ltd.	Controlled by the same ultimate holding company
Tianjin Metro Group Co. Ltd.	Controlled by the same ultimate holding company
Tianjin City Investment Property Management Co. Ltd.	Controlled by the same ultimate holding company
Tianjin City Road & Network Supporting Construction Investment Co. Ltd	Controlled by the same ultimate holding company
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Subsidiary of associate

(5) Related party transactions

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions between the Group and its related parties during the year:

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

Purchase of goods, receive of services:

Related Party Name	Nature of Transaction	2018	2017
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Purchase of equipment	407,437	73,150
Tianjin City Property Management Co. Ltd.	Property management services	2,031	6,722
		<u>409,468</u>	<u>79,872</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions

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

Rendering of services

Related party name	Nature of transaction	2018	2017
City Infrastructure Construction and Investment	Commission income from contract operation	56,296	54,685
Tianjin Lecheng Properties Co., Ltd.	Income from heating and cooling supply	38,639	38,488
City Infrastructure Construction and Investment	Commission income from construction agent service	10,024	—
Tianjin Haihe Construction Developing Investment Co., Ltd.	Income from sewage plant construction	69	421
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	—	905
Tianjin Metro Construction and Development Co. Ltd.	Income from construction of recycled water pipeline	—	579
		105,028	95,078

Pricing on heating supply service with related parties is based on the reference price stipulated by government. Pricing on other services with 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.	147,000	28 September 2008	27 September 2022	No

(c) Key management compensation

	2018	2017
Key management compensation	12,620	13,020

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Receivables from and payables to related parties

Receivables from related parties

Project name	Related party name	31 December 2018		31 December 2017	
		Carrying amount	Provision	Carrying amount	Provision
Trade receivable	City Infrastructure Construction and Investment	39,638	115	28,570	—
	Tianjin Lecheng Properties Co., Ltd.	9,640	10	38,171	—
	Tianjin Metro Resources Investment Co., Ltd.	1,673	84	1,673	—
	Tianjin City Resource Operation Co., Ltd.	401	20	401	—
		<u>51,352</u>	<u>229</u>	<u>68,815</u>	<u>—</u>

The receivables from related parties arise mainly from daily transactions and are due within one year after the date of sales. The receivables are unsecured in nature and bear no interest. RMB229 thousand provisions are held against receivables from related parties.

Payables to related parties

Project name	Related party name	31 December	31 December
		2018	2017
Trade payables	City Infrastructure Construction and Investment	—	8,723
Other payables	Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	123,775	15,523
	Tianjin Ruiding Real Estate Co. Ltd.	—	3,046
Advance from customers	Tianjin Metro Group Co. Ltd.	—	839
	Tianjin City Investment Property Management Co. Ltd.	—	592
	Tianjin City Road & Network Supporting	—	484
		<u>—</u>	<u>4,961</u>

The payables to related parties arise mainly from purchase transactions and construction of recycled water pipe which are due within one year after the date of purchase. The payables bear no interest.

(7) 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

9 COMMITMENTS

(1) Capital commitments

The Group's capital commitments at the balance sheet date are as follows:

	Contracted but not provided for		Authorized but not contracted for	
	31 December 2018 RMB million	31 December 2017 RMB million	31 December 2018 RMB million	31 December 2017 RMB million
Sewage water processing plant projects:				
– Dalian Chunliuhe project	38	136	—	—
– Tianjin Jingu upgrading project	28	463	—	333
– Tianyu upgrading project	22	—	49	—
– Karamy project	20	179	—	263
– Linxia PPP project	17	13	—	81
– Tianjin Beichen upgrading project	14	224	—	217
– Ningxiang PPP project	13	—	6	—
– Hefei Yuwan project	11	71	—	158
– Xianning Yongan upgrading project	6	—	—	—
– Honghu PPP project	5	—	258	—
– Ninghe upgrading project	5	—	8	—
– Yingshang project	5	14	—	63
– Changsha Ningxiang project	2	9	67	67
– Honghu upgrading project	1	—	—	—
– Bayannur PPP project	—	397	—	—
– Jieshou upgrading project	—	122	—	105
– Hefei Taochong project	—	—	586	—
Solid wastes treatment projects:				
– Shandong Yishui project	228	13	43	262
– Shandong Tancheng project	97	9	245	337
Energy station projects:				
– Heiniu Urban Roads energy station project	16	49	—	109
– Houtai energy station project	3	3	108	108
– Cultural Center energy station project	—	6	—	20
	531	1,708	1,370	2,123
	531	1,708	1,370	2,123

(2) Investment commitments

According to the announcement of the 65th meeting of the 7th Board of Directors of the Company on 28 September 2018. The Company plans to make a capital increase of RMB35 million to Shandong Capital Environmental Protection Technology Development Co., Ltd. As at 31 December 2018, the addition capital contribution of RMB35 million was not paid.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

10 IMPACT OF EVENTS AFTER THE BALANCE SHEET DATE

- (1) On 30 January 2019, the Company held the 4th meeting of the 8th Board of Directors. According to the resolution of the meeting, the Company will additionally invest RMB146 million to the Fuyang Capital Water Co.,Ltd. for Jieshou Sewage Water Processing PPP Project (2nd batch).
- (2) On 25 February 2019, the Company held the 6th meeting of the 8th Board of Directors. According to the resolution of the meeting, the Company will set up a new subsidiary Hanshou Capital Water Co.,Ltd with registered capital of RMB45 million and agree to contribute in cash of RMB33.75million, representing 75% of the voting rights.
- (3) On 11 March 2019, the Company held the 7th meeting of the 8th Board of Directors. According to the resolution of the meeting, the Company will set up a new subsidiary Hebei Guojin Tianchuang Sewage Treatment Co. Ltd with registered capital of RMB217.50 million and agree to contribute in cash of RMB128.32 million, representing 59% of the voting rights.

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.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

11 FINANCIAL RISKS (Continued)

(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(16) (c) (ii)).

At 31 December 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 RMB3 million (31 December 2017: RMB3 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 RMB8 million (31 December 2017: RMB8 million) higher/lower.

(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 monitor 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

11 FINANCIAL RISKS (Continued)

(1) Market risk: (Continued)

(b) Interest rate risk: (Continued)

	Fixed	Floating	Total
At 31 December 2018			
Short-term borrowings	200,000	—	200,000
Other non-current liabilities due within one year:			
Current portion of long-term borrowings	—	213,952	213,952
Current portion of long-term payables	17,615	11,802	29,417
Long-term borrowings	—	2,051,953	2,051,953
Long-term payables	187,501	78,866	266,367
Debentures payable	1,796,363	—	1,796,363
	<u>2,201,479</u>	<u>2,356,573</u>	<u>4,558,052</u>
Total			
	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
	<u>1,793,660</u>	<u>1,118,820</u>	<u>2,912,480</u>
Total			

At 31 December 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 RMB18 million (2017: RMB8 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, Notes and trade receivables, other receivables and contract assets. As at 31 December 2018, the book value of the Group's financial assets represents its maximum credit exposure.

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 31 December 2018, the Group has no significant collateral and other credit enhancement as collateral.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

11 FINANCIAL RISKS (Continued)

(3) Liquidity risk:

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

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:

	31 December 2018				Total	Carrying amount
	Within 1 year	1-2 years	2-5 years	Over 5 years		
Short-term borrowings	200,000	—	—	—	200,000	200,000
Long-term borrowings	311,457	839,253	1,068,843	419,156	2,638,709	2,265,906
Long-term payables	30,340	31,202	99,878	300,901	462,321	295,784
Notes payable and trade payables	176,398	—	—	—	176,398	176,398
Other payables	1,458,045	—	—	—	1,458,045	1,458,045
Debentures payable	78,780	78,780	1,837,215	—	1,994,775	1,796,363
	<u>2,255,020</u>	<u>949,235</u>	<u>3,005,936</u>	<u>720,057</u>	<u>6,930,248</u>	<u>6,192,496</u>
	31 December 2017					
	Within 1 year	1-2 years	2-5 years	Over 5 years	Total	Carrying amount
Short-term borrowings	519,489	—	—	—	519,489	499,000
Long-term borrowings	176,508	172,314	366,598	130,229	845,649	727,160
Long-term payables	27,849	28,582	91,095	314,596	462,122	289,379
Notes payable and trade payables	128,254	—	—	—	128,254	128,254
Other payables	629,121	—	—	—	629,121	629,121
Debentures payable	760,060	21,910	718,258	—	1,500,228	1,396,941
Other liabilities	1,409	—	—	—	1,409	1,364
	<u>2,242,690</u>	<u>222,806</u>	<u>1,175,951</u>	<u>444,825</u>	<u>4,086,272</u>	<u>3,671,219</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

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

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

As at 31 December 2018, the assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 3	Total
Other equity instruments investment — Unlisted equity instrument investments of Tianjin Beifang Rencaigang Co., Ltd	2,000	2,000
Total financial assets	2,000	2,000
Total assets	2,000	2,000

As at 31 December 2017, there are 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 notes and trade receivable, other 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

13 CAPITAL RISK MANAGEMENT

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

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

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

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

	31 December 2018	31 December 2017
Total borrowings	4,558,052	2,913,844
Short-term borrowings	200,000	499,000
Long-term borrowings	2,265,905	727,160
Current portion of debentures payable	—	698,957
Debentures payable	1,796,363	697,984
Long-term payables	295,784	289,379
Other non-current assets - Government loan and others	—	1,364
Less: Cash	<u>(1,808,543)</u>	<u>(1,893,689)</u>
Net debt	2,749,509	1,022,155
Total equity	<u>6,614,967</u>	<u>5,413,776</u>
Total capital	<u>9,364,476</u>	<u>6,433,931</u>
Gearing ratio	<u>29%</u>	<u>16%</u>

As at 31 December 2018, the gearing ratio of the Group is increased compared to last year, which was mainly due to the increase of borrowings for new and upgrading projects.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS

(1) Notes and trade receivables

	31 December 2018	31 December 2017
Trade receivables	1,689,143	1,663,178
Less: Provision for bad debts	(1,964)	—
	<u>1,687,179</u>	<u>1,663,178</u>

(a) The ageing analysis of trade receivable is as follows:

	31 December 2018	31 December 2017
Within 1 year	1,060,286	1,015,278
1 to 2 years	623,795	625,238
2 to 3 years	3,620	14,040
3 to 4 years	—	8,622
4 to 5 years	1,442	—
Total	<u>1,689,143</u>	<u>1,663,178</u>

(b) As at 31 December 2018, the trade receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Amount	Provision for bad debts	% of total balance
Trade receivables from the top five debtors	<u>1,660,218</u>	<u>(1,051)</u>	<u>98%</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(1) Notes and trade receivables (Continued)

(c) Provision for bad debts:

	31 December 2018	31 December 2017
Trade receivables	<u>(1,964)</u>	<u>—</u>

(i) As at 31 December 2018, provision for bad debts by individual is analyzed as below:

	Carrying amount	ECL rate	Provision	Reasons
TWAB	1,582,240	0.05%	(791)	Notes 4(2)(c) (i)
Tianjin Water Recycling Co., Ltd.	<u>14,040</u>	0.05%	<u>(25)</u>	
Total	<u>1,596,280</u>		<u>(816)</u>	

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%.

(ii) As at 31 December 2018, provision for bad debts by group is analyzed as below:

Group - Non-provincial government customers

	31 December 2018		
	Carrying amount Amount	Impairment ECL rate	Amount
Undue	6,044	0.10%	(1)
1-90 days overdue	5,580	0.50%	(3)
90-180 days overdue	11,430	2.00%	(23)
>180 days overdue	<u>57,746</u>	5.00%	<u>(289)</u>
	<u>80,800</u>		<u>(315)</u>

Group - others

	31 December 2018		
	Carrying amount Amount	Impairment ECL rate	Amount
Undue	3,004	0.10%	(3)
1-30 days overdue	975	0.50%	(5)
30-90 days overdue	1,767	2.00%	(35)
>90 days overdue	<u>6,317</u>	5.00%	<u>(790)</u>
	<u>12,063</u>		<u>(833)</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables

	31 December 2018	31 December 2017
Receivables from subsidiaries	117,906	152,146
Project deposits	14,385	68,847
VAT refund receivable	2,037	5,343
Dividends receivable	—	13,880
Others	330	1,743
	<u>134,658</u>	<u>241,959</u>
Less: Provision for bad debts	(98)	—
	<u><u>134,560</u></u>	<u><u>241,959</u></u>

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

(a) As at 31 December 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:				
Receivable due from subsidiaries	117,906	0.10%	(91)	(ii)
Project deposits	14,385	0.05%	(7)	(ii)
Others	330	0.10%	—	(ii)
	<u>132,621</u>		<u>(98)</u>	

(i) The VAT refund is the tax receivable from State Administration of Taxation Tianjin Bureau, which is not a financial asset due to the nature of the government grants.

(ii) The project deposits are the construction deposit handed over to the local government during the construction period of the concession project. The project deposits have lower credit risk, so the ECL rate for next 12 months is 0.05%, and the ECL rate for next 12 months of other receivables is 0.1%.

(b) As at 31 December 2018, the Company has no other receivables belong to stage 2 and stage 3.

(c) In 2018, the changes of other receivables' provision of the Company is not significant.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

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

(d) As at 31 December 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	1 to 2 year	72%	(73)
Tianjin Water Recycling Co., Ltd.	Receivable due from subsidiaries	8,680	Within 1 year	6%	(7)
Linxia Water Supply and Drainage Co., Ltd.	Project deposit	8,000	1 to 2 year	6%	(4)
Tianjin State Taxation Bureau	VAT refund receivable	2,036	Within 1 year	2%	—
Tianjin Electric Power Company	Project deposit	1,000	Within 1 year	1%	(1)
		<u>116,716</u>		<u>87%</u>	<u>(85)</u>

(e) As at 31 December 2018, government grants confirmed according to receivables are analyzed as below:

Name	Amount	Aging	Estimated time, amount and basis of collection
VAT refund	2,036	Within 1 year	It's expected to received fully in 2019 because the nature is VAT refund.

(3) **Long-term equity investments**

	31 December 2018	31 December 2017
Investment in subsidiaries (note (a))	3,458,486	2,218,623
Associate (note (b))	195,000	—
Less: Impairment of Long-term equity investments (note(c))	<u>(132,781)</u>	<u>(137,321)</u>
	<u><u>3,520,705</u></u>	<u><u>2,081,302</u></u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries

Name of subsidiaries	Investment cost	31 December 2017	Additions	Disposals	Provision	31 December 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	—	115,000
Wuhan Tianchuang Capital Water Co., Ltd.	197,229	135,229	62,000	—	—	197,229	—	—
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	—	10,000
Tianjin Capital Alternative Energy Technology Co., Ltd.	191,600	191,600	—	—	—	191,600	—	—
Anguo Capital Water Co., Ltd.	41,000	—	—	—	—	—	(41,000)	—
Baoying Capital Water Co., Ltd. (note(i))	58,100	37,100	21,000	—	—	58,100	—	1,820
Tianjin Capital New Materials Co., Ltd.	26,500	—	—	—	—	—	(26,500)	—
Tianjin Zichuang Project Investment Co., Ltd. (note(i))	—	23,400	—	(23,400)	—	—	—	—
Subtotal	1,797,684	1,536,303	167,000	(23,400)	—	1,679,903	(117,781)	126,820

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

Name of subsidiaries	Investment cost	31 December 2017	Additions	Disposals	Provision	31 December 2018	Provision for impairment	Cash dividends declared/ Investment income in the current year
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. (note(iv))	—	5,460	—	(5,460)	—	—	—	—
Yingshang Capital Water Co., Ltd.	53,000	53,000	—	—	—	53,000	—	—
Shandong Capital Environmental Protection Technology Development Co., Ltd. (note(iii))	128,000	128,000	—	(57,600)	—	70,400	—	—
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 Oriental Chunliuhe Water Quality 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	—	—
Honghu Tianchuang Capital Water Co., Ltd. (note(ii))	111,631	—	111,631	—	—	111,631	—	—
Hefei Capital Water Co., Ltd. (note(ii))	205,957	—	205,957	—	—	205,957	—	—
Deqing Capital Water Co., Ltd. (note(ii))	54,000	—	54,000	—	—	54,000	—	—
Subtotal	1,718,402	544,999	1,163,863	(63,060)	—	1,645,802	(15,000)	—
Total	3,516,086	2,081,302	1,330,863	(86,460)	—	3,325,705	(132,781)	126,820

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

- (i) In 2018, the Company increased capital of RMB84 million to its subsidiary Fuyang Capital Water Co., Ltd. for the construction and operation of Jieshou sewage water treatment plant upgrading project, guangwu sewage treatment plant phase I and phase II expansion project and jieshou dongcheng sewage treatment plant and supporting pipe network project. The Company increased capital of RMB21 million to its subsidiary Baoying Capital Water Co., Ltd. for the construction and operation of Xianhe sewage water treatment plant upgrading project phase III. The Company increased capital of RMB62 million to its subsidiary Wuhan Tianchuang Capital Water Co., Ltd. for the construction and operation of Chibi sewage water treatment plant upgrading project.
- (ii) In 2018, the Company contributed RMB15 million to set up Changsha Tianchuang Capital Water Co., Ltd; RMB777 million to set up Inner Mogolia Bayannur Capital Water Co.Ltd; RMB206 million to set up up Hefei Capital Water Co., Ltd; RMB12 million to set up up Honghu Tianchuang Capital Water Co., Ltd and RMB54 million to set up up Deqing Capital Water Co., Ltd. The shareholding ratio is 80%, 70%, 100%, 85% and 90% respectively.
- (iii) In 2018, the Company transferred 45% of the equity of Shangdong Capital Environmental Protection Technology Development Co., Ltd. to Dalian Dongtai Industrial Waste Treatment Co., Ltd. After that, the Company's shareholding ratio is 55%.
- (iv) In 2018, the Company deregistered its' subsidiaries of Tianjin Zichuang Project Investment Co., Ltd. and Tianjin Capital Water Co., Ltd..

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(b) Associate

In 2018, the consortium formed by Bishuiyuan Technology Co., Ltd., Jiu 'an Investment Group Co., Ltd. and the Company won the bidding for the PPP project of sponge city construction in the Jiefang Nan road of Tianjin. After winning the bid, the parties jointly set up the project company Tianjin Bihai Sponge City Co., Ltd. The Company invested 195 million yuan, and the shareholding ratio is 30%.

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

	31 December 2017	Additions	Disposals	31 December 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>(4,540)</u>	<u>132,781</u>

(4) Revenue and cost of sales

	2018		2017	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	909,726	509,636	855,156	437,016
Other operations	114,491	86,890	144,081	80,037
	<u>1,024,217</u>	<u>596,526</u>	<u>999,237</u>	<u>517,053</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (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:

	2018		2017	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water and construction of related facility	847,242	502,516	792,497	429,896
Road tolls	62,484	7,120	62,659	7,120
	<u>909,726</u>	<u>509,636</u>	<u>855,156</u>	<u>437,016</u>

(b) Revenue from other operations and cost of sales

	2018		2017	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	77,049	77,352	74,450	59,840
Rental	18,175	3,168	42,664	2,494
Construction services	10,503	3,517	—	—
Technical service	6,741	1,028	18,241	17,208
Others	2,023	1,825	8,726	495
	<u>114,491</u>	<u>86,890</u>	<u>144,081</u>	<u>80,037</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales (Continued)

(c) The Company's operating income in 2018 is analyzed as follows:

	2018							
	Processing of sewage water and construction of related facility	Road tolls	Contract operation income	Rental	Construction services	Technical service	Others	Total
Revenue	847,242	62,484	—	—	—	—	—	909,726
Of which: confirm at a certain point in time	—	—	—	—	—	—	—	—
Confirm within a certain period of time	847,242	62,484	—	—	—	—	—	909,726
Other operating income	—	—	77,049	18,175	10,503	6,741	2,023	114,491
	<u>847,242</u>	<u>62,484</u>	<u>77,049</u>	<u>18,175</u>	<u>10,503</u>	<u>6,741</u>	<u>2,023</u>	<u>1,024,217</u>

As at 31 December 2018, service bills of the Company's sewage water processing service are regularly issued to customers, based on contract agreed price and actual sewage water treatment capacity. And the amount of bills represent the entity's progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to customers. And there is no consideration amount which is not included in the transaction price, thus it's not included in the required information to be disclosed for the transaction price allocated to the remaining performance obligation.

As at 31 December 2018, the consideration for contract operation services of RMB61 million of which the contracts were signed but the performance obligations is not yet fully completed, will be recognised in 2019; the consideration for agent construction service of RMB14 million of which the contracts were signed but the performance obligations is not yet fully completed, will be recognised in 2019; a contract of road tolls service fee of RMB633 million was signed but the performance obligations is not yet fully completed, among which the Group expects to recognise RMB62 million as revenue in every year from 2019 to 2028, and RMB13 million as revenue in 2029.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(5) Investment income

	2018	2017
Dividend income from subsidiaries	126,820	44,667
Interest income from entrusted loans	30,887	20,815
Investment income from the disposal of the equity of subsidiaries	13,205	—
Investment income from liquidation of subsidiaries	3,697	—
Dividend income from other equity instruments investment	200	—
Investment income from available-for-sale financial assets	—	400
	<u>174,809</u>	<u>65,882</u>

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

For the six month ended 30 June 2018
(All amounts in RMB thousand unless otherwise stated)

1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	2018	2017
Losses on disposal of non-current assets	(900)	(82)
Government Grants	78,481	53,433
Other non-operating income and expenses — net	(1,809)	(726)
	75,772	52,625
Effect of income tax	(18,943)	(13,156)
Effect of minority interests (after tax)	(1,267)	(95)
	55,562	39,374
Total	55,562	39,374

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 year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2018	For the year ended 31 December 2017
Net profit attributable to ordinary shareholders of the Company	9.05	10.33	0.35	0.36
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	8.05	9.53	0.31	0.33

13. Independent Auditor's Report



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Tianjin Capital Environmental Protection Group Company Limited
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tianjin Capital Environmental Protection Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 237 to 347, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is measurement of expected credit losses for trade receivables.

Key Audit Matter

Measurement of expected credit losses for trade receivables

Refer to Notes 2.2(b) (ii) and 15 to the consolidated financial statements

As at 31 December 2018, the Group’s gross trade receivables amounted to RMB 2,131,049 thousand and a loss allowance of RMB 49,584 thousand was recognised on these trade receivables.

The balance of loss allowance for trade receivables represent the management’s best estimates on the expected credit losses (“ECL”) for these trade receivables as of the balance sheet date.

Management has assessed whether the credit risk of trade receivables had been significantly increased after initial recognition, and measured the ECL through applying a lifetime expected loss allowance for all trade receivables. In making such assessment, management has considered the credit default history in prior years and exercised judgement in developing its expectation on the credibility of debtors and economic indicators for forward-looking measurement.

How our audit addressed the Key Audit Matter

We evaluated and validated the Group’s control procedures over the measurement of ECL.

We evaluated the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, key parameters estimation and significant judgements and assumptions as adopted by management in the assessment of ECL.

We assessed the appropriateness of management’s identification of any trade receivables with significant increase in credit risk or trade receivables being defaulted or impaired by examining the financial and non-financial information of the major debtors. Regarding the information of the major debtors as obtained, we have examined the underlying relevant supporting documents such as historical payment records, subsequent settlements, settlement plan and other correspondence documents.

For forward-looking measurement, we reviewed management’s model analysis of their selection of economic indicators, economic scenarios and weightings employed; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings.

13. Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key Audit Matter

Measurement of expected credit losses for trade receivables (Continued)

The measurement of ECL involves significant management judgments and assumptions, mainly including the following:

- (1) Segmentation of debtors sharing similar credit risk characteristics and determination of relevant key measurement parameters;
- (2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- (3) Selection of economic indicators for forward-looking measurement, and application of economic scenarios and weightings.

We focussed on this area due to the significance of the trade receivables balance and significant management judgements and assumptions were involved in the assessment of ECL.

How our audit addressed the Key Audit Matter

We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness.

We considered that management's judgements and estimates on the ECL of trade receivables are supportable by the evidence as obtained from our procedures performed.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

13. Independent Auditor's Report

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

(Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Kwong Tak.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2019

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

As at 31 December 2018

(All amounts in RMB thousand unless otherwise stated)

	Notes	As at 31 December	
		2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	8	60,358	36,717
Property, plant and equipment	6	497,580	404,488
Intangible assets	7	10,314,469	6,869,701
Investment properties	9	84,052	86,820
Investments accounted for using the equity method	10b	195,000	—
Financial asset at fair value through other comprehensive income	11	2,000	—
Available-for-sale financial assets	11	—	2,000
Long-term receivables	12	253,686	294,956
Other non-current assets	13	109,181	598,433
		11,516,326	8,293,115
Current assets			
Inventories	14	13,991	18,112
Trade receivables	15	2,091,760	1,932,058
Prepayments	16	23,531	124,770
Other current assets	13	179,477	85,449
Other receivables	17	36,162	93,708
Cash and cash equivalents	18	1,808,543	1,893,689
Restricted cash	18	17,658	11,989
		4,171,122	4,159,775
Total assets		15,687,448	12,452,890

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

As at 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

	Notes	As at 31 December	
		2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	4,114,683	1,543,388
Deferred revenue	24	2,101,085	2,129,064
Deferred income tax liabilities	25	138,812	120,259
Provisions for other liabilities and charges	26	10,069	32,930
Other non-current liabilities	23	38,000	40,000
		<u>6,402,649</u>	<u>3,865,641</u>
Current liabilities			
Trade payables	27	176,398	128,254
Contract liabilities	5(d)	469,185	—
Advances from customers	27	—	930,888
Wages payables		53,942	44,550
Income tax and other taxes payables	27	68,893	63,741
Dividend payable		1,912	1,912
Other payables	27	1,456,133	633,672
Borrowings	22	443,369	1,370,456
		<u>2,669,832</u>	<u>3,173,473</u>
Total liabilities		<u>9,072,481</u>	<u>7,039,114</u>
Net assets		<u>6,614,967</u>	<u>5,413,776</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	1,427,228	1,427,228
Other reserves	20	948,131	879,022
Retained earnings	21	3,442,844	2,810,790
		<u>5,818,203</u>	<u>5,117,040</u>
Non-controlling interests		<u>796,764</u>	<u>296,736</u>
Total equity		<u>6,614,967</u>	<u>5,413,776</u>

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

The financial statements on pages 237 to 241 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

Liu Yujun

Peng Yilin

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

	Notes	Year ended 31 December	
		2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	5(a)	2,447,515	1,931,928
Tax expenses and surcharge	28	(49,688)	(57,464)
Cost of sales	29	(1,568,995)	(1,167,688)
Gross profit		828,832	706,776
Selling expenses	29	(5,417)	(6,467)
Administrative expenses	29	(142,069)	(151,447)
Other income	5(a)	173,023	278,600
Other gains/(losses) – net	33	2,461	(8,335)
Operating profit		856,830	819,127
Finance income		53,779	34,195
Finance costs		(215,765)	(134,534)
Finance costs– net	31	(161,986)	(100,339)
Profit before income tax		694,844	718,788
Income tax expense	32	(168,064)	(199,593)
Profit for the year		526,780	519,195
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		526,780	519,195
Total comprehensive income for the year is attributable to:			
Owners of the Company		501,168	508,251
Non-controlling interests		25,612	10,944
		526,780	519,195
Earnings per share for profit attributable to the equity holders of the Company (in RMB Yuan):			
Basic earnings per share	34	0.35	0.36
Diluted earnings per share	34	0.35	0.36

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

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

	Notes	Attributable to owners of the Company			Total RMB'000	Non- controlling interests RMB'000	Total Equity RMB'000
		Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000			
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 year		—	—	508,251	508,251	10,944	519,195
Transactions with owners in their capacity as owners							
– Capital contribution from non-controlling interests		—	—	—	—	27,132	27,132
– Profit appropriation to statutory reserves		—	34,982	(34,982)	—	—	—
– Dividends relating to 2016		—	—	(135,588)	(135,588)	(780)	(136,368)
		—	34,982	337,681	372,663	37,296	409,959
Balance at 31 December 2017		1,427,228	879,022	2,810,790	5,117,040	296,736	5,413,776
Changes in accounting policies	2.2	—	—	168,086	168,086	—	168,086
Restated total equity 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 year		—	—	501,168	501,168	25,612	526,780
Transactions with owners in their capacity as owners							
– Capital contribution from non-controlling interests		—	31,909	—	31,909	475,345	507,254
– Profit appropriation to statutory reserves		—	37,200	(37,200)	—	—	—
– Dividends paid to non-controlling interests		—	—	—	—	(929)	(929)
		—	69,109	463,968	533,077	500,028	1,033,105
Balance at 31 December 2018		1,427,228	948,131	3,442,844	5,818,203	796,764	6,614,967

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

14. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Statement of Cash Flows

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December	
		2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	884,859	1,112,494
Income tax paid		(235,963)	(209,224)
Bank deposit interest received		43,750	8,782
Net cash flows from operating activities		692,646	912,052
Cash flows from investing activities			
Capital contribution to an associate		(195,000)	—
Payment for acquisition of subsidiary, net of cash acquired		(396,957)	(380,000)
Payments for property, plant and equipment, intangible assets		(1,867,624)	(860,892)
Proceeds from sale of property, plant and equipment	36(b)	743	531
Interest received on financial assets held as investments		200	400
(Increase)/decrease in restricted cash		(5,669)	5,949
Government grants received		41,605	726,861
Net cash used in investing activities		(2,422,702)	(507,151)
Cash flows from financing activities			
Repayments of borrowings		(1,550,440)	(201,482)
Dividends paid to Company's shareholders		—	(135,114)
Interest paid		(163,282)	(109,720)
Dividends paid to non-controlling interests in subsidiaries		(929)	(780)
Proceeds from borrowings		3,185,288	727,632
Capital contributions by non-controlling interests		174,273	27,132
Net cash from financing activities		1,644,910	307,668
Net (decrease)/increase in cash and cash equivalents		(85,146)	712,569
Cash and cash equivalents at beginning of the year		1,893,689	1,181,120
Cash and cash equivalents at end of the year	18	1,808,543	1,893,689

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(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:

Plant	Location	Agreement date	Customer
Guiyang	Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying	Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi	Hubei	15 July 2005	Chibi Construction Bureau
Fuyang	Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qujing	Yunnan	25 December 2005	QuJing Construction Bureau (Renamed as “QuJing Housing and Urban Construction Bureau”)
Honghu	Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou	Zhejiang	20 November 2006	Hangzhou Sewage Company (Changed to Hangzhou Municipal Facilities Supervision Center)
Jinghai	Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng	Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an	Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Anguo	Hebei	14 October 2008	An Guo Municipal Government
Xianning	Hubei	16 October 2008	Xianning Construction Committee
Yingdong	Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Qujing	Yunnan	16 August 2011	QuJing Housing and Urban Construction Bureau
Chaohu	Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau
Jingu	Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission (‘TUCC’) and Tianjin Water Authority Bureau (‘TWAB’)
Xianyanglu	Tianjin	18 February 2014	TUCC and TWAB
Dongjiao	Tianjin	18 February 2014	TUCC and TWAB
Beicang	Tianjin	18 February 2014	TUCC and TWAB
Yingshang	Anhui	16 June 2016	Yingshang Housing and Urban Construction Bureau
Karamay	Xinjiang	4 November 2016	Karamay Construction Bureau
Linxia	Gansu	13 May 2017	Linxia Housing and Urban Construction Bureau
Changsha	Hunan	5 June 2017	Ningxiang Economic & Technology Development zone Management Committee
Hefei	Anhui	16 June 2017	Hefei Urban Construction Committee

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(a) Processing of sewage water (Continued)

Plant	Location	Agreement date	Customer
Dalian	Liaoning	1 November 2017	Dalian Construction Bureau
Bayannur	Inner Mongolia	12 December 2017	Bayannur Water Authority Bureau and Bayannur River Water Group Company Limited
Changsha	Hunan	27 April 2018	Ningxiang Economic and Technological Development Zone Management Committee
Honghu	Hubei	9 June 2018	Honghu Housing and Urban Construction Bureau
Shibing	Guizhou	12 July 2018	Shibing Water Authority Bureau
Hefei	Anhui	28 November 2018	Hefei Urban-rural Construction Commission

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 several customers of providing heating and cooling supply services to third parties.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(a) *Compliance with HKFRS and HKCO*

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

(b) *Historical cost convention*

The financial statements have been prepared on the historical cost basis.

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenues from Contracts with Customers

The Group had to change its accounting policies and apply simplified transition approach without restating comparative information following the adoption of HKFRS 9 and HKFRS 15.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, 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 standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has no non-cancellable operating lease commitments, and the Group does not expect the new guidance to have a significant impact on the financial statements.

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

2.2 Change 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(a) Impact on the financial statements

- (i) As explained in Notes 2.2(b)/and 2.2(c) below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the 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 December 2017 RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 Restated RMB'000
ASSETS				
Non-current assets				
Financial asset at fair value through other comprehensive income	—	—	2,000	2,000
Available-for-sale financial assets	2,000	—	(2,000)	—
	<u>8,293,115</u>	<u>—</u>	<u>—</u>	<u>8,293,115</u>
Current assets				
Contract assets	—	6,249	—	6,249
Inventories	18,112	(6,249)	—	11,863
Trade receivables	1,932,058	—	(2,658)	1,929,400
Prepayments	124,770	(91,230)	—	33,540
	<u>4,159,775</u>	<u>(91,230)</u>	<u>(2,658)</u>	<u>4,065,887</u>
Total assets	<u><u>12,452,890</u></u>	<u><u>(91,230)</u></u>	<u><u>(2,658)</u></u>	<u><u>12,359,002</u></u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(a) Impact on the financial statements (Continued)

Balance sheet (extract)	31 December 2017 RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 Restated RMB'000
LIABILITIES				
Non-current liabilities	3,865,641	—	—	3,865,641
Current liabilities				
Trade payables	128,254	9,866	—	138,120
Contract liabilities	—	591,017	—	591,017
Advances from customers	930,888	(930,388)	—	—
Income tax and other taxes payables	63,741	68,031	—	131,772
	3,173,473	(261,974)	—	2,911,499
Total liabilities	7,039,114	(261,974)	—	6,777,140
Net assets	5,413,776	170,744	(2,658)	5,581,862
EQUITY				
Capital and reserves attributable to the Company's equity holders				
Retained earnings	2,810,790	170,744	(2,658)	2,978,876
	5,117,040	170,744	(2,658)	5,285,126
Non-controlling interests	296,736	—	—	296,736
Total equity	5,413,776	170,744	(2,658)	5,581,862

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(b) HKFRS 9 Financial Instruments

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 2.13 below. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

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

	2018 RMB'000
Closing retained earnings 31 December 2017 - HKAS 39/HKAS 18/HKAS 11	2,810,790
Increase in provision for trade receivables	<u>(2,658)</u>
Opening retained earnings 1 January 2018- HKFRS 9 (before restatement for HKFRS 15)	<u><u>2,808,132</u></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	Available- for-sale 2017 RMB'000	FVOCI RMB'000
Closing balance 31 December 2017– HKAS 39	2,000	—
Reclassify non-trading equities from available-for-sale to FVOCI	<u>(2,000)</u>	<u>2,000</u>
Opening balance 1 January 2018– HKFRS 9	<u><u>—</u></u>	<u><u>2,000</u></u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(b) HKFRS 9 Financial Instruments (Continued)

(i) Classification and measurement (Continued)

There is no impact of these changes on the Group's equity.

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (HKAS 39)	New (HKFRS 9)	Original	New	Difference
Non-current financial assets					
Unlisted equity securities	Available for sale	FVOCI	2,000	2,000	—
Long-term receivables	Amortised cost	Amortised cost	294,956	294,956	—
Current financial assets					
Trade receivables	Amortised cost	Amortised cost	1,932,058	1,929,400	(2,658)
Cash and cash equivalents	Amortised cost	Amortised cost	1,893,689	1,893,689	—
Other receivables (excluding VAT refund receivables)	Amortised cost	Amortised cost	84,183	84,813	—

(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 2.2(b) (i) above.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(b) HKFRS 9 Financial Instruments (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 RMB'000	Expected credit loss rate	Loss allowance RMB'000
Individual customer			
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	1,762,223		(33,071)
Group			
– Non-provincial government customer			
Undue	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	52,732		(56)
Group - others			
Undue	35,860	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	149,304		(3,632)
Total			(36,759)

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(b) HKFRS 9 Financial Instruments (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 as at 1 January 2018 as follows:

	Trade receivables RMB'000
At 31 December 2017 – calculated under HKAS 39	34,101
Amounts restated through opening retained earnings	2,658
	<hr/>
Opening loss allowance as at 1 January 2018 - calculated under HKFRS 9	36,759
	<hr/> <hr/>

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 no additional loss allowance on 1 January 2018 (previous loss allowance was nil) and a further increase in the allowance by RMB 10,000 and RMB 138,000 for other receivables and long-term receivables respectively in 2018.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(c) *HKFRS 15 Revenue from Contracts with Customers*

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 year.

The Group previously recognised revenue from the sales of pipeline connection for recycled water when the connection is finished.

The application of HKFRS 15 requires that revenue and cost are recognised 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 contract amount.

To reflect this change in policy, the Group further recognised a revenue of RMB328,755,000 which resulted in the decrease in advances from customers of RMB339,871,000. And the Group recognised additional cost of RMB101,096,000, correspondingly the amount of prepayment decreased by RMB91,230,000 and the amount of trade payables increased by RMB9,866,000. The contract liability recognised on 1 January 2018 was RMB591,017,000, which was reclassified from advances from customers. Thus, income tax and other taxes payables increased by RMB68,031,000, including the increase of income tax of RMB56,915,000.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(c) HKFRS 15 Revenue from Contracts with Customers (Continued)

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 December 2017 RMB'000	Reclassification RMB'000	Remeasurements RMB'000	HKFRS 15 carrying amount 1 January 2018 RMB'000
Prepayments	124,770	—	(91,230)	33,540
Contract liabilities	—	591,017	—	591,017
Advances from customers	930,888	(591,017)	(339,871)	—
Trade payables	128,254	—	(9,866)	138,120
Income tax and other taxes payables	63,741	—	68,031	131,772

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

	2018 RMB'000
Retained earnings – after HKFRS 9 restatement (Note 2.2(b))	2,808,132
Restatement of revenue and cost of sales for pipeline collection project	227,659
Increase in income tax	(56,915)
	<hr/>
Adjustment to retained earnings from adoption of HKFRS 15	170,744
	<hr/>
Opening retained earnings 1 January – HKFRS 9 and HKFRS 15	<u>2,978,876</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(d) Impact on the financial statements

- (i) The impact on the Group is respect of the application of HKFRS 15 for the year ended 31 December 2018:

	31 December 2018 Result without adoption RMB'000	HKFRS 15 RMB'000	31 December 2018 Result with adoption RMB'000
Balance sheet (extract)			
Revenue from contracts with customers	2,446,200	1,315	2,447,515
Tax expenses and surcharge	(49,688)	—	(49,688)
Cost of sales	(1,567,030)	(1,965)	(1,568,995)
Gross profit	829,482	(650)	828,832
Selling expenses	(5,417)	—	(5,417)
Administrative expenses	(142,069)	—	(142,069)
Other income	173,023	—	173,023
Other gains/(losses) – net	2,461	—	2,461
Operating profit	857,480	(650)	856,830
Finance income	53,779	—	53,779
Finance cost	(215,765)	—	(215,765)
Finance cost – net	(161,986)	—	(161,986)
Profit before income tax	695,494	(650)	694,844
Income tax expense	(168,226)	162	(168,064)
Profit for the year	527,268	(488)	526,780
Profit is attributable to:			
Owners of the Company	501,656	(488)	501,168
Non-controlling interests	25,612	—	25,612
	527,268	(488)	526,780

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(d) Impact on the financial statements (Continued)

- (i) The impact on the Group is respect of the application of HKFRS 15 for the year ended 31 December 2018: (Continued)

Balance sheet (extract)	31 December 2018 Result without adoption RMB'000	HKFRS 15 RMB'000	31 December 2018 Result with adoption RMB'000
Non-current assets			
Land use rights	60,358	—	60,358
Property, plant and equipment	497,580	—	497,580
Intangible assets	10,374,469	—	10,374,469
Investment properties	84,052	—	84,052
Investments accounted for using the equity method	195,000	—	195,000
Financial asset at fair value through other comprehensive income	2,000	—	2,000
Long-term receivables	253,686	—	253,686
Other non-current assets	109,181	—	109,181
	<u>11,516,326</u>	<u>—</u>	<u>11,516,326</u>
Current assets			
Inventories	13,991	—	13,991
Trade receivables	2,091,760	—	2,091,760
Prepayments	121,947	(98,416)	23,531
Other current assets	186,391	(6,914)	179,477
Other receivables	36,162	—	36,162
Cash and cash equivalents	1,808,543	—	1,808,543
Restricted cash	17,658	—	17,658
	<u>4,276,452</u>	<u>(105,330)</u>	<u>4,171,122</u>
Total assets	<u><u>15,792,778</u></u>	<u><u>(105,330)</u></u>	<u><u>15,687,448</u></u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Change in accounting policies (Continued)

(d) Impact on the financial statements (Continued)

- (i) The impact on the Group is respect of the application of HKFRS 15 for the year ended 31 December 2018: (Continued)

	31 December 2018 Result without adoption RMB'000	HKFRS 15 RMB'000	31 December 2018 Result with adoption RMB'000
Balance sheet (extract)			
Non-current liabilities			
Borrowings	4,114,683	—	4,114,683
Deferred revenue	2,101,085	—	2,101,085
Deferred income tax liabilities	138,812	—	138,812
Provisions for other liabilities and charges	10,069	—	10,069
Other non-current liabilities	38,000	—	38,000
	6,402,649	—	6,402,649
Current liabilities			
Trade payables	171,752	4,646	176,398
Contract liabilities	—	469,185	469,185
Advances from customers	810,372	(810,372)	—
Wages payables	53,942	—	53,942
Income tax and other taxes payables	7,938	60,955	68,893
Dividend payable	1,912	—	1,912
Other payables	1,456,133	—	1,456,133
Borrowings	443,369	—	443,369
	2,945,418	(275,586)	2,669,832
Total liabilities	9,348,067	(275,586)	9,072,481
Net assets	6,444,711	170,256	6,614,967
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	1,427,228	—	1,427,228
Other reserves	948,131	—	948,131
Retained earnings	3,272,588	170,256	3,442,844
	5,647,947	170,256	5,818,203
Non-controlling interests	796,764	—	796,764
Total equity	6,444,711	170,256	6,614,967

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting

(a) Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(b) Associates

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(c) *Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in associates. Unrealised losses are also eliminated unless the transaction provides the evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.12.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(d) *Changes in ownership interests*

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

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified permitted by applicable HKFRS.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the:

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

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Separate financial statements

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

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

2.6 Segment reporting

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

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

2.7 Foreign currency translation

(a) *Functional and presentation currency*

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(b) *Transactions and balances*

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

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(c) Group companies

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

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

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

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Property, plant and equipment

Property, plant and equipment comprise buildings and construction, machinery and equipment, motor vehicles and others, and construction in progress.

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

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

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

	Estimated useful lives	Estimated rate of residual value	Annual rate of depreciation
Buildings and construction	10-50 years	0%-5%	1.9%-10%
Machinery and equipment	10-20 years	0%-5%	4.8%-10%
Motor vehicles and others	5-10 years	0%-5%	9.5%-20%

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses) – net' in the consolidated statement of comprehensive income.

Construction-in-progress ('CIP') is measured at actual cost. Actual cost comprises construction costs, installation costs, other costs necessary to bring the property, plant and equipment ready for their intended use and borrowing costs that are eligible for capitalisation. Depreciation begins from the month when the assets are ready for their intended use. When the recoverable amount of CIP is lower than its carrying value, the carrying value shall be reduced to its recoverable amount.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Investment properties

Investment property, principally comprising buildings, is held for long-term lease yields and that is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

Investment properties are stated at cost less accumulated depreciation and impairment. Depreciation of investment properties are calculated to write-off that cost, less estimated net residual value and accumulated impairment losses, if any, on a straight-line basis over estimated useful lives ranging from 40 to 50 years.

If an item of property, plant and equipment becomes an investment property because its use has changed (other than that of temporary nature), it is reclassified as investment property at net book value and vice versa.

2.10 Intangible assets

(a) Service concession rights

As described in Notes 1(a) and (e), the Group engages with government bodies and their subordinate enterprises and participates in the development, financing, operation and maintenance of infrastructure for public services (“Concession Services”) over a specified period of time (“Concession services period”). The Group has access to operate the infrastructures to provide the Concession Services in accordance with the terms specified in the arrangements.

The arrangements are governed by the relevant Concession Services Agreements which set out performance standards and mechanisms for adjusting prices.

The concession services arrangement is within the scope of HK (IFRIC) – Interpretation 12, and the Group recognises the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) to charge users of the public service and shall recognise a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Concession right as intangible assets is recognised for the right under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 25 to 30 years.

(b) Technical know-how and software

Separately acquired technical know-how and software is recognised at historical cost. Technical know-how and software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how and software over their estimated useful lives of 5 to 10 years.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Land use rights

Land use rights acquired are classified as prepaid operating lease payments, recorded at cost and presented net of accumulated amortisation and impairment provision. The prepaid lease payments are amortised on a straight-line basis over the lease period from 25 to 50 years.

2.12 Impairment of non-financial assets

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

2.13 Investments and other financial assets

2.13.1 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.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Investments and other financial assets (Continued)

2.13.2 Recognition and derecognition

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

2.13.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (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)-net' together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.
- **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 income 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 other gains/(losses)-net'. 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)-net' and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Investments and other financial assets (Continued)

2.13.3 Measurement (Continued)

Debt instruments (Continued)

- 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)-net' in the period in which it arises.

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)- net' in the consolidated statement of comprehensive income 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.

2.13.4 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, see Note 15 for further details.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Investments and other financial assets (Continued)

2.13.5 Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets of fair value through profit or loss
- loans and receivables,
- held-to-maturity investment, and
- available-for-sale financial assets.

The classification determined on the purpose for which the financial assets were acquired. Management determined the classification of its investments at initial recognition.

Until 31 December 2017 the Group has two categories of financial assets:

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

(i) Reclassification

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Investments and other financial assets (Continued)

2.13.5 Accounting policies applied until 31 December 2017 (Continued)

(ii) Subsequent measurement

The measurement at initial recognition did not change upon adoption of HKFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value.

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

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

(iii) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or Group of financial assets was impaired. A financial asset or a Group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or Group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Investments and other financial assets (Continued)

2.13.5 Accounting policies applied until 31 December 2017 (Continued)

(iii) Impairment (Continued)

(a) *Assets carried at amortised cost*

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment testing of trade receivables is described in Note 2.2(b(ii)).

(b) *Assets classified as available-for-sale*

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in profit or loss.

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

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.15 Inventories

Inventories include raw materials, finished goods, low value consumables and construction contract costs, and are stated at the lower of cost and net realisable value.

The amount of construction contract costs incurred, plus profits and less losses recognised and progress billings is determined on individual contract basis. Where positive, this amount is recognised in inventories as work in progress in prior years. Upon adoption of HKFRS15, this amount is recognised in contract assets. Where negative, it is recognised in contract liabilities.

Costs of raw materials, finished goods and low value consumables are determined using the weighted-average method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). Provision for decline in the value of inventories is determined at the excess amount of the carrying value of the inventories over their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Notes 2.2(b) and 2.13 for further information about the Group's accounting for trade receivables and for a description of the Group's impairment policies.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Cash and cash equivalents

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

2.18 Share capital

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

2.19 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within one year of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Borrowing costs

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

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

2.22 Government grants

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

Government grants are recognised when the grants can be received and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

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

Government grants related to assets are 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 in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, 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 'Other income', otherwise, they are recorded in 'Other gains/(loss)-net'.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

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

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

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

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

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Employee benefits

(a) *Short-term obligations*

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

(b) *Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.25 Provisions

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

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

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition

(a) *Sewage water processing and heating and cooling supply services*

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

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.

As receivable is recognised over time when the services are provided that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) *Sales of environmental protection equipment*

The environmental protection equipment mainly relates to the achievement of technology research. Revenue from sales of environmental protection equipment is recognised 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.

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

Revenue from the sale of tap water and recycled water is recognised on the transfer of control when the tap water and recycled water are delivered to customers.

The Group recognises the revenue according to the contracts signed by the customers.

As receivable is recognised overtime when the series of goods are delivered that the consideration is unconditional because only the passage of time is required before the payment is due.

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

Revenue from the sales of pipeline connection for recycled water is recognised 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 contract amount.

The Group received the consideration in advance and recognised contract liabilities for the performance obligation not fully completed.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

(e) *Contract operation income*

Revenue from contract operation income is recognised in the accounting period in which the services are point in time.

Revenue from contract operation income is recognised under the accrual basis according to the service agreements.

As receivable is recognised over time when the services are provided that the consideration is unconditional because only the passage of time is required before the payment is due.

(f) *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.

As receivable is recognised over time when the services are provided that the consideration is unconditional because only the passage of time is required before the payment is due.

(g) *Financing components*

For contract where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year, the promised amount of consideration is adjusted for the effects of a significant financing components.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of finance income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.28 Dividend distribution

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

2.29 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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.

(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') (Note 22(c)).

As at 31 December 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 approximately RMB 3 million (2017: RMB 3 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 approximately RMB 8 million (2017: RMB 8 million) higher/lower.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk

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

Borrowings and long-term payables obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

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

	Fixed RMB'000	Floating RMB'000	Total RMB'000
At 31 December 2018			
Short-term borrowings	200,000	—	200,000
Other current liabilities			
– Current portion of long-term bank borrowings	—	213,952	213,952
– Current portion of long-term payables	17,615	11,802	29,417
Long-term borrowings	—	2,051,953	2,051,953
Long-term payables	187,501	78,866	266,367
Debentures	1,796,363	—	1,796,363
Total	<u>2,201,479</u>	<u>2,356,573</u>	<u>4,558,052</u>
At 31 December 2017			
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	<u>1,793,660</u>	<u>1,120,184</u>	<u>2,913,844</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

As at 31 December 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 approximately RMB18 million (2017: RMB8 million).

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

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

	2018 RMB'000	% of total loans	2017 RMB'000	% of total loans
Borrowings – repricing dates:				
6 months or less	—	—	93,024	8
6 – 12 months	2,356,573	100	1,027,160	92
	<u>2,356,573</u>	<u>100</u>	<u>1,120,184</u>	<u>100</u>

(b) Credit risk

Credit risk arises from bank, contractual cash flows of debt instruments carried at amortised cost, at fair value through comprehensive income (FVOCI), as well as credit exposures to customers, including outstanding receivables.

(i) Risk management

The Group manages credit risk on bank deposits by placing the majority of its cash and cash equivalents with state owned/listed banks in the PRC. The Group does not have any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

The credit risk on trade receivables is concentrated on a few customers, all of which are the bodies with PRC government background. Therefore, the directors of the Company are of the view that the credit risk is limited.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model

- trade receivables
- other financial assets at amortised cost

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

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 based credit risk characterises and the days past due.

The main criteria for the Group to judge the significant increase in credit risk of government customers 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 customers 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 customers 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

The main criteria for the Group to judge the significant increase in credit risk of groups other than government customers 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 customers 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.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) of trade receivables is described in Notes 2.2(b) and 15.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there objective evidence that an impairment had been incurred but not yet was been identified. For these receivables, the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Impairment of financial assets (Continued)

Other financial assets at amortised cost

Other financial assets at amortised cost include long-term receivables and other receivables.

The loss allowance for other financial assets at amortised cost as at 31 December 2017, the opening loss allowance on 1 January 2018 and the closing loss allowance as at 31 January 2018 is immaterial.

Net impairment losses on financial assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	2018 RMB'000	2017 RMB'000
Impairment losses		
– individually impaired trade receivables	(14,053)	(11,246)
– movement in loss allowance for trade receivables	(4,678)	(452)
Impairment losses on other financial assets	(148)	—
Reversal of previous impairment losses	5,906	—
	<u> </u>	<u> </u>
Net impairment losses on financial assets	<u>(12,973)</u>	<u>(11,698)</u>

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities and aggregated by Group finance. The Group's Finance Department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities (Note 22). Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal consolidated balance sheet ratio targets and, if applicable external regulatory or legal requirements-for example, currency restrictions.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

(i) Financing arrangements

The Group has undrawn borrowing facilities at the end of the reporting period (Please refer to Note 22(f) for detail).

(ii) Maturities of financial liabilities

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

	Less than 1 year RMB'000	Between 1 and 2 year RMB'000	Between 2 and 5 year RMB'000	Over 5 periods RMB'000	Total RMB'000	Carrying value RMB'000
As at 31 December 2018						
<i>Short-term bank borrowings</i>	200,000	—	—	—	200,000	200,000
<i>Long-term bank borrowings</i>	311,457	839,253	1,068,843	419,156	2,638,709	2,265,906
<i>Long-term payables</i>	30,340	31,202	99,878	300,901	462,321	295,784
<i>Trade payables</i>	176,398	—	—	—	176,398	176,398
<i>Other payables</i>	1,456,133	—	—	—	1,456,133	1,456,133
<i>Debentures</i>	78,780	78,780	1,837,215	—	1,994,775	1,796,363
<i>Dividends payable</i>	1,912	—	—	—	1,912	1,912
	<u>2,255,020</u>	<u>949,235</u>	<u>3,005,936</u>	<u>720,057</u>	<u>6,930,248</u>	<u>6,192,496</u>
As at 31 December 2017						
<i>Short-term bank borrowings</i>	519,489	—	—	—	519,489	499,000
<i>Long-term bank borrowings</i>	176,508	172,314	366,598	130,229	845,649	727,160
<i>Long-term payables</i>	27,849	28,582	91,095	314,596	462,122	289,379
<i>Other current and non-current liabilities</i>	1,409	—	—	—	1,409	1,364
<i>Trade payables</i>	128,254	—	—	—	128,254	128,254
<i>Other payables</i>	627,209	—	—	—	627,209	627,209
<i>Debentures</i>	760,060	21,910	718,258	—	1,500,228	1,396,941
<i>Dividend payable</i>	1,912	—	—	—	1,912	1,912
	<u>2,242,690</u>	<u>222,806</u>	<u>1,175,951</u>	<u>444,825</u>	<u>4,086,272</u>	<u>3,671,219</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management

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

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

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

For the year ended 31 December 2018, the Group's strategy is to maintain a gearing ratio below 40%. The gearing ratio of the Group is as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Total borrowings	4,558,052	2,913,844
Less: Cash and cash equivalents	<u>(1,808,543)</u>	<u>(1,893,689)</u>
Net debt	2,749,509	1,020,155
Total equity	<u>6,614,967</u>	<u>5,413,776</u>
Total capital	<u>9,364,476</u>	<u>6,433,931</u>
Gearing ratio	<u>29%</u>	<u>16%</u>

As at 31 December 2018, the gearing ratio of the Group is increased compared to last year, which was mainly due to the increase in the Group's borrowings for new and upgrading projects.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital management (Continued)

(a) Loan covenants

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

- The borrower's gearing ratio must not be more than 65%;
- The borrower shall not provide guarantee to third party before the approval of the lender in certain circumstances, and
- No dividend and bonus shall be distributed in any form until the loan principal, interest and related expenses of the contract have been paid off.

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

3.3 Fair value estimation

Financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (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.

As at 31 December 2018, the Group 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.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimation of provision for 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 since 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 in credit risk but with no credit impairment since initial recognition belongs to "Stage 2", and the Group makes the loss provision based on the lifetime ECL. Financial instrument that suffered credit impairment since 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 not been significantly increased since 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Estimation of provision for 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 customers group	Trade receivables with non-provincial government customers
Other customers group	Trade receivables excluding those are subject to government customers group
Project deposit group	Project deposits
Others group	Other receivables excluding VAT refund, project deposits and receivable from subsidiaries

For notes receivable in above 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 in above 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 in above 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.

(b) 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.

(c) 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.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

5 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 revenue and other income

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	2,447,515	1,931,928
Other income	173,023	278,600
Total	<u>2,620,538</u>	<u>2,210,528</u>

(b) Analysis of other income

	2018		2017	
	Income RMB'000	Cost RMB'000	Income RMB'000	Cost RMB'000
VAT refund	99,512	—	134,540	—
Government grants	73,140	—	50,730	—
Contract operation service	—	—	147,706	(111,286)
Technical services	—	—	56,802	(5,491)
Construction management	—	—	—	—
Rental	—	—	7,695	(4,266)
Others	371	—	4,610	(2,440)
	<u>173,023</u>	<u>—</u>	<u>402,083</u>	<u>(123,483)</u>

As adoption of HKFRS 15 Revenue from contracts with customers, management reviewed all kinds of income and expenses. Contract related revenue has been reclassified from other income to revenue from contracts with customers. Contract related cost has been reclassified from other income to cost of sales.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis

Management has determined the operating segments based on the reports reviewed by the strategy steering committee at strategic steering committee held regularly 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 assets. 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 etc. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column.

The strategy steering committee assesses the performance of the operating segments based on a measure of profit before income tax, which is measured in the approach consistent with that in the financial statements.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

(i) For the year ended 31 December 2018

	Sewage processing and facility construction services			Recycled water and pipeline connection RMB'000	Heating and cooling services RMB'000	Tap water operations RMB'000	Sale of environmental protection equipment RMB'000	All other segments RMB'000	Group RMB'000
	Tianjin plants RMB'000	Hangzhou plant RMB'000	Other plants RMB'000						
Segment revenue	858,211	284,062	484,102	349,860	91,015	93,261	35,282	251,722	2,447,515
Timing of revenue recognition:									
At a point in time	—	—	—	—	—	—	—	—	—
Over time	858,211	284,062	484,102	349,860	91,015	93,261	35,282	251,722	2,447,515
Segment expense	(607,310)	(201,086)	(376,977)	(213,545)	(57,905)	(76,419)	(29,044)	(190,385)	(1,752,671)
Results before share of profits of an associate	250,901	82,976	107,125	136,315	33,110	16,842	6,238	61,337	694,844
Profit before income tax									694,844
Income tax expense									(168,064)
Profit for the year									526,780
Segment assets	6,430,423	1,090,937	5,136,425	863,109	611,827	376,511	48,816	934,400	15,492,448
Investment accounted for using the equity method									195,000
Total assets									15,687,448
Total liabilities	5,838,269	349,501	1,351,428	816,293	290,659	40,542	9,711	376,078	9,072,481
Other information									
– Interest income	33,398	1,748	2,218	14,206	792	15	386	1,016	53,779
– Interest expenses	(145,836)	(15,461)	(31,211)	(57)	(2,138)	(2,319)	(18)	(1,734)	(198,774)
– Depreciation	(235)	—	(4,217)	(25,071)	(16)	(48)	(513)	(14,730)	(44,830)
– Amortization	(131,095)	(60,781)	(114,353)	(5,157)	(18,310)	(14,061)	(1,026)	(1,639)	(346,422)
– Capital expenditures	(923,737)	—	(2,499,828)	(182,955)	(45,520)	(150,780)	(2,871)	(162,481)	(3,968,172)

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

(ii) For the year ended 31 December 2017

	Sewage processing and facility construction services			Recycled water and pipeline connection RMB'000	Heating and cooling services RMB'000	Tap water operations RMB'000	Sale of environmental protection equipment RMB'000	All other segments RMB'000	Group RMB'000
	Tianjin plants RMB'000	Hangzhou plant RMB'000	Other plants RMB'000						
Segment revenue	798,592	252,000	361,897	300,897	71,250	67,401	16,200	63,691	1,931,928
Timing of revenue recognition									
At a point in time	—	—	—	—	—	—	—	—	—
Over time	798,592	252,000	361,897	300,897	71,250	67,401	16,200	63,691	1,931,928
Segment expense	(477,667)	(184,031)	(297,390)	(187,260)	(48,133)	(56,228)	(23,005)	60,574	(1,213,140)
Results before share of profits of an associate	320,925	67,969	64,507	113,637	23,117	11,173	(6,805)	124,265	718,788
Profit before income tax									718,788
Income tax expense									(199,593)
Profit for the year									519,195
Segment assets	5,679,104	1,147,042	2,690,885	1,549,175	593,280	215,711	13,508	564,185	12,452,890
Total assets									12,452,890
Total liabilities	4,262,871	424,806	791,116	1,099,796	240,864	42,317	3,583	173,761	7,039,114
Other information									
– Interest income	13,504	1,389	1,566	1,769	682	20	—	363	19,293
– Interest expenses	(77,589)	(18,458)	(26,997)	(194)	(2,785)	(3,345)	—	(2,064)	(131,432)
– Depreciation	(120)	—	(343)	(37,206)	(127)	—	(776)	(5,163)	(43,735)
– Amortization	(126,851)	(57,448)	(86,167)	(212)	(14,889)	(9,815)	—	(1,031)	(296,413)
– Capital expenditures	(54,723)	(47,713)	(700,929)	(1,720)	(141,813)	—	—	(42,130)	(989,028)

(iii) The Group's revenue from contracts with customers are all derived from customers in China.

The non-current assets are located in China.

Segment revenue as derived from sewage processing and facility construction services segment amounted to approximately RMB847 million and RMB284 million of the two customers respectively, represently approximately 34% and 11% of the Group's segment revenue (2017:RMB792 million and RMB252 million, 36% and 11%).

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

5 SEGMENT INFORMATION (Continued)

(d) Liabilities related to contracts with customers – contract liabilities

	31 December 2018 RMB'000	31 December 2017 RMB'000
For recycled water and pipeline connection services	453,602	—
For heating supply service	4,467	—
For Project Hangu	4,074	—
Others	7,042	—
	<u>469,185</u>	<u>—</u>

(i) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	2018 RMB'000
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period</i>	
Pipeline connection service	249,567
Heating supply service	3,670
Others	<u>3,955</u>

(ii) Unsatisfied long-term contracts

As at 31 December 2018, the consideration for pipeline connection services of RMB454 million of which the contracts were signed but the performance obligation is not yet fully completed, will be recognised by percentage of completion in following years.

As at 31 December 2018, the consideration for contract operation services of RMB25 million of which the contracts were signed but the performance obligations is not yet fully completed, will be recognised in 2019.

As at 31 December 2018, the consideration for agent construction service of RMB14 million of which the contracts were signed but the performance obligations is not yet fully completed, will be recognised in 2019.

As at 31 December 2018, a contract of road tolls service fee of RMB633 million was signed but the performance obligations is not yet fully completed, among which the Group expects to recognise RMB62 million as revenue in every year from 2019 to 2028, and RMB13 million as revenue in 2029.

All other contracts are for periods of one year or less or are billed based on time incurred. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and constructions (Note (ii)) RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress (Note (iv)) RMB'000	Total RMB'000
<i>Cost</i>					
At 1 January 2017	280,859	319,111	66,505	4,396	670,871
Transfer from investment properties	18,966	—	—	—	18,966
Additions	—	615	2,903	675,592	679,110
Transfers	—	405	—	(405)	—
Transfer to intangible assets (Note 7)	—	—	—	(658,926)	(658,926)
Disposals	—	—	(1,869)	—	(1,869)
At 31 December 2017	299,825	320,131	67,539	20,657	708,152
Additions	10,427	6,570	6,062	2,300,318	2,323,377
Transfer to intangible assets (Note 7)	—	—	—	(2,170,036)	(2,170,036)
Disposals	(3,182)	(230)	(8,341)	—	(11,753)
Others(ii)	5,669	(26,886)	4,673	—	(16,544)
At 31 December 2018	312,739	299,585	69,933	150,939	833,196
<i>Accumulated depreciation</i>					
At 1 January 2017	(72,144)	(129,024)	(51,821)	—	(252,989)
Transfer from investment properties	(11,869)	—	—	—	(11,869)
Charges for the year (Note (i))	(18,819)	(19,325)	(1,918)	—	(40,062)
Disposals	—	—	1,256	—	1,256
At 31 December 2017	(102,832)	(148,349)	(52,483)	—	(303,664)
Charges for the year (Note (i))	(13,488)	(24,885)	(3,689)	—	(42,062)
Disposals	3,023	218	6,869	—	10,110
Others (ii)	11,928	(10,744)	(1,184)	—	—
At 31 December 2018	(101,369)	(183,760)	(50,487)	—	(335,616)
<i>Net book value</i>					
At 31 December 2018	211,370	115,825	19,446	150,939	497,580
At 31 December 2017	196,993	171,782	15,056	20,657	404,488

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

- (i) The Group's depreciation expense of property, plant and equipment of RMB37 million (2017: RMB36 million) has been charged in 'cost of sales' and RMB5 million (2017: RMB4 million) in 'administrative expenses'.
- (ii) As at 12 November 2018, the construction cost of Jingu sewage water recycling factory has been finalised and adjustments and reclassification to the respective cost and accumulated depreciation have been made by reference to the final accounts report for the project accordingly.
- (iii) As at 31 December 2018, the certificate of legal title to the building and land use rights included in property, plant and equipment, investment properties and land use rights with carrying amount of RMB117 million and cost of RMB173 million (2017: carrying amount of RMB118 million and cost of RMB175 million) has yet to be obtained. As these assets are supported by legal sale and purchase agreements, management of the Company is of the view that the legal titles will be obtained in due course without additional significant costs to the Group.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

(iv) Construction in progress

Name	31 December 2017 RMB'000	Increase in current year RMB'000	Transfer to intangible assets RMB'000	31 December 2018 RMB'000	Construction Progress	Capitalisation interest rate	Source of funds
Tianjin							
– Jingu sewage water plants upgrading project	—	573,599	(573,599)	—	100%	4.45%	Special loan/ Self-raised fund
Fuyang							
– Jieshou sewage water processing PPP project	—	361,881	(361,881)	—	100%	4.90%	Self-raised fund
Tianjin							
– Beichen sewage water plants upgrading project	—	288,309	(288,309)	—	100%	4.45%	Special loan/ Self-raised fund
Honghu							
– Honghu sewage water processing PPP project	—	204,328	(204,328)	—	46%	4.90%	Self-raised fund
Xinjiang							
– Karamay sewage water processing PPP project	—	157,282	(157,282)	—	100%	4.50%	Self-raised fund
Shandong							
– Yishui and Tancheng solid waste project	19,410	129,544	—	148,954	23%	5.15%	Special loan/ Self-raised fund
Anhui							
– Yuwan sewage water processing project	—	89,239	(89,239)	—	100%	4.87%	Special loan/ Self-raised fund
Dalian							
– Chunliuhe sewage water processing project	—	80,189	(80,189)	—	74%	4.81%	Special loan/ Self-raised fund
Changsha							
– Ningxiang sewage water processing and recycling project	—	77,811	(77,811)	—	81%	4.35%	Self-raised fund
Linxia							
– Linxia sewage water processing PPP project	—	75,712	(75,712)	—	100%	4.35%	Self-raised fund
Wuhan							
– Honghu sewage water plants upgrading project	—	73,301	(73,301)	—	100%	4.48%	Self-raised fund
Wuhan							
– Xianning sewage water processing PPP project	—	42,982	(42,982)	—	100%	4.35%	Self-raised fund
Subtotal	19,410	2,154,177	(2,024,633)	148,954			

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

6 PROPERTY, PLANT AND EQUIPMENT (Continued)

(v) Construction in progress

Name	31 December 2017 RMB'000	Increase in current year RMB'000	Transfer to intangible assets RMB'000	31 December 2018 RMB'000	Construction Progress	Capitalisation interest rate	Source of funds
Tianjin							
– Jiayuan Heiniucheng Road energy station project	—	42,972	(42,972)	—	100%	4.48%	Self-raised fund
Tianjin							
– Xianyanglu emergency sewage water processing project	—	34,665	(34,665)	—	100%	4.45%	Self-raised fund
Changsha							
– Ningxiang sewage water processing and pipeline project	—	21,725	(21,725)	—	65%	4.90%	Special loan/ Self-raised fund
Jinghai							
– Tianyu sewage water plants upgrading project	—	14,365	(14,365)	—	17%	4.35%	Self-raised fund
Jinning							
– Ninghe sewage water plants upgrading project	—	12,799	(12,799)	—	53%	4.35%	Self-raised fund
Yingshang							
– Chengnan sewage water plants upgrading project	—	10,188	(10,188)	—	100%	4.90%	Special loan/ Self-raised fund
Other projects	1,247	9,427	(8,689)	1,985		4.48%	Self-raised fund
Total	<u>20,657</u>	<u>2,300,318</u>	<u>(2,170,036)</u>	<u>150,939</u>			

In 2018, borrowing costs of approximately RMB34.8 million was capitalised in the construction in progress (2017: RMB0.3 million). As at 31 December 2018, a bank borrowing of RMB 80 million (31 December 2017: Nil) is secured by property and equipment under construction with carrying amount of approximately RMB149 million.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

7 INTANGIBLE ASSETS

	Concession rights RMB'000	Technical know-how and software RMB'000	Total RMB'000
Cost			
At 1 January 2017	7,703,498	11,518	7,715,016
Transfer from construction in progress (Note 6)	658,926	—	658,926
Additions	287,574	23	287,597
At 31 December 2017	8,649,998	11,541	8,661,539
Transfer from construction in progress (Note 6)	2,170,036	—	2,170,036
Business combination (Note 38)	1,124,058	—	1,124,058
Additions	495,049	405	495,454
At 31 December 2018	12,439,141	11,946	12,451,087
Amortisation			
At 1 January 2017	(1,437,970)	(5,962)	(1,443,932)
Charges for the year	(295,349)	(474)	(295,823)
At 31 December 2017	(1,733,319)	(6,436)	(1,739,755)
Charges for the year	(343,964)	(816)	(344,780)
At 31 December 2018	(2,077,283)	(7,252)	(2,084,535)
Impairment			
At 1 January 2017, 31 December 2017 and 31 December 2018	(52,083)	—	(52,083)
Net book value			
At 31 December 2018	10,309,775	4,694	10,314,469
At 31 December 2017	6,864,596	5,105	6,869,701

- (i) At 31 December 2018, certain concession rights with carrying amounts of approximately RMB2,758 million (cost of RMB3,323 million) (2017: carrying amount of RMB181 million (cost of RMB302 million)) have been pledged as securities for bank borrowing of RMB321 million (2017: RMB25 million) (Note 22(a)).
- (ii) The remaining amortisation period of concession rights ranges from 11 to 30 years.
- (iii) Amortisation of approximately RMB344 million (2017: RMB295 million) has been charged to the 'cost of sales' and RMB1 million (2017: RMB1 million) has been charged to 'administrative expenses'.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

8 LAND USE RIGHTS

All the Group's land use rights are located in the PRC and are held on a medium term leases of 25 to 50 years. The Group's interests in land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

	RMB'000
Cost	
At 1 January 2017 and 31 December 2017	40,162
Additions	25,283
	65,445
At 31 December 2018	65,445
Amortization	
At 1 January 2017	(2,855)
Charges for the year	(590)
	(3,445)
At 31 December 2017	(3,445)
Charges for the year	(1,642)
	(5,087)
At 31 December 2018	(5,087)
Net book value	
At 31 December 2018	60,358
At 31 December 2017	36,717

- (i) As at 31 December 2018, bank borrowing of RMB80 million (Note 22(a) (i)) (2017:Nil) is secured by land use right and property and equipment under construction (Note 6) of a subsidiary with carrying amount of RMB27 million (cost of RMB28 million) (2017: Not applicable).

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

9 INVESTMENT PROPERTIES

	RMB'000
<i>Cost</i>	
At 1 January 2017	137,734
Additions	—
Transfer to property, plant and equipment	<u>(18,966)</u>
At 31 December 2017 and 31 December 2018	<u>118,408</u>
<i>Depreciation</i>	
At 1 January 2017	(39,784)
Charges for the year	(3,673)
Transfer to property, plant and equipment	<u>11,869</u>
At 31 December 2017	(31,588)
Charges for the year	<u>(2,768)</u>
At 31 December 2018	<u>(34,356)</u>
<i>Net book value</i>	
At 31 December 2018	<u><u>84,052</u></u>
At 31 December 2017	<u><u>86,820</u></u>

As at 31 December 2018, the Group's investment properties include two office building areas which belong to the Company and Tianjin Water Recycling Co., Ltd. According to the valuation of the Group management, the fair value of aforesaid movement properties amounted to approximately RMB216 million (2017:RMB239 million).

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

10A SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2018:

Name	Place of registration and operation	Nature of business and business scope	Registered capital RMB'000	Equity interest held by the Group (%) 2018/2017	Equity interest held by the non-controlling interest (%) 2018/2017
Qujing Capital Water Co., Ltd. ("Qujing Company")	Qujing, PRC	Sewage processing, tap water supply	178,983	87	13
Guizhou Capital Water Co., Ltd.	Guizhou, PRC	Sewage processing	120,000	95	5
Baoying Capital Water Co., Ltd. ("Baoying Company")	Baoying, PRC	Sewage processing	83,000	70	30
Hang Zhou Tianchuang Capital Water Co., Ltd. ("Hang Zhou Company")	Hangzhou, PRC	Sewage processing	377,445	70	30
Tianjin Capital New Materials Co., Ltd.	Tianjin, PRC	Production and sales of new types of construction	37,500	71	29
Fuyang Capital Water Co., Ltd.	Fuyang, PRC	Sewage processing	191,100	100	—
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Hong Kong, PRC	Sewage processing	62,987	100	—
Wendeng Capital Water Co., Ltd.	Wendeng, PRC	Sewage processing	61,400	100	—
Tianjin Jinghai Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	37,553	100	—
Tianjin Water Recycling Co., Ltd.	Tianjin, PRC	Production and sales of recycled water and technical consulting for water recycling business	100,000	100	—
Xi'an Capital Water Co., Ltd.	Xi'an, PRC	Sewage processing	334,000	100	—
Tianjin Caring Technology Development Co., Ltd. ("Caring")	Tianjin, PRC	Environmental engineering, protection and technical consultation material	33,333	60/100	40
Anguo Capital Water Co., Ltd.	Anguo, PRC	Sewage and tap water	41,000	100	—
Wuhan Tianchuang Environmental Protection Co., Ltd.	Wuhan, PRC	Sewage and tap water processing	201,969	100	—
Tianjin Jinning Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	22,560	100	—
Tianjin Capital Alternative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service property management	191,951	100	—
Yingshang Capital Water Co., Ltd.	Yingshang, PRC	Sewage processing	53,000	100	—
Shandong Capital Environmental Protection Technology Consultant Co., Ltd. ("Shandong Company")	Shandong, PRC	Sewage processing engineering	192,000	55/100	45
Changsha Tianchuang Capital Environmental Protection Co., Ltd.	Changsha, PRC	Sewage processing	40,250	81	19
Karamay Tianchuang Capital Water Co., Ltd.	Karamay, PRC	Sewage processing	120,000	90	10
Anhui Tianchuang Capital Water Co., Ltd.	Hefei, PRC	Sewage processing	63,670	100	—
Linxia Capital Water Co., Ltd.	Linxia, PRC	Sewage processing	45,000	100	—
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd. ("Dalian Company")	Dalian, PRC	Sewage processing	94,079	64	36
Changsha Tianchuang Capital Water Co., Ltd.	Changsha, PRC	Sewage processing	19,148	80	20
Inner Mongolia Bayannur Capital Water Co., Ltd. ("Bayannur Company")	Bayannur, PRC	Sewage processing	1,067,578	70	30
Honghu Tianchuang Capital Water Co., Ltd.	Honghu, PRC	Sewage processing	131,331	85	15
Hefei Capital Water Co., Ltd.	Hefei, PRC	Sewage processing	205,957	100	—
Deqing Capital Water Co., Ltd.	Deqing, PRC	Sewage processing	60,000	90	10

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

10A SUBSIDIARIES (Continued)

(i) Material non-controlling interests

The total non-controlling interests as at 31 December 2018 are approximately RMB797 million (2017: RMB297 million), of which approximately RMB733 million (2017: RMB269 million) is attributed to below subsidiaries respectively:

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Hang Zhou Company	204,730	186,733
Qujing Company	36,024	34,892
Dalian Company	23,988	23,754
Bayannur Company	333,358	—
Baoying Company	33,103	23,604
Caring	46,136	—
Shandong Company	55,378	—
	<u>732,711</u>	<u>268,983</u>

The non-controlling interests in other subsidiaries are not material.

Summarised financial information on subsidiaries with material non-controlling interests is set out as below:

Summarised balance sheet

	At 31 December 2018					
	Current assets RMB'000	Non-current assets RMB'000	Total assets RMB'000	Current liabilities RMB'000	Non-current liabilities RMB'000	Total liabilities RMB'000
Hang Zhou Company	325,273	784,561	1,109,834	158,784	268,617	427,401
Qujing Company	129,511	265,004	394,515	72,858	58,124	130,982
Dalian Company	12,294	171,341	183,635	61,879	55,692	117,571
Bayannur Company	36,593	1,095,010	1,131,603	6,680	13,728	20,408
Baoying Company	25,427	81,683	107,110	2,191	259	2,450
Caring	133,640	10,342	143,982	28,340	303	28,643
Shandong Company	35,503	207,963	243,466	42,705	77,700	120,405
	<u>698,241</u>	<u>2,615,904</u>	<u>3,314,145</u>	<u>373,437</u>	<u>474,423</u>	<u>847,860</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

10A SUBSIDIARIES (Continued)

(i) Material non-controlling interests

Summarised balance sheet (continued)

	At 31 December 2017					
	Current assets RMB'000	Non-current assets RMB'000	Total assets RMB'000	Current liabilities RMB'000	Non-current liabilities RMB'000	Total liabilities RMB'000
Hang Zhou 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
Baoying Company	16,751	81,351	98,102	7,362	17,741	25,103
	<u>474,423</u>	<u>1,289,209</u>	<u>1,763,632</u>	<u>305,560</u>	<u>442,096</u>	<u>747,656</u>

Summarised income statement

	Year ended 31 December 2018			
	Revenue RMB'000	Profit before tax RMB'000	Income tax expense RMB'000	Profit for the year RMB'000
Hang Zhou Company	284,476	83,305	(23,314)	59,991
Qujing Company	110,327	15,616	(7,202)	8,414
Dalian Company	4,726	673	(23)	650
Bayannur Company	55,016	864	392	1,256
Baoying Company	19,189	5,643	(1,381)	4,262
Caring	114,129	9,933	(480)	9,453
Shandong Company	368	(3,623)	—	(3,623)
	<u>588,231</u>	<u>112,411</u>	<u>(32,008)</u>	<u>80,403</u>

	Year ended 31 December 2017			
	Revenue RMB'000	Profit before tax RMB'000	Income tax expense RMB'000	Profit for the year RMB'000
Hang Zhou Company	252,381	68,312	(30,435)	37,877
Qujing Company	103,002	22,385	(6,462)	15,923
Dalian Company	115	(9,699)	—	(9,699)
Baoying Company	19,763	7,418	(1,941)	5,477
	<u>375,261</u>	<u>88,416</u>	<u>(38,838)</u>	<u>49,578</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

10A SUBSIDIARIES (Continued)

(i) Material non-controlling interests (Continued)

Summarised statement of cash flows

	Year ended 31 December 2018				
	Cash flows from operating activities RMB'000	Cash flows from investing activities RMB'000	Cash flows from financing activities RMB'000	Cash and cash equivalents at the beginning of the financial year RMB'000	Cash and cash equivalents at the end of the year RMB'000
Hang Zhou Company	138,010	(44,259)	(89,183)	255,739	260,307
Qujing Company	24,941	(621)	(18,022)	14,201	20,499
Dalian Company	257	(72,912)	66,911	12,144	6,400
Bayannur Company	9,466	(1,005)	(133)	—	8,328
Baoying Company	11,309	(5,695)	4,025	10,234	19,873
Caring	7,803	(4,492)	60,067	19,645	83,023
Shandong Company	(2,260)	(124,330)	79,920	73,116	26,446
	<u>189,526</u>	<u>(253,314)</u>	<u>103,585</u>	<u>385,079</u>	<u>424,876</u>
	Year ended 31 December 2017				
	Cash flows from operating activities RMB'000	Cash flows from investing activities RMB'000	Cash flows from financing activities RMB'000	Cash and cash equivalents at the beginning of the financial year RMB'000	Cash and cash equivalents at the end of the year RMB'000
Hang Zhou Company	153,338	(19,100)	20,782	101,618	256,638
Qujing Company	33,551	(2,113)	(25,160)	7,922	14,200
Dalian Company	(13,080)	(49,889)	75,113	—	12,144
Baoying Company	12,527	(330)	(10,428)	8,465	10,234
	<u>186,336</u>	<u>(71,432)</u>	<u>60,307</u>	<u>118,005</u>	<u>293,216</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

10B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

- (i) Tianjin Bihai Sponge City Co., Ltd. (“Bihai Sponge City”) is a limited liability Company registered in Tianjin. The principal activities of Bihai Sponge City include building and operating of water processing projects; purchasing and manufacturing of water processing equipments; tourism development; ecological management; Bihai Sponge city project construction and operating management; municipal engineering construction and operation. Bihai Sponge City was registered on 30 July 2018 and is still in the initial construction period. Bihai Sponge City is an associate of the Group.

Summarised financial information for Bihai Sponge City

	31 December 2018 RMB'000	31 December 2017 RMB'000
Net book value of investments	195,000	—
Attributable comprehensive income for the year:		
– Net loss i)	—	—
– Other comprehensive income i)	—	—
Total comprehensive income	—	—

- i) Net loss and other comprehensive income includes the fair value adjustment of the identifiable assets and liabilities upon investment, and the effect of change in accordance with the Group’s accounting policy.

11 FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE FINANCIAL ASSETS AS AT 31 DECEMBER 2018 AND 2017 REPRESENTING THE FOLLOWING:

Unlisted securities, at cost:		
– Equity securities (note)	2,000	2,000

Note:

These investments as carried at cost represented the investment in the equity shares of an unlisted entity which do not have a quoted market price in an active market and the fair value of which cannot be reliably measured. These investment are all denominated in RMB.

Upon the adoption of IFRS 9, the aforesaid investment has been reclassified from “available-for-sale financial assets” to “financial assets at fair value through other comprehensive income” with effect from 1 January 2018.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

12 LONG-TERM RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Receivables from toll road concession right (note)	276,613	294,956
Less: loss allowance for impairment of long-term receivables	(138)	—
	<u>276,475</u>	<u>294,956</u>
Less: non-current assets due within one year	(22,789)	—
	<u><u>253,686</u></u>	<u><u>294,956</u></u>

Note:

The Group receives toll road fee from Tianjin Municipal and Highway Management Bureau (the 'Bureau') over the concession period till 2029. 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.

The Bureau is a public institution of Tianjin Municipal Government. The credit risk level of the Bureau is low. Base on past experience, the receivables can be collected within agreed period. Therefore, the Company estimates that the ECL rate of this receivable item is 0.05%.

13 OTHER CURRENT ASSETS AND OTHER NON-CURRENT ASSETS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Other current assets:		
Input tax of VAT	98,605	47,219
Concession right to be disposed	36,913	36,913
Non-current assets due within one year (Note12)	22,789	—
Income tax prepaid	10,598	—
Input VAT to be verified	10,572	38
Others	—	1,279
	<u>179,477</u>	<u>85,449</u>
Other non-current assets:		
Prepayments for construction projects	50,927	209,824
Input tax of VAT	49,122	—
Prepayments for acquisition of a subsidiary	—	380,000
Others	9,132	8,609
	<u>109,181</u>	<u>598,433</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

14 INVENTORIES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Raw materials	9,897	8,251
Finished goods	3,746	3,198
Spare parts and low value consumables	348	414
Construction contract costs	—	6,249
	<u>13,991</u>	<u>18,112</u>

15 TRADE RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Receivables from third parties	2,089,992	1,897,344
– Trade receivables	2,079,697	1,895,444
– Notes receivable	10,295	1,900
Receivables from related parties	51,352	68,815
	<u>2,141,344</u>	<u>1,966,159</u>
Less: loss allowance for impairment of trade receivables (Note(a))	(49,584)	(34,101)
	<u>2,091,760</u>	<u>1,932,058</u>

(a) Impaired trade receivables

(i) The aging of trade receivables is analysed below:

	31 December 2018		31 December 2017	
	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Within 1 year	1,468,039	68	1,268,394	64
1 to 2 years	649,268	29	666,168	34
2 to 3 years	15,464	1	11,914	1
3 to 4 years	7,024	1	19,683	1
4 to 5 years	1,549	1	—	—
Total	<u>2,141,344</u>	<u>100</u>	<u>1,966,159</u>	<u>100</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

15 TRADE RECEIVABLES (Continued)

(a) Impaired trade receivables (Continued)

(ii) As at 31 December 2018, provision for bad debts by individual is analysed as below:

	Carrying amount RMB'000	Expected credit loss rate	Loss Allowance RMB'000	Reasons
Tianjin Water Authority Bureau	1,582,240	0.05%	(791)	i)
Qijing Sewage Company	140,296	24.49%	(34,357)	ii)
Hangzhou Municipal Facilities Supervision Center	43,545	0.05%	(21)	i)
Hangzhou Sewage Company	18,198	0.05%	(9)	i)
Guiyang Water Authority Bureau	39,243	0.05%	(2)	i)
Xi'an Infrastructure Investment Group	16,608	0.05%	(14)	i)
Tianjin Qudong Culture Media Co. LTD	7,910	100.00%	(7,910)	iii)
Total	<u>1,848,040</u>		<u>(43,104)</u>	

- i) As these customers are provincial 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 Group from Tianjin Water Authority Bureau, from Xi'an Urban Infrastructure Construction Investment Group Co., Ltd., from Hangzhou Sewage Company and Hangzhou Municipal Facilities Supervision Center, and from Guiyang Water Authority Bureau have a lower credit risk, based on the analysis of historical payment records and forward-looking measurement. Therefore, the Company estimates that the lifetime expected credit loss rate of the receivables is 0.05%.
- ii) Receivables from Qijing 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 customers 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 concludes that the receivables of price compensation have been defaulted and estimates that the lifetime expected credit loss rate is 100%.
- iii) Receivables from Tianjin Qudong Culture Media Co., Ltd. has applied enforcement and got approval from the court. Thus, the Company concludes that the receivables have been defaulted and estimates that the lifetime expected credit loss is 100%.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

15 TRADE RECEIVABLES (Continued)

(a) Impaired trade receivables (Continued)

(ii) As at 31 December 2018, provision for bad debts by individual is analysed as below: (Continued)

Group - banker's acceptance

As at 31 December 2018, the Group measures bad debt provision in accordance with the lifetime expected credit loss for the entire duration, and no provision is deemed necessary. 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 – Non-provincial government customers

	31 December 2018		
	Carrying amount	Loss allowance Expected	Amount RMB'000
	Amount RMB'000	credit loss rate	
Undue	42,605	0.010%	(4)
1-90 days overdue	37,570	0.050%	(19)
90-180 days overdue	26,128	0.200%	(52)
>180 days overdue	64,790	0.500%	(324)
	<u>171,093</u>		<u>(399)</u>

Group - others

	31 December 2018		
	Carrying amount	Loss allowance Expected	Amount RMB'000
	Amount RMB'000	credit loss rate	
Undue	34,821	0.100%	(35)
1-30 days overdue	28,277	0.500%	(141)
30-90 days overdue	20,246	2.000%	(405)
>90 days overdue	28,572	5.000%	(5,500)
	<u>111,916</u>		<u>(6,081)</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

15 TRADE RECEIVABLES (Continued)

(a) Impaired trade receivables (Continued)

(iii) The accrued bad debt provision in this year is RMB 18,731,000, and the bad debts provision reversed is RMB 5,096,000. The main reversed amounts are as follow:

Significant bad debt provision reversed is illustrated below:

	Reason for collected or reversed	Basis and rationality of bad debts provision	Amount of collected or reversed RMB'000	Method of collected of reversed
Tianjin Xinghe Paper Company Ltd.	Trade receivables collected	Long Aging	4,020	Collected by cash
Others	Trade receivables collected	Long Aging	1,886	Collected by cash
			<u>5,906</u>	

The bad debt provision of RMB4,020,000 for receivables from Tianjin Xinghe Paper Co., Ltd. is reversed in this year, the corresponding book value of trade receivables is RMB 4,020,000.

16 PREPAYMENTS

The aging of prepayments is analysed below:

	31 December 2018		31 December 2017	
	Amount RMB'000	% of total balance	Amount RMB'000	% of total balance
Within 1 year	22,431	95	43,069	35
1 to 2 years	202	1	71,489	57
Over 2 years	898	4	10,212	8
	<u>23,531</u>	<u>100</u>	<u>124,770</u>	<u>100</u>

- (i) As at 31 December 2018, the prepayments aging over one year of approximately RMB1.1 million (2017: RMB82 million) were mainly prepayments to suppliers for recycled water pipeline connection business. Because the construction progress of the project is slower than the payment progress, the payment has not been settled.
- (ii) See Note 2.2 for detail about restatements for change in accounting policy.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

17 OTHER RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Deposits	18,922	74,284
VAT refund receivables (i)	10,379	9,525
Others	6,871	9,899
	36,172	93,708
Less: loss allowance	(10)	—
	<u>36,162</u>	<u>93,708</u>

(a) As at 31 December 2018, provisions for bad debts of other receivables in stage 1 are analysed as follows:

	Carrying amount RMB'000	ECL rate in the next 12 months	Provision for bad debts RMB'000	Reason
Group:				
Project deposits	18,922	0.05%	(7)	(ii)
Others	6,871	0.10%	(3)	(ii)
	<u>25,793</u>		<u>(10)</u>	

(i) The VAT refund is due from the local tax authorities at balance sheet date.

(ii) The project deposits are the construction deposit handed over to the local government during the construction period of the concession project. As at 31 December 2018, other receivables of the Group are not overdue and have low credit risk and its credit risk has not increased significantly since the initial recognition, so other receivables of the Group are belong to stage 1. The credit risk of government customers is lower than that of other customers, so the ECL rate is 0.05% and 0.1% respectively in the next 12 months for government and other customers.

(b) As at 31 December 2018, the Group has no other receivables belong to stage 2 and stage 3.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

17 OTHER RECEIVABLES (Continued)

- (c) As at 31 December 2018, other receivables from the top five debtors in respect of outstanding balance are analysed as below:

	Nature	Amount RMB'000	Aging RMB'000	% of total balance RMB'000	Provision for bad debts
Linxia City Water Supply and Sewerage Company	Project deposits	8,000	1 to 2 years	22%	(4)
Xi'an Hi-tech District State Taxation Bureau	VAT refund receivable	2,619	Within 1 year	7%	—
Tianjin State Taxation Bureau	VAT refund receivable	2,036	Within 1 year	6%	—
Linxia Human Resources and Social Security Bureau	Others	1,803	1 to 2 years	5%	(1)
Fuyang Finance Bureau	VAT refund receivable	<u>1,538</u>	Within 1 year	<u>4%</u>	<u>—</u>
		<u>15,996</u>		<u>44%</u>	<u>(5)</u>

- (d) As at 31 December 2018, the analysis of receivables due from government grants is as follows:

	Government subsidies program	Amount RMB'000	Aging	Estimated timing, amount and basis of collection
Xi'an Capital Water Co., Ltd.	VAT refund	2,619	Within 1 year	VAT refund receivable, fully collected in 2019
The Company	VAT refund	2,036	Within 1 year	VAT refund receivable, fully collected in 2019
Fuyang Capital Water Co., Ltd.	VAT refund	1,538	Within 1 year	VAT refund receivable, fully collected in 2019
Inner Mongolia Bayannur Capital Water Co., Ltd.	VAT refund	1,030	Within 1 year	VAT refund receivable, fully collected in 2019
Tianjin Water Recycling Co., Ltd.	VAT refund	965	Within 1 year	VAT refund receivable, fully collected in 2019
Guizhou Capital Water Co., Ltd.	VAT refund	838	Within 1 year	VAT refund receivable, fully collected in 2019
Hangzhou Capital Water Co., Ltd.	VAT refund	485	Within 1 year	VAT refund receivable, fully collected in 2019
Baoying Capital Water Co., Ltd.	VAT refund	288	Within 1 year	VAT refund receivable, fully collected in 2019
Wendeng Capital Water Co., Ltd.	VAT refund	244	Within 1 year	VAT refund receivable, fully collected in 2019
Qujing Capital Water Co., Ltd.	VAT refund	231	Within 1 year	VAT refund receivable, fully collected in 2019
Anguo Capital Water Co., Ltd.	VAT refund	<u>105</u>	Within 1 year	VAT refund receivable, fully collected in 2019
		<u>10,379</u>		

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

18 CASH AND CASH EQUIVALENTS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Cash in hand	61	144
Cash at bank	1,826,140	1,905,534
	<u>1,826,201</u>	<u>1,905,678</u>
Less: Restricted cash (note)	(17,658)	(11,989)
Cash and cash equivalents	<u>1,808,543</u>	<u>1,893,689</u>

Note:

As at 31 December 2018, cash at bank of approximately RMB18 million (2017: RMB12 million) are restricted guarantee deposits.

19 SHARE CAPITAL

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

	Circulating A-shares (thousands) RMB'000	Circulating H-shares (thousands) RMB'000	Total number of shares (thousands) RMB'000	Share Capital RMB'000
At 31 December 2016, 2017 and 2018	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>	<u>1,427,228</u>

A-shares represent shares listed on The Shanghai Stock Exchange and H-shares represent shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. All the A-shares and H-shares rank pari passu in all respects.

There is no movement in the Group's issue A-share and H-share during the year ended 31 December 2018 and 2017.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

20 OTHER RESERVES

	Capital reserve (Note(i)) RMB'000	Statutory reserve RMB'000	Total RMB'000
Balance at 1 January 2017	399,115	444,925	844,040
Profit appropriation to statutory reserve (Note(ii))	—	34,982	34,982
Balance at 31 December 2017	399,115	479,907	879,022
Non-controlling interests from capital contribution (Note(i))	31,909	—	31,909
Profit appropriation to statutory reserve (Note(ii))	—	37,200	37,200
Balance at 31 December 2018	431,024	517,107	948,131

- (i) In March 2018, Beijing OriginWater Technology Co., Ltd. (“Beijing OriginWater”) has contributed capital in cash to Caring, a then wholly-owned subsidiary of the Group. After the capital injection, the Group and Beijing OriginWater owned 48% and 40% equity interest respectively in the subsidiary. The amount as contributed by Beijing OriginWater in excess of its proportionate share of the net assets of the subsidiary of approximately RMB16.9 million has been credited to capital reserve during the year ended 31 December 2018.

In September 2018, the Company has disposed 45% equity interest in Shandong Company, a then wholly-owned subsidiary of the Group, to Dalian Dongtai Industrial Waste Disposal Co., Ltd. at a cash consideration of RMB70.8 million (the “Disposal”). After the Disposal, Shandong Company remained as a subsidiary of the Group and the gain on the Disposal of approximately RMB15 million has been credited to capital reserve during the year ended 31 December 2018.

- (ii) In accordance with PRC laws and regulations, companies established in the PRC are required to transfer at least 10% of their net profit for the year, as determined under the PRC accounting standards, to relevant reserves until the reserve reaches 50% of the registered capital. Such reserves can be used to offset accumulated losses, capitalisation into capital and expansion of production.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

21 RETAINED EARNINGS

	2018 RMB'000	2017 RMB'000
Balance 1 January	2,810,790	2,473,109
Change in accounting policy (Note (i))	<u>168,086</u>	<u>—</u>
	2,978,876	2,473,109
Net profit for the year	501,168	508,251
Profit appropriation to statutory reserve (Note 20)	(37,200)	(34,982)
Dividends declared (Note (ii))	<u>—</u>	<u>(135,588)</u>
Balance 31 December	<u><u>3,442,844</u></u>	<u><u>2,810,790</u></u>

- (i) In 2018, due to the first adoption of the HKFRS 9 and HFFRS 15, the retained earnings at the beginning of 2018 was adjusted by RMB168,086,000. (Notes 2.2 (b) (c))
- (ii) The Company did not declared any profit distribution in 2018 (2017: RMB 136 million, RMB 0.095 per share).
- (iii) According to the resolution of the Board of Directors on 27 March 2019, the Board of Directors proposed that the Company shall pay a cash dividend of RMB0.106 per share to all shareholders, and the total amount of the proposed cash issued dividend, shall be RMB 151.29 million calculated according to the issued shares, which shall be subject to the approval of the general meeting of shareholders.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

22 BORROWINGS

	31 December 2018 RMB'000	31 December 2017 RMB'000
<i>Non-current:</i>		
Long-term bank borrowings (Note(a))	2,265,905	727,160
Less: Current portion (Note (a))	<u>(213,952)</u>	<u>(145,643)</u>
	2,051,953	581,517
Debtures (Note (b))	1,796,363	1,396,941
Less: Current portion (Note (b))	<u>—</u>	<u>(698,957)</u>
	1,796,363	697,984
Long-term payables (Note (c))	295,784	289,379
Less: Current portion (Note (c))	<u>(29,417)</u>	<u>(25,492)</u>
	266,367	263,887
<i>Total non-current borrowings</i>	<u>4,114,683</u>	<u>1,543,388</u>
<i>Current:</i>		
Short-term bank borrowings (Note (d))	200,000	499,000
Current portion of long-term bank borrowings (Note (a))	213,952	145,643
Current portion of debtures (Note (b))	—	698,957
Current portion of long-term payables (Note (c))	<u>29,417</u>	<u>25,492</u>
	443,369	1,369,092
Current portion of other liabilities (Note (e))	<u>—</u>	<u>1,364</u>
<i>Total current borrowings</i>	<u>443,369</u>	<u>1,370,456</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

22 **BORROWINGS** (Continued)

(a) **Long-term bank borrowings**

The long-term bank borrowings are summarised as below:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Borrowings from:		
Industrial and Commercial Bank of China	608,042	168,517
The Export-Import Bank Of China	500,000	—
China Construction Bank	397,000	199,000
China Development Bank	369,313	64,100
Bank of China	190,444	67,372
China Minsheng Bank	102,200	124,000
Industrial Bank	42,206	46,571
Bank of Communications	40,500	30,000
Agriculture Bank of China	16,200	27,600
	<u>2,265,905</u>	<u>727,160</u>

Summary of terms of bank borrowings:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Secured (Note (i))	400,633	25,000
Guarantee (Note (ii))	147,000	174,000
Unsecured	1,718,272	528,160
	<u>2,265,905</u>	<u>727,160</u>

(i) As at 31 December 2018, bank borrowing of RMB80 million is secured by land use right (Note 8) and property and equipment under construction (Note 6) of Shandong Capital Environmental Protection Technology Consultant Co., Ltd. As at 31 December 2017, bank borrowings of RMB 25 million is secured by the concession rights (Note 7).

As at 31 December 2018, bank borrowing of RMB 321 million (2017: Nil) is secured by all earnings and equity of Jingu and Beicang upgrading project under the Group's concession right.

(ii) As at 31 December 2018, bank borrowing of RMB147 million (2017: RMB174 million) is guaranteed by ultimate shareholder, City Infrastructure Construction and Investment.

(iii) The interest rates of the long-term bank borrowings range from 4.275% to 5.463% as at 31 December 2018 (2017: 4.275% to 7.830%).

(iv) The carrying amounts of the Group's borrowings are denominated in RMB.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

22 BORROWINGS (Continued)

(a) Long-term bank borrowings (Continued)

(v) As at 31 December 2018, the Group's borrowings were repayable as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 1 year	213,952	145,643
1 to 2 years	763,828	142,332
2 to 5 years	959,302	316,488
Over 5 years	328,823	122,697
	<u>2,265,905</u>	<u>727,160</u>

(vi) The carrying amounts of long-term bank borrowings approximate their fair values as at 31 December 2018 because they bear interest at prevailing market rates throughout their maturity period.

(b) Debentures

	31 December 2017 (Including due within 1 year) RMB'000	Additions RMB'000	Repayment RMB'000	Amortization RMB'000	31 December 2018 RMB'000
Par value	1,400,000	1,100,000	(700,000)	—	1,800,000
Transaction cost	(3,059)	(2,491)	—	1,913	(3,637)
	<u>1,396,941</u>	<u>1,097,509</u>	<u>(700,000)</u>	<u>1,913</u>	<u>1,796,363</u>

Debentures are analysed as follows:

	Par value RMB'000	Issue date	Duration	Issue amount RMB'000
Debenture I(i)	700,000	29 May 2013	5 years	700,000
Debenture II(ii)	700,000	25 October 2016	5 years	700,000
Debenture III(iii)	1,100,000	25 April 2018	5 years	1,100,000

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

22 **BORROWINGS** (Continued)

(b) **Debentures** (Continued)

Interest accrued/paid for the debentures is analysed as follows:

	Interest accrued/paid			31 December 2018 RMB'000
	31 December 2017 RMB'000	Interest accrued in current year RMB'000	Interest paid in current year RMB'000	
Debenture I (i)	22,554	15,596	(38,150)	—
Debenture II (ii)	4,021	21,910	(21,910)	4,021
Debenture III (iii)	—	38,952	—	38,952
	<u>26,575</u>	<u>76,458</u>	<u>(60,060)</u>	<u>42,973</u>

- (i) On 29 May 2013, the Company issued a debenture at par value of RMB700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. Fixed interest at a rate of 5.45% has been accrued and settled per annum. The debenture was repaid on 30 May 2018.
- (ii) On 25 October 2016, the Company issued a debenture at par value of RMB700 million on The Shanghai Stock Exchange. Fixed interest at a 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 RMB1,100 million on The Shanghai Stock Exchange. Fixed interest at a rate of 5.17% has been accrued and settled per annum. The debenture will be due for repayment on 25 October 2023. The principal will be repaid on maturity.

(c) **Long-term payables**

	31 December 2018			31 December 2017		
	Payable RMB'000	Unrecognised financing charges RMB'000	Total RMB'000	Payable RMB'000	Unrecognised financing charges RMB'000	Total RMB'000
Payable to Sewage Company for assets acquisition	<u>462,321</u>	<u>(166,537)</u>	<u>295,784</u>	<u>462,123</u>	<u>(172,744)</u>	<u>289,379</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

22 BORROWINGS (Continued)

(c) Long-term payables (Continued)

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

	Maturity date	Original balance RMB'000	Effective interest rate	Ending balance at 31 December 2018 RMB'000	Current portion at 31 December 2018 RMB'000
Sewage Company	20 March 2041	430,314	5.94%	295,784	29,417

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

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

The balance denominated in US dollar bears an interest rate at 6 month LIBOR plus 0.6%, the balance denominated in JPY bears fixed interest rates of 1% and 1.55% per annum respectively.

The carrying amounts of long-term payables are denominated in the following currencies:

	31 December 2018 RMB'000	31 December 2017 RMB'000
JPY	205,116	197,719
US dollar	90,668	91,660
	<u>295,784</u>	<u>289,379</u>

(ii) The long-term payables mature as follows, and as at 31 December 2018, the current portion of long-term payables of RMB29 million was classified as current liabilities (2017: RMB25 million).

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within 1 year	29,417	25,492
1 to 2 years	28,551	24,691
2 to 5 years	81,380	70,080
Over 5 years	156,436	169,116
	<u>295,784</u>	<u>289,379</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

22 **BORROWINGS** (Continued)

(d) **Short-term bank borrowings**

The short-term bank borrowings are summarised as below:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Unsecured borrowings from:		
China Merchants Bank	200,000	—
Industrial and Commercial Bank of China	—	200,000
Tianjin Rural Commercial Bank	—	150,000
Bank of China	—	100,000
China Everbright Bank	—	49,000
	<u>200,000</u>	<u>499,000</u>

The carrying amounts of the Group's borrowings are denominated in RMB.

(e) **Other liabilities**

	31 December 2018 RMB'000	31 December 2017 RMB'000
<i>Current:</i>		
– Current portion of government loan for water recycling plants construction (note)	—	1,364
Others	—	—
	<u>—</u>	<u>1,364</u>

Note:

A loan was obtained from Tianjin Municipal Bureau by Tianjin Water Recycling Co., Ltd., a subsidiary of the Company, in 2003 for the purpose of the construction of water recycling plants. The loan was repayable by equal amount instalments over eleven years from 2007 and was repaid in May 2018.

(f) As at the balance sheet dates, the Group has the following committed undrawn borrowing facilities:

	31 December 2018 RMB'000	31 December 2017 RMB'000
At floating rate expiring within 1 year	2,076,608	3,228,000
At floating rate expiring beyond 1 year	1,349,580	700,000
Total	<u>3,428,188</u>	<u>3,928,000</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

23 OTHER NON-CURRENT LIABILITIES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Advance for cooling service	<u>38,000</u>	<u>40,000</u>

24 DEFERRED REVENUE

Deferred revenue represents the subsidies received from governmental authorities with respects to the Group's certain construction and research and development projects. Details of the deferred revenue are as below:

	31 December 2017 RMB'000	Additions RMB'000	Recognised in other income RMB'000	Recognised in other gains/ loss - net RMB'000	31 December 2018 RMB'000	Relating to assets/ costs
Sewage water processing plants:						
– Jingu	1,311,533	—	(51,285)	(1,703)	1,258,545	assets
– Jingu upgrading project	163,000	—	—	—	163,000	assets
– Beichen upgrading project	90,000	—	—	—	90,000	assets
– Xianyanglu-upgrading project	61,442	—	(2,363)	—	59,079	assets
– Dongjiao-upgrading project	43,114	—	(1,658)	—	41,456	assets
– Ningxiang project	—	18,900	(621)	—	18,279	assets
– Beishiqiao-upgrading project	11,073	—	(719)	—	10,354	assets
– Linxia project	—	7,600	—	—	7,600	assets
Water recycling plants:						
– Jingu	210,678	—	(4,285)	—	206,393	assets
– Dongjiao	21,756	—	(675)	—	21,081	assets
– Beichen	18,637	—	(525)	—	18,112	assets
– Xianyanglu	13,227	—	(27)	—	13,200	assets
Heating and cooling supply service project	171,670	14,634	(5,947)	—	180,357	assets
Others	12,934	1,165	(470)	—	13,629	costs
Total	<u>2,129,064</u>	<u>42,299</u>	<u>(68,575)</u>	<u>(1,703)</u>	<u>2,101,085</u>	

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

25 DEFERRED TAX LIABILITIES

	31 December 2018		31 December 2017	
	Deferred income tax liabilities(a) RMB'000	Taxable temporary differences RMB'000	Deferred income tax liabilities RMB'000	Taxable temporary differences RMB'000
Amortisation of concession rights (a)	125,082	500,328	120,259	481,036
Business combination	13,730	54,920	—	—
	<u>138,812</u>	<u>555,248</u>	<u>120,259</u>	<u>481,036</u>
Deferred tax liabilities to be recovered within 1 year	8,296		—	
Deferred tax liabilities to be recovered after more than 1 year	<u>130,516</u>		<u>120,259</u>	
	<u><u>138,812</u></u>		<u><u>120,259</u></u>	

- (a) Deferred income tax liabilities were recognised on temporary differences arising between the tax bases of concession right and their carrying amounts, which is to be recovered within the concession period.
- (b) The movement in deferred income tax liabilities during the year is as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	120,259	126,108
Business combination (Note 38)	14,120	—
Charged to income statement (Note 32)	<u>4,433</u>	<u>(5,849)</u>
At 31 December	<u><u>138,812</u></u>	<u><u>120,259</u></u>

- (c) Unrecognised temporary differences

The unrecognised deductible temporary difference of deferred income tax assets are analysed as follows:

	2018 RMB'000	2017 RMB'000
Impairment of assets	163,608	147,977
Major overhauls for the assets of concession right (Note 26)	<u>10,069</u>	<u>39,393</u>
	<u><u>173,677</u></u>	<u><u>187,370</u></u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

25 DEFERRED TAX LIABILITIES (Continued)

- (d) Unrecognised deferred income tax assets of tax losses

Deferred income tax assets were recognised for impairment loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB11 million (2017: RMB11 million) in respect of losses amounting to RMB43 million (2017: RMB43 million).

The amount of unrecognised tax loss will expire in the following years:

Year	2018 RMB'000	2017 RMB'000
2018	—	10,372
2019	18,056	18,056
2020	6,243	6,243
2021	5,124	5,124
2022	3,466	3,466
2023	11,061	—
	<u>43,950</u>	<u>43,261</u>

26 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	31 December 2017 RMB'000	Addition RMB'000	Deduction RMB'000	31 December 2018 RMB'000
Major overhauls for the assets of concession right	39,393	—	(29,324)	10,069
Less: use within 1 year	(6,463)	—	6,463	—
	<u>32,930</u>	<u>—</u>	<u>(22,861)</u>	<u>10,069</u>

Analysis of total provisions:

	2018 RMB'000	2017 RMB'000
Non-current	10,069	39,393
Current	—	(6,463)
	<u>10,069</u>	<u>32,930</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

27 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND INCOME TAX AND OTHER TAXES PAYABLE

	Notes	2018 RMB'000	2017 RMB'000
Trade payables	(a)	176,398	128,254
Advances from customers	(b)	—	930,888
Other payables	(c)	1,456,133	633,672
Income tax and other taxes payables	(d)	68,893	63,741
		1,701,425	1,756,555
		1,701,425	1,756,555

(a) As at 31 December 2018, the majority of trade payables are in connection with purchases of inventories, out of which trade payable of approximately RMB33 million (2017: RMB30million) were aged over one year. It is mainly the source water fee payable. As the Group has not recovered the relevant source water treatment fee, the payment has not been finally settled.

(b) Advances from customers

	31 December 2018 RMB'000	31 December 2017 RMB'000
For pipeline connection services	—	916,513
For heating supply service	—	4,749
For project Hangu	—	4,467
Others	—	5,159
	—	930,888
	—	930,888

(i) See Note 2.2 for detail about restatements for changes in accounting policies.

(c) Other payables comprise:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Construction costs payable	1,328,505	525,603
Interest payable for borrowings	43,768	26,586
Payable for purchases of property, plant and equipment and concession right	13,892	13,892
Provisions	—	6,463
Others	69,968	61,128
	1,456,133	633,672
	1,456,133	633,672

As at 31 December 2018, other payables of approximately RMB453 million (2017: RMB 226 million) were aged over one year, which are mainly payables and deposits received in connection with the sewage plants construction upgrading projects. The balances had yet to be settled as those projects and their final accounts have not been completed.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

27 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND INCOME TAX AND
OTHER TAXES PAYABLE (Continued)

(d) Income tax and other taxes payables

	31 December 2018 RMB'000	31 December 2017 RMB'000
Income tax payables	34,658	39,477
VAT payables	26,213	15,463
Others	8,022	8,801
	<u>68,893</u>	<u>63,741</u>

28 TAX EXPENSES AND SURCHARGES

	2018 RMB'000	2017 RMB'000	Measurement standards
Land use tax	15,705	20,259	RMB1.5-30 per square meter
City construction and maintenance tax	12,828	16,217	7%/5% of the VAT paid
The property tax	7,365	6,210	Self-use: 1.2% (deducted 30% of the original value of the property) Rental: 12% of the rental income
Educational surcharge	7,087	7,359	2%/3% of the VAT paid
Local educational surcharge	3,126	4,445	2% of the VAT paid
Others	3,577	2,974	
	<u>49,688</u>	<u>57,464</u>	

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

29 EXPENSES BY NATURE

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	2018 RMB'000	2017 RMB'000
Amortisation of intangible assets and land use rights	346,422	296,413
Utilities	314,546	254,272
Employee benefit expenses	286,101	266,877
Raw materials and consumables used	190,667	80,659
Cost of recycling water pipeline connection service	152,892	84,528
Repair and maintenance expenses	105,194	91,088
Sewage mud processing fee	97,018	75,220
Depreciation of property, plant and equipment and investment properties	44,830	43,735
Factory environment, detection and fire prevention expenses	29,355	26,144
Construction cost of environmental equipment	18,613	2,762
Network maintenance costs	17,416	19,175
Consulting service expenses	15,274	12,434
Travel, meeting and business entertainment expenses	14,403	10,174
Provision of financial assets	12,973	11,698
Toll road management fee	7,120	7,120
Office expenses	7,054	6,458
Expenses of secretary of the board	4,475	5,227
Auditors' remuneration - audit	3,300	4,200
Other taxes	2,464	2,021
Others	46,364	25,397
	<u>1,716,481</u>	<u>1,325,602</u>

30 EMPLOYEE BENEFIT EXPENSES

	2018 RMB'000	2017 RMB'000
Wages and salaries	167,631	175,807
Social security costs	50,342	46,204
Pension costs – defined contribution plans	29,591	30,910
Other benefits	13,953	13,956
	<u>261,517</u>	<u>266,877</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

30 EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2017: one) directors whose emoluments are reflected in the analysis shown in Note 42. The emoluments to the remaining three (2017: four) individuals during the year are as follows:

	2018 RMB'000	2017 RMB'000
Salary	1,664	2,103
Discretionary bonuses	470	505
Employer's contribution to a retirement benefit scheme	181	226
Housing fund and other social security contributions	337	428
Total	<u>2,652</u>	<u>3,262</u>

The emoluments fell within the following bands:

	2018 RMB'000	2017 RMB'000
Emolument bands (in HK dollar)		
HK\$500,000 – HK\$1,000,000	2	2
HK\$1,000,000 – HK\$1,500,000	<u>1</u>	<u>2</u>

31 FINANCE COSTS – NET

	2018 RMB'000	2017 RMB'000
Interest expenses of borrowings	233,574	131,714
Less: Capitalised interest	<u>(34,800)</u>	<u>(282)</u>
Net interest expenses	198,774	131,432
Less: Interest income	(53,779)	(19,293)
– long-term receivables	(10,029)	(10,511)
– bank deposits	<u>(43,750)</u>	<u>(8,782)</u>
Exchange loss/(gain)	16,543	(14,902)
Others	448	3,102
	<u>161,986</u>	<u>100,339</u>

For the year ended 31 December 2018, the exchange loss on the long-term payables denominated in JPY and US dollar amounted to approximately RMB17 million (2017: exchange gain of RMB15 million).

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

32 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017:16.5%) on the estimated assessable profit for the year. Taxation on PRC profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. According to the PRC tax policies, the preferential tax rates applicable to certain subsidiaries include 0%, 12.5% and 15%. Other subsidiaries apply the income rate of 25%.

	2018 RMB'000	2017 RMB'000
Current income tax	163,631	205,442
Increase/(decrease) in deferred tax liabilities (Note 25)	4,433	(5,849)
	<u>168,064</u>	<u>199,593</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:

	2018 RMB'000	2017 RMB'000
Profit before tax	<u>694,844</u>	<u>718,788</u>
Tax at PRC tax rate of 25% (2017: 25%)	173,711	179,697
Effect of favorable tax rates	(3,552)	(2,391)
Income not subject to tax	(47,596)	(21,307)
Expenses not deductible for taxation purposes	46,675	41,308
– Revenue recognition differences from VAT filing	21,158	15,494
– Depreciation not deductible	20,477	15,479
– Over/(under) provision in prior year	(208)	6,744
– Expenses without tax invoices	6,138	2,475
– (Reversed)/accrued repair and maintenance expenses	—	1,985
– Others	(890)	(870)
Utilisation of previously unrecognised deductible temporary differences for which no deferred income tax asset	(3,423)	—
Utilisation of previously unrecognised tax losses	(516)	(4,063)
Current year deductible temporary differences for which no deferred income tax asset was recognised	—	5,482
Current year tax losses for which no deferred income tax asset was recognised	<u>2,765</u>	<u>866</u>
Income tax expense	<u>168,064</u>	<u>199,593</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

33 OTHER GAINS/(LOSSES) - NET

	2018 RMB'000	2017 RMB'000
Government grants	5,341	2,703
Loss on disposal of property, plant and equipment	(900)	(82)
Impairment of other current assets	—	(10,230)
Others	(1,980)	(726)
	<u>2,461</u>	<u>(8,335)</u>

34 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the Company of approximately RMB501 million (2017: RMB508 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2017: 1,427 million shares).

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares. Diluted earnings per share are calculated using the same bases as described above for calculating basic earnings per share.

	2018 RMB'000	2017 RMB'000
Profit attributable to owners of the Company	<u>501,168</u>	<u>508,251</u>
Weighted average number of ordinary shares in issue (million shares)	<u>1,427</u>	<u>1,427</u>
Basic and diluted earnings per share (RMB yuan)	<u>0.35</u>	<u>0.36</u>

35 DIVIDENDS

	2018 RMB'000	2017 RMB'000
Final dividend for the year ended 31 December 2017 of nil (2016-9.5 cents) per fully paid share	<u>—</u>	<u>135,588</u>
Dividends paid in cash	<u>—</u>	<u>135,588</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

36 CASH FLOW INFORMATION

(a) **Cash generated from operations**

	2018 RMB'000	2017 RMB'000
Profit before income tax	694,844	718,788
Adjustments for:		
– Amortisation of deferred revenue (Note 24)	(70,278)	(46,576)
– Depreciation and amortisation	391,252	340,148
– Dividend income	(200)	(400)
– Loss on disposal of property, plant and equipment (Note 33)	900	82
– Impairment of other current assets	—	10,230
– Provision of financial assets	12,973	11,698
– Interest income on bank deposit (Note 31)	(43,750)	(8,782)
– Interest expense of borrowings (Note 31)	198,774	131,432
– Exchange loss/(gain) (Note 31)	16,543	(14,902)
	<u> </u>	<u> </u>
Changes in working capital		
– Decrease in inventories	4,121	6,379
– Increase in receivables	(96,647)	(56,580)
– Increase in other operating assets	(102,937)	(19,208)
– Decrease in other taxes payables	(1,145)	(2,227)
– Decrease in contract liabilities and advances from customers	(121,832)	(24,619)
– Increase in other operating liabilities	2,241	67,031
Cash generated from operations	<u>884,859</u>	<u>1,112,494</u>

(b) **In the statement of cash flow, proceeds from disposal of property, plant and equipment comprise:**

	2018 RMB'000	2017 RMB'000
Net book amount	1,643	613
Loss on disposal of property, plant and equipment (Note 33)	(900)	(82)
	<u> </u>	<u> </u>
Proceeds from disposal of property, plant and equipment	<u>743</u>	<u>531</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

36 CASH FLOW INFORMATION (Continued)

(c) Net debt reconciliation

This section sets out an analysis of net debts and the movements in net debts for each of the periods presented.

	As at 31 December	
	2018	2017
Net debts		
Cash and cash equivalents	1,808,543	1,893,689
Borrowings – repayable within one year	(443,369)	(1,370,456)
Borrowings – repayable after one year	(4,114,683)	(1,543,388)
Net debts	(2,749,509)	(1,020,155)
Cash and cash equivalents	1,808,543	1,893,689
Gross debts – fixed interest rates	(2,201,479)	(1,793,660)
Gross debts – variable interest rates	(2,356,573)	(1,120,184)
Net debts	(2,749,509)	(1,020,155)

	Cash and cash equivalents	Liabilities from financing activities		Total
		Borrowing due within 1 year	Borrowing due after 1 year	
Net debts as at 1 January 2017	1,181,120	(215,509)	(2,191,313)	(1,225,702)
Cash flows	712,569	(283,491)	(216,732)	212,346
Foreign exchange adjustments	—	835	8,645	9,480
Other non-cash movements	—	(872,291)	856,012	(16,279)
Net debts as at 31 December 2017	1,893,689	(1,370,456)	(1,543,388)	(1,020,155)
Cash flows	(85,146)	930,259	(2,542,570)	(1,697,457)
Foreign exchange adjustments	—	(1,645)	(14,897)	(16,542)
Other non-cash movements	—	(1,527)	(13,828)	(15,355)
Net debts as at 31 December 2018	1,808,543	(443,369)	(4,114,683)	(2,749,509)

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

37 COMMITMENTS

- (i) The Group's capital expenditure contracted for at the end of the year but not yet recognised as liabilities is as follows:

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2018 RMB' million	31 December 2017 RMB' million	31 December 2018 RMB' million	31 December 2017 RMB' million
Sewage Water Processing Plants Project				
– Dalian Chunliuhe project	38	136	—	—
– Jingu	28	463	—	333
– Jinghai project	22	—	49	—
– Karamay	20	179	—	263
– Linxia	17	13	—	81
– Beichen	14	224	—	217
– Ningxiang project	13	—	6	—
– Hefei project	11	71	—	158
– Xianning Yongan project	6	—	—	—
– Honghu	5	—	258	—
– Ninghe project	5	—	8	—
– Yingshang	5	14	—	63
– Changsha project	2	9	67	67
– Honghu project	1	—	—	—
– Bayannur project	—	397	—	—
– Jieshou	—	122	—	105
– Hefei project	—	—	586	—
Solid Waste Project:				
– Shandong Yishui	228	13	43	262
– Shandong Tancheng	97	9	245	337
Energy Station Project				
– Heiniucheng Road	16	49	—	109
– Tianjin cultural center	3	3	108	108
– Houtai	—	6	—	20
	<u>531</u>	<u>1,708</u>	<u>1,370</u>	<u>2,123</u>

- (ii) Investment commitments

Pursuant to a Board's resolution dated 28 September 2018, the Company will additionally invest RMB35 million to Shandong Company and the additional investment remained unpaid as at 31 December 2018.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

38 BUSINESS COMBINATION

(a) Summary of acquisition

On 1 March 2018, the Company acquired 70% of the equity interest in Inner Mongolia Bayannur Capital Water Co., Ltd. ('Bayannur Company'). The acquisition has significantly increased the Group's market share in the northeast of China and complements the Group's existing water swage processing division.

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

Purchase consideration (refer to (b) below):

	RMB'000
Cash paid	<u>776,957</u>

The Group adopts valuation technique to determine the fair value of the assets and liabilities of the Bayannur Company on the date of acquisition. The evaluation methods and key assumptions of major assets are listed as follows:

The evaluation method of intangible assets is the income method, and the key assumptions are as follows:

The recoverable amount of intangible assets which is based on the forecast of cash flow in the remaining years up to the end of the concession right period.

The main assumptions include supply volumes up to the end of the relevant concession service period, the unit price, and the respective gross margins of sewage water and recycled and tap water supply service. The discount rate used in the cash flow forecast is between 10% and 12%. The above discount rate is determined by referring to the average discount rate of similar industries and the business risks of relevant business units.

	Fair value RMB'000
Intangible assets: concession right	1,124,058
Deferred tax liability	<u>(14,120)</u>
Net identifiable assets acquired	1,109,938
Less: non-controlling interests	<u>(332,981)</u>
Net assets acquired	<u>776,957</u>

There were no acquisitions during the year ended 31 December 2017.

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

38 BUSINESS COMBINATION (Continued)

(a) Summary of acquisition (Continued)

(i) Accounting policy choice for non-controlling interests

The Group recognises non-controlling interests in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For the non-controlling interests in Bayannur company, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets. See Note 2.4 for the Group's accounting policies for business combinations.

(ii) Revenue and profit contribution

The acquired business contributed revenues of approximately RMB5.5 million and net profit of approximately RMB1.3 million to the Group for the period from 1 March 2018 to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the Group's consolidated pro-forma revenue and profit for the year ended 31 December 2018 would have been approximately RMB2,448 million and approximately RMB527 million respectively. These amounts have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary, and
- the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 January 2018, together with the consequential tax effects.

(b) Purchase consideration – cash outflow

	2018 RMB'000	2017 RMB'000
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	776,957	—
Less: balances acquired		
Cash at bank	—	—
Consideration prepaid in 2017	(380,000)	—
	(380,000)	—
Net outflow of cash – investing activities	396,957	—

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

39 RELATED PARTY TRANSACTIONS

(1) Information of the parent of the Company

(a) General information of the parent Company

Name	Type	Place of registration	Legal representative	Nature of business
Municipal Investment	Limited liability Company	Tianjin, the PRC	Yu Zhongpeng	Development and management of municipal infrastructures

The Company's ultimate controlling party is City Infrastructure Construction and Investment.

(b) Registered capital and changes in registered capital of the parent company

	31 December 2017 RMB'000	Increase in current year	Decrease in current year	31 December 2018 RMB'000
Municipal Investment	1,820,000	—	—	1,820,000

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

	31 December 2018		31 December 2017	
	Shareholding (%)	Voting rights (%)	Shareholding (%)	Voting rights (%)
Municipal Investment	50.14	50.14	50.14	50.14

(2) Information of subsidiaries

The information of the subsidiaries is set out in Note 10a.

(3) Information of associate

The information of the associate is set out in Note 10b.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

39 RELATED PARTY TRANSACTIONS (Continued)

(4) Information of other related parties

	Relationship with the Group
Tianjin Lecheng Properties Limited	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 City Investment 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 City Road & Network Supporting Construction Investment Co., Ltd.	Controlled by the same ultimate holding Company
Tianjin Metro Group Co., Ltd.	Controlled by the same ultimate holding Company
Tianjin Metro Construction and Development Co., Ltd.	Controlled by the same ultimate holding Company
Tianjin Jinrongcheng Property Management Co., Ltd.	Controlled by the same ultimate holding Company
Tianjin Machinery & Electric Equipment Import & Export. Co., Ltd.	Subsidiary of the associate

(5) Related party transactions

In addition to those disclosed elsewhere in the consolidated financial statements, the following transactions were carried out with related parties:

(a) Purchases of goods and sales of services

Purchases of goods

Related party	Nature of transaction	2018 RMB'000	2017 RMB'000
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Purchase of equipment	407,437	73,150
Tianjin Jinrongcheng Property Management Co., Ltd.	Property management services	<u>2,682</u>	<u>6,722</u>
		<u>410,119</u>	<u>79,872</u>

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

39 RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(a) Purchases of goods and sales of services (Continued)

Sales of services

Related party	Nature of transaction	2018 RMB '000	2017 RMB '000
City Infrastructure Construction and Investment	Commission income from contract operation	56,296	54,685
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	38,639	38,488
City Infrastructure Construction and Investment	Commission income from construction agent service	10,024	—
Tianjin Haihe Construction Developing Investment Co., Ltd.	Income from sewage plant construction	69	421
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	—	905
Tianjin Metro Construction and Development Co., Ltd.	Income from construction of recycled water pipeline	—	579
		<u>105,028</u>	<u>95,078</u>

The Group's pricing on pipeline construction contract service and heating supply service with related parties are based on the reference price stipulated by the local government. Other transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

(b) Guarantee

Guarantor	Guarantee	Amount RMB'000	Starting date	Due date
City Infrastructure Construction and Investment	Xi'an Capital Water Co., Ltd.	147,000	28 September 2008	27 September 2022

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

39 RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions(Continued)

(c) Key management compensation:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Key management compensation	12,620	13,020

(6) Year-end balances arising from sales/purchases of services/goods

	31 December 2018 RMB'000	31 December 2017 RMB'000
Receivables from related parties:		
Trade receivables		
– City Infrastructure Construction and Investment	39,523	28,570
– Tianjin Lecheng Properties Limited	9,630	38,171
– Tianjin Metro Resources Investment Co., Ltd.	1,589	1,673
– Tianjin City Resource Operation Co., Ltd.	381	401
	51,123	68,815
Payables to related parties:		
Trade payables		
– City Infrastructure Construction and Investment	—	8,723
Other payables		
– Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	123,775	15,523
Advances from customers		
– Tianjin Ruiding Real Estate Co., Ltd.	—	3,046
– Tianjin Metro Group Co., Ltd.	—	839
– Tianjin City Investment Property Management Co., Ltd.	—	592
– Tianjin City Road & Network Supporting Construction Investment Co., Ltd.	—	484
	—	4,961

The receivables from related parties arise mainly from services provided and are due within one year after the date of sales. The receivables are unsecured in nature and bear no interest. The provisions of RMB318,000 are held against receivables from related parties.

The payables to related parties arise mainly from equipments – purchasing transactions for Jingu and Beichen sewage water plants upgrading projects. These payables are interest-free and are due within one year after the date of purchase.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

39 RELATED PARTY TRANSACTIONS (Continued)

(7) Transactions/balances with other state-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as 'state-owned enterprises').

During the year, the Group's significant transactions with these state controlled entities include processing of sewage water, construction and management of related facility, processing of tap water and supply of heating. As at 31 December 2018, majority of the Group's cash and cash equivalents and borrowings are deposited/arranged with state controlled banks.

40 EVENTS AFTER THE REPORTING PERIOD

- 1) Pursuant to a Board's resolution dated on 30 January 2019, the Company will additionally invest RMB146 million to the Fuyang Capital Water Co., Ltd. for financing the second phase of the Jieshou Sewage Water Processing PPP Project.
- 2) Pursuant to a Board's resolution dated on 25 February 2019, the Company will establish a non-wholly owned subsidiary Hanshou Capital Water Co., Ltd. and will to contribute cash of RMB33.75 million to the subsidiary, and owned 75% of the equity interests.
- 3) Pursuant to a Board's resolution dated on 11 March 2019, the Company will establish a non-wholly owned subsidiary Guojin Capital Water Co., Ltd. and will to contribute cash of RMB128.32 million to the subsidiary, and owned 59% of the equity interests.

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2018 RMB'000	2017 RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	107,316	116,730
Intangible assets	4,089,620	3,310,401
Land use rights	2,675	10,740
Investment properties	63,289	65,552
Investments in subsidiaries	3,325,705	2,081,302
Investments accounted for using the equity method	195,000	—
Financial assets at fair value through other comprehensive income	2,000	—
Available-for-sale financial assets	—	2,000
Long-term receivables	253,686	294,956
Other non-current assets	190,519	726,085
	8,229,810	6,607,766
Current assets		
Inventories	3,992	4,116
Trade receivables	1,687,179	1,663,178
Prepayments	822	1,114
Dividend receivables	—	13,880
Other current assets	847,439	173,452
Other receivables	134,560	228,079
Cash and cash equivalents	586,889	779,808
Restricted cash	9,101	5,151
	3,269,982	2,868,778
Total assets	11,499,792	9,476,544

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
LIABILITIES		
Non-current liabilities		
Borrowings	3,671,443	1,171,871
Deferred revenue	1,662,338	1,719,380
Deferred income tax liabilities	67,841	61,929
Provisions for other liabilities and charges	10,069	32,930
	<u>5,411,691</u>	<u>2,986,110</u>
Current liabilities		
Trade payables	46,500	42,027
Contract liabilities	4,541	—
Advances from customers	—	5,123
Wages payable	24,868	26,067
Income tax and other taxes payables	250	7,802
Dividend payable	1,912	1,912
Other payables	959,379	704,865
Borrowings	281,417	1,303,449
	<u>1,318,867</u>	<u>2,091,245</u>
Total liabilities	<u>6,730,558</u>	<u>5,077,355</u>
Net assets	<u>4,769,234</u>	<u>4,399,189</u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	1,427,228	1,427,228
Other reserves	897,895	860,695
Retained earnings	2,441,111	2,111,266
Total equity	<u>4,769,234</u>	<u>4,399,189</u>

Liu Yujun

Peng Yilin

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	1,427,228	825,713	1,932,015	4,184,956
Comprehensive income				
Profit for the year	—	—	349,821	349,821
Transactions with owners in their capacity as owners				
– Profit appropriation to statutory reserves	—	34,982	(34,982)	—
– Dividends relating to 2016	—	—	(135,588)	(135,588)
Total transactions with owners	—	34,982	(170,570)	(135,588)
Balance at 31 December 2017	1,427,228	860,695	2,111,266	4,399,189
Changes in accounting policies	—	—	(1,964)	(1,964)
Restated total equity at 1 January 2018	1,427,228	860,695	2,109,302	4,397,225
Comprehensive income				
– Profit for the year	—	—	372,009	372,009
Transactions with owners in their capacity as owners				
– Profit appropriation to statutory reserves	—	37,200	(37,200)	—
Total transactions with owners	—	37,200	334,809	372,009
Balance at 31 December 2018	1,427,228	897,895	2,444,111	4,769,234

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

42 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of directors of the Company for the year ended 31 December 2018 was as follows:

Name	Emoluments paid in respect of person's services as a director of the Company					Emoluments paid in respect of director's other services with the management of the affairs of the Company					Total RMB'000
	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing fund and other social security contributions RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing fund and other social security contributions RMB'000	Employer's contribution to a retirement benefit scheme RMB'000		
Chairman:											
Liu Yujun	—	—	—	—	—	544	161	112	60	877	
Executive directors(ii):											
Wang Jing	—	—	—	—	—	19	5	4	2	31	
Niu Bo	—	—	—	—	—	15	4	4	2	26	
Tang Fusheng	—	—	—	—	—	524	146	108	58	837	
Fu Yana	—	—	—	—	—	440	118	108	58	724	
Peng Yilin	—	—	—	—	—	457	119	108	58	742	
Independent non- executive directors(ii):											
Gao Zongze	212	—	—	—	—	—	—	—	—	212	
Wang Xiangfei	220	—	—	—	—	—	—	—	—	220	
Guo Yongqing	220	—	—	—	—	—	—	—	220		
Di Xiaofeng	8	—	—	—	—	—	—	—	—	8	
	<u>660</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,999</u>	<u>553</u>	<u>446</u>	<u>239</u>	<u>3,897</u>	

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

For the year ended 31 December 2018
(All amounts in RMB thousand unless otherwise stated)

42 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

The remuneration of directors of the Company for the year ended 31 December 2017 was as follows:

Name	Emoluments paid in respect of person's services as a director of the Company					Emoluments paid in respect of director's other services with the management of the affairs of the Company					Total RMB'000
	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing fund and other social security contributions RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Housing fund and other social security contributions RMB'000	Employer's contribution to a retirement benefit scheme RMB'000		
Chairman:											
Liu Yujun	—	—	—	—	—	568	131	107	57	863	
Executive directors:											
Lin Wenbo (i)	—	—	—	—	—	46	162	8	5	221	
Tang Fusheng (i)	—	—	—	—	—	421	—	82	43	546	
Fu Yana	—	—	—	—	—	479	99	107	56	741	
Peng Yilin	—	—	—	—	—	474	123	107	56	760	
Independent non-executive directors (ii):											
Gao Zongze	220	—	—	—	—	—	—	—	—	220	
Wang Xiangfei	220	—	—	—	—	—	—	—	—	220	
Guo Yongqing	220	—	—	—	—	—	—	—	—	220	
	<u>660</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,988</u>	<u>515</u>	<u>411</u>	<u>217</u>	<u>3,791</u>	

- (i) In 2016, Mr. Lin Wenbo was the executive director and General Manager of the Group. On 25 January 2017, the Board of Directors of the Company approved the retirement of Mr. Lin Wenbo from above positions. Mr. Tang Fusheng took these positions after the resignation of Mr. Lin Wenbo and became an Executive Director of the Group.
- (ii) On 17 December 2018, the Group held the 2018 First Extraordinary General Meeting (the "EGM") and approved the appointment of Mr. Liu Yujun, Ms. Wang Jing and Mr. Niu Bo as Executive Directors of the Group; approved the appointment of Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong as Non-executive Directors of the Group; and approved the appointment of Mr. Wang Xiangfei, Mr. Guo Yongqing and Mr. Di Xiaofeng as Independent non-executive Director of the Group. Ms. Wang Jing, Mr. Niu Bo, Mr. Si Xiaolong and Mr. Di Xiaofeng are new members of the Board of Directors. Ms. Fu Yana, Ms. Peng Yilin and Mr. Tang Fusheng no longer served as Executive Directors of the Board of Directors. Mr. Gao Zongze no longer served as the Independent non-executive director of the Board of Directors.

15. 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 annual report released in other stock markets.