



*Interim Report for the six  
months ended 30th June 2019*



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**”), the supervisory committee, directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) guarantee that information in this 2019 interim report (the “**Interim Report**”) does not contain any false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of its contents.
- II. The Interim Report of the Company for the six months ended 30 June 2019 has not been audited.
- III. Mr. Liu Yujun, the officer in charge of the Company, Ms. Peng Yilin, the officer in charge of accounting operations, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have warranted the truthfulness, accuracy and completeness of the financial reports contained in this Interim Report.
- IV. The proposal on profit appropriation or transfer of capital reserve fund to share capital for the reporting period as reviewed by the Board  
Not applicable
- V. Risk statements for the forward-looking statement  
No
- VI. Did the controlling shareholder of the Company and its connected persons misappropriate the Company’s funds for non-operating purposes?  
No
- VII. Did the Company provide external guarantees in violation of any specified decision-making procedures?  
No
- VIII. Significant risks warning  
No
- IX. Other matters  
Unless indicated otherwise, financial figures in this Interim Report are denominated in RMB.

# 1. Definitions

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

“Group”	the Company and its subsidiaries
“Subsidiaries”	Subsidiaries of the Company
“Company”	Tianjin Capital Environmental Protection Group Company Limited
“Tianjin Investment Group”	Tianjin City Infrastructure Construction and Investment Group Company Limited
“TMICL”	Tianjin Municipal Investment Company Limited
“Jiayuanxing”	Tianjin Jiayuanxing Innovative Energy Technology Company Limited
“TLP”	Tianjin Lecheng Properties Company Limited
“Qudong Company”	Tianjin Qudong Media Co., Ltd.
“Anguo Company”	Anguo Capital Water Company Limited
“Fengyuan Water”	Hunan Fengyuan Water Investment Construction Co., Ltd.
“Fuyang Company”	Fuyang Capital Water Co., Ltd.
“Jieshou Company”	Jieshou Capital Water Company Limited
“Hanshou Company”	Hanshou Tianchuang Water Co., Ltd.
“Hebei Guokong”	Hebei Guokong Jincheng Environmental Control Co., Ltd.
“The Third Construction Company of China Construction Third Engineering Bureau”	The Third Construction Co., Ltd of China Construction Third Engineering Bureau
“Tianjin Municipal Institute”	Tianjin Municipal Engineering Design & Research Institute
“Guojin Tianchuang Company”	Hebei Guojin Tianchuang Sewage Treatment Co. Ltd.
“Jiuquan Company”	Jiuquan Capital Water Conservancy Co., Ltd.
“Water Recycling Company”	Tianjin Water Recycling Co., Ltd
“Hangzhou Company”	Hang Zhou Tianchuang Capital Water Co., Ltd.
“Xi’an Company”	Xi’an Capital Water Co., Ltd.
“Caring Company”	Tianjin Caring Technology Development Company Limited
“Bayannur Company”	Inner Mongolia Bayannur Capital Water Co., Ltd.
“Shandong Company”	Shandong Capital Environmental Protection Technology Development Co., Ltd.

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

### III. BASIC INFORMATION

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

## 2. Company Profile and Major Financial Indicators

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

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

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

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

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

### (i) Major accounting data

*Unit: 0'000 Currency: RMB*

Major accounting data	During the reporting period (from January to June)	During the same period last year	Increase/decrease for the current reporting period as compared to the same period last year (%)
Operating income	122,471.6	110,779.8	10.55
Net profit attributable to the shareholders of the Company	21,850.3	28,256.5	-22.67
Net profit attributable to the shareholders of the Company after deduction of extraordinary items	19,355.3	25,930.9	-25.36
Net cash flow from operating activities	72,970.7	33,799.0	115.90
	As at the end of the current reporting period	As of the end of last year	Increase/decrease as at the end of the current reporting period as compared to the end of last year (%)
Net assets attributable to the shareholders of the Company	588,542.0	581,820.3	1.16
Total assets	1,645,616.8	1,568,744.8	4.90

### (ii) Major financial indicators

*Currency: RMB*

Major financial indicators	During the reporting period (from January to June)	During the same period last year	Increase/decrease for the current reporting period as compared to the same period last year (%)
Basic earnings per share (RMB/share)	0.15	0.20	-25.00
Diluted earnings per share (RMB/share)	0.15	0.20	-25.00
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.14	0.18	-22.22
Weighted average return on net assets ratio (%)	3.73	5.28	Decreased by 1.55 percentage points
Weighted average return on net assets ratio after deduction of extraordinary items (%)	3.31	4.85	Decreased by 1.54 percentage points

## 2. Company Profile and Major Financial Indicators

### VII. DIFFERENCES IN ACCOUNTING INFORMATION UNDER THE DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

Not applicable

### VIII. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

*Unit: 0'000 Currency: RMB*

Extraordinary Profit and Loss Items	Amount
Profit/loss from disposal of non-current assets	120.1
Government grants recognized in current profit and loss, except for those closely relating to business operation of the Company, in compliance with national policy and settled in certain amount which are constantly granted by government	3,107.2
Other non-operating income and expenses (excluding the above items)	-223.0
Effect on minority interests	-28.0
Effect on income tax	-481.3
Total	<u>2,495.0</u>

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

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

During the reporting period, the principal businesses of the Company remained to be water utilities business and new energy cooling and heating supply business. There was no material change in the business scope and business model of the Company's principal business as compared with the beginning of the reporting period.

In the first half of 2019, oriented towards the requirements of comprehensive water environment management, the Company continued to consolidate and develop its water utilities business, expanding its business into the market of sewage treatment in villages and townships and moving towards fields integrating plants and networks. The sewage treatment capacity, tap water supply capacity, recycled water capacity and sludge treatment capacity under the new projects under the PPP model was 220,000 m<sup>3</sup> per day, 30,000 m<sup>3</sup> per day, 65,000 m<sup>3</sup> per day and 80 tons per day, respectively. The Company has deployed supporting pipeline networks of 458 kilometers. The above are mainly distributed in Jieshou of Anhui, Hanshou of Hunan, Gaocheng of Shijiazhuang and Jiuquan of Gansu.

As of the end of the reporting period, the total capacity of equity-type water utilities business of the Company amounted to 5.425 million m<sup>3</sup> per day, among which the sewage treatment capacity, including tap water and industrial water supply capacity and recycled water capacity under the PPP model was 4.67 million m<sup>3</sup> per day, 335,000 m<sup>3</sup> per day, 420,000 m<sup>3</sup> per day respectively, and the sewage treatment capacity under the entrusted operation model was 535,500 m<sup>3</sup> per day. The service areas of new energy business amounted to 2.00 million m<sup>2</sup>.

#### (II) Explanation of Industry Situation

Driven and guided by national policies, the PPP projects were further regulated and charging policy of sewage treatment was constantly improved. Environmental protection enterprises saw a trend of diversified development, and environmental monitoring has been continuously reinforced, which mark the water utilities industry evolving from the era of "engineering-focused" toward the era of "operation-focused".

Based on existing capabilities, the Company will play safely to solidify existing business on one hand, and on the other hand actively seek changes and develop new businesses, enhance our service capabilities of comprehensive environmental governance and further develop our core competitiveness.



### 3. Company Business Overview

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

Not applicable.

#### III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

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

### I. OPERATION DISCUSSION AND ANALYSIS

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

During the reporting period, the Group commenced its work in an orderly manner according to the operational plans and strategies for 2019 as formulated by the Board:

- (1) Deepen operation management and consolidate operation advantages. Following the introduction of more stringent sewage treatment and discharge standards by local governments, the Group upgraded and transformed multiple sewage projects, and project operation became more and more complex. The Group set up a large operation management center to systematize and standardize operation management on the one hand, and refined innovation and optimized technical schemes on the other hand, striving to provide excellent operation services, control operation cost and ensure project incomes at the same time.
- (2) Expand water utilities business and increase the scale of principal business. During the reporting period, the Group has succeeded in the bids of a total of 4 water projects, including rural sewage treatment and ancillary pipeline networks, recycled water, water supply and sludge treatment distributed over places including Jiesshou, Hanshou, Gaocheng and Jiuquan. The acquisition of the above projects will further enhance the Group's comprehensive service capabilities for environmental governance while increasing the scale of the Group's business and expanding its business scope.
- (3) Strengthen basic management and consolidate management innovation achievements. In the first half year, in order to improve overall management efficiency, on the basis of business linear management, the Group set up regional companies, marketing centers, construction management centers and operation management centers, and combined functional management authorization with business linear management to strengthen capabilities of regional comprehensive management and further optimize the organizational structure. During the reporting period, the Group revamped management systems and business processes, improved the construction of internal control systems, optimized the organizational structure and job allocation of pilot companies in central China and northwest regions, and consolidated management innovation achievements further.
- (4) The Board has agreed to issue green short-term financing bonds and green medium-term notes with a total amount of no more than RMB2 billion to support "the 13th Five-Year Plan" business development plans of the Company.

## 4. Operation Discussion and Analysis

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

In the first half of 2019, the Group recorded an operating revenue of RMB1,224.716 million, representing an increase of 10.55% as compared to that in the same period last year. The operating costs were RMB814.36 million, representing an increase of 26.49% as compared to that in the same period last year. Net profit attributable to the Company was RMB218.503 million, representing a decrease of 22.67% as compared to that in the same period last year. The decrease in net profit was mainly due to the fact that since 1 January 2019, Tianjin Jingu and Beichen sewage treatment plants have been implemented A standard under the new local standards. During the reporting period, as the matters regarding the new sewage treatment service fee under the supplemental agreement to the licensed corporation of the four sewage water treatment plants in Tianjin central area (the “**Supplemental Agreement**”) were not put into place by both parties thereto, the new sewage treatment service fee was not yet implemented, but the cost increased as compared with the same period last year due to stricter water quality standards. The Company currently is actively communicating with the counterparty of the Supplemental Agreement and has made great progress. It is expected that the new sewage treatment service fees will be implemented in the second half of the year.

#### (1) Analysis of the principal businesses

During the reporting period, the Group’s principal business segments did not change significantly compared with the previous year and was still engaged in the sewage treatment and construction of sewage treatment plants business, recycled water business, tap water supply, new energy heating and cooling supply business, toll collection business and transformation of achievements in technology research. It recorded income from principal business of RMB1,148.445 million, representing 93.77% of operating income of the Group.

- ① Sewage treatment and construction of sewage treatment plants business recorded an income of RMB871.299 million, representing an increase of 16.48% as compared to the same period last year, which was mainly attributable to the increased volume of sewage water treatment. During the reporting period, the Group processed a total of 668.93 million m<sup>3</sup> of sewage water, representing an increase of 16.4% as compared to the same period last year. On the one hand, the volume of sewage treated by existing projects has increased; on the other hand, certain new sewage treatment projects were put into operation in the first half of this year.
- ② Recycled water business recorded an income of RMB43.002 million, representing an increase of 39.40% as compared to the same period last year, which was mainly attributable to the increase in the water sales volume. During the reporting period, the water sales volume was 27.906 million m<sup>3</sup>, representing an increase of 18.7% as compared to the same period last year. This was on the one hand due to the increase in the number of recycled water users of Water Recycling Company, and on the other hand, the commencement of operation of Bayannur recycled water projects in March 2018 boosted the year-on-year increase of water sales volume.

- ③ Tap water supply business recorded an income of RMB49.703 million, representing an increase of 7.91% as compared to the same period last year, which was mainly attributable to the increase in the water sales volume. During the reporting period, the water sales volume was 24.573 million m<sup>3</sup>, representing an increase of 6.6% as compared to the same period last year. This was on the one hand due to the increase of domestic water consumption resulting from the meteorological drought in Qujing from March to May in 2019, and on the other hand, the commencement of operation of Bayannur projects in March 2018 boosted the year-on-year increase of water sales volume.
- ④ New energy heating and cooling supply business recorded an income of RMB 40.417 million, representing an increase of 10.51% as compared to the same period last year, which was mainly attributable to the increased income from heating and cooling supply on a year-on-year basis resulting from the commencement of operation of the Heiniucheng Road new energy project in November 2018.
- ⑤ Transformation of achievements in technology research business recorded an income of RMB18.493 million, representing an increase of 80.42% as compared to the same period last year, which was mainly attributable to heightened marketing efforts and the increase of sales revenue of deodorization equipment on a year-on-year basis.
- ⑥ Toll collection business recorded an income of RMB31.151 million, which remained more or less the same as the same period last year.

During the reporting period, while striving for market expansion for its principal business, the Company continued to strengthen its project operation (including cost control and agreement maintenance), decrease the operating cost as much as possible, and timely adjust the unit price of sewage treatment service fees for ensuring project income.

### (2) Other business

The Group's other business mainly includes the sewage treatment entrusted operation business under the technical service model, as well as the technical and engineering consulting business. During the reporting period, it realised an income of RMB76.271 million, representing a decrease of 11.27% as compared to that in the same period last year. The decrease was mainly due to the expiry of part of the entrusted operation and technical service projects.

## 4. Operation Discussion and Analysis

### (I) Analysis of principal businesses

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

Unit: 0'000 Currency: RMB

Item	Amount for the current period	Amount for the same period last year	Percentage change (%)
Income from operations	122,471.6	110,779.8	10.55
Costs of operations	81,436.0	64,381.2	26.49
Sales costs	198.7	273.0	-27.22
Administrative expenses	6,803.2	5,563.1	22.29
Financial costs	9,312.3	7,624.9	22.13
Research and development expenses	327.0	504.5	-35.18
Credit impairment loss	-9.8	-292.3	96.65
Investment gain	0.0	20.0	-100.00
Other income	6,074.4	8,961.5	-32.22
Income from asset disposal	120.1	0.0	100.00
Non-operating income	254.9	409.9	-37.81
Non-operating expenses	238.0	98.7	141.13
Income tax expenses	5,615.4	9,222.8	-39.11
Profit or loss attributable to minority shareholders	1,259.2	1,892.2	-33.45
Net cash flows from operating activities	72,970.7	33,799.0	115.90
Net cash flows from investing activities	-127,960.6	-108,121.0	-18.35
Net cash flows from financing activities	76,564.9	112,686.6	-32.06
Net increase of cash and cash equivalent	21,575.0	38,364.6	-43.76

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

Explanation of changes in operating costs: It was mainly due to the higher effluent quality standards of sewage treatment projects, the increased treatment volume and the increased operating expenses including agent cost, thus the costs of sewage treatment of the Company increased correspondingly.

Explanation of changes in sales costs: It was mainly because the expenses incurred in the same period last year included expenses incurred but not recognized in 2017.

Explanation of changes in administrative expenses: It was mainly due to official operation of certain projects of subsidiaries after completion, and the commencement of operation of Bayannur Company from March in the same period this year, thus administrative expenses in the current period are higher than that in the same period last year.

Explanation of changes in financial costs: It was mainly because debt financing increased on the one hand, and corresponding financial expenses were converted from capitals to expenses after completion of construction projects on the other hand, and thus interest expense increased.

Explanation of changes in research and development expenses: It was mainly because expenses incurred in the same period last year include expenses incurred but not recognized in 2017.

Explanation of changes in credit impairment losses: It was mainly because the collected accounts receivable for which provisions for asset impairment losses were made in the same period last year is higher than that in the current period.

Explanation of changes in investment gains: It was mainly because Tianjin Beifang Rencaigang Company Limited (天津市北方人才港股份有限公司), the invested company of the Company, did not declare dividends this period due to loss of last year.

Explanation of changes in other incomes: It was mainly because deductible input VAT of projects under construction of the Company was higher this period, which caused less VAT, thus received VAT rebate is lower than that in the same period last year.

Explanation of changes in income from asset disposal: It was mainly because subsidiaries disposed of and sold the staff dormitory, and there were no such matters in the same period last year.

Explanation of changes in non-operating income: It was mainly because one-time government subsidy received in the same period last year is higher than that in the current period.

Explanation of changes in non-operating expenses: It was mainly because donation to Xixiaoliang Village (西小良村) is higher than that in the same period last year.

Explanation of changes in income tax expenses: It was mainly due to the decrease of total profit in the current period as compared to that in the last period, on the other hand, because the Company enjoys preferential policies on the income tax of pollution treatment enterprises for third parties according to relevant regulations, thus income tax in the current period decreased.

Explanation of changes in profit or loss attributable to minority shareholders: It was mainly due to the decrease in net profit of non-wholly-owned subsidiaries in this period as compared to the same period last year, thus the equities of minority shareholders calculated according to equity ratio decreased correspondingly.

Explanation of changes in net cash flows from operating activities: It was mainly due to the increase of sewage treatment service fee charged in this period as compared to the same period last year.

## 4. Operation Discussion and Analysis

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

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

Explanation of changes in net increase of cash and cash equivalent: It was mainly due to the combined influences of cash flow from operating and financing activities.

### (II) Major changes in profits caused by non-principal businesses

Not applicable

### (III) Analysis of assets and liabilities

Unit: 0'000 Currency: RMB

Items	Amount as of the end of the current period	Percentage of the amount as of the end of the current period to the total assets (%)	Amount as of the end of the previous period	Percentage of the amount as of the end of the previous period to the total assets (%)	Percentage change in amount as of the end of the current period as compared to the end of the previous period (%)	Explanation
Other receivables	5,831.7	0.35	3,616.2	0.23	61.27	Mainly due to the increase in the deposit of contract awarded projects and the refund-upon-collection tax receivable during this period.
Other current assets	25,698.6	1.56	15,668.8	1.00	64.01	Mainly due to increase in value-added tax to be credited by the Company
Investment property	2,051.0	0.12	8,405.2	0.54	-75.60	Mainly due to the decrease of external leasing business of the Company's buildings
Construction in progress	26,665.4	1.62	15,093.9	0.96	76.66	Mainly due to increased investment in non-franchise projects during this period.
Wages payable	1,155.7	0.07	5,394.2	0.34	-78.58	Mainly due to the payment of year-end bonus provided for in the end of 2018 during the period.
Non-current liabilities due within one year	77,123.0	4.69	24,337.0	1.55	216.90	Mainly due to the increase of long-term borrowings due within one year during this period.

**(IV) Analysis of investment**

During the reporting period, the total amount of equity investment of the Group amounted to RMB477.7433 million, representing an increase of RMB258.1121 million as compared to the same period last year. The Company mainly invested in the new projects in principal water affairs sector.

**(1) Major equity investments**

- ① During the reporting period, the Company won the bid of PPP Project for sewage treatment in Jieshou City (2nd batch). After winning the bid, the Company contributed RMB146.1822 million to Fuyang Company for capital increase, which will then be used to increase the capital contribution of Fuyang Company to Jieshou Company for the investment, construction and operation of the PPP Project in Jieshou City (2nd batch). Following the capital increase, the registered capital of Fuyang Company increased from RMB191.10 million to RMB337.2822 million, and the registered capital of Jieshou Company increased from RMB89.00 million to RMB235.1822 million. During the reporting period, the above two capital increases were done and the PPP project in which the Company intends to invest proceeded well.
- ② During the reporting period, the Company and Fengyuan Water formed a consortium, which won the bid for the franchise project of Yuanquan Waterworks in Hanshou County. After winning the bid, Hanshou Company was established, in which the Company holds 75% interests as a contributor of RMB33.75 million and Fengyuan Water holds 25% as a contributor of RMB11.25 million, respectively, for investment, construction and operation of franchise project of Yuanquan Waterworks in Hanshou County. During the reporting period, Hanshou Company was established, to which capital was contributed, and Yuanquan Waterworks proceeded well.
- ③ During the reporting period, the Company, Hebei Guokong, the Third Construction Company of China Construction Third Engineering Bureau and Tianjin Municipal Institute formed a consortium, which won the PPP project for comprehensive improvement of regional water environment in Gaocheng District, Shijiazhuang. After winning the bid, Guojin Tianchuang Company was jointly founded as the project company by the aforementioned members of the consortium and the representatives of the government contributor, for investment, construction and operation of the PPP project. The registered capital of the project company was RMB217.4969 million, in which the Company holds 59% interests as a contributor of RMB128.3232 million, Hebei Guokong holds 30%, the Third Construction Company of China Construction Third Engineering Bureau holds 0.9%, the representatives of government contributors, i.e. Gaocheng District Construction & Investment Co., Ltd of Shijiazhuang City and Zhengtong Construction & Development Co., Ltd of Gaocheng Economic Development Zone, Shijiazhuang hold 10% in total, and Tianjin Municipal Institute holds 0.1%. All those capital contributions were made in cash. During the reporting period, the capital injection was done, so that the project company was founded and the PPP project proceeded well.



## 4. Operation Discussion and Analysis

- ④ During the reporting period, the Company won the bid of No. 1 and No. 2 sewage treatment plants in Suzhou District, Jiuquan City in PPP (Public Private Partnership) model involving the Bureau of Housing and Urban-Rural Development of Suzhou District, Jiuquan City. After winning the bid, Jiuquan Company was jointly founded as the project company by the Company and the representative of government contributor, for investment, construction and operation of the PPP project. The registered capital of Jiuquan Company was RMB178.2379 million, comprising RMB158.2379 million from the Company as a holder of 88.78% and RMB20.00 million from the government representative as a holder of 11.22%. During the reporting period, the capital contribution was not done yet.

### (2) Significant non-equity investment

To date, the Company's sewage plant upgrade and transformation projects in Jingu and Beichen have been checked and accepted for environmental impact assessment, basically satisfying the conditions for performing the new sewage service fee tariffing under the Supplemental Agreement. The Company has initiated the consultation with the counterparty of the Supplemental Agreement and has made considerable progress. It is expected that the new sewage treatment service fees will be implemented in the second half of the year.

### (V) Disposal of major assets and equity interest

Not applicable

## (VI) 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 liability company	100%	131,459.3	46,647.8	3,506.50
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	37,744.50	Limited liability company	70%	101,857.9	70,588.7	2,345.3
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 liability company	100%	61,437.0	42,854.8	1,601.4
Jiayuanxing	Tianjin	Development, consulting, service and transfer of energy conservation and new energy technology; property management services	19,195.05	Limited liability company	100%	67,758.0	30,767.9	512.0
Caring Company	Tianjin	Environmental engineering management and technical advice etc.	3,333.33	Stock Limited Company	60%	14,886.4	12,233.7	699.8
Bayannur Company	Bayannur, Inner Mongolia	Processing of sewage water, production and sales of recycled water and supply of tap water	106,757.79	Limited liability company	70%	113,564.3	111,504.7	385.3
Shandong Company	Shandong	Disposal of solid wastes, industrial wastes, hazardous wastes, sludge, kitchen wastes, etc.	19,200	Limited liability company	55%	41,268.2	18,449.8	-256.2

Note 1: Water Recycling Company recorded revenue from principal operations of RMB133.470 million and operating profit of RMB43.653 million.

Note 2: Hangzhou Company recorded revenue from principal operations of RMB120.272 million and operating profit of RMB33.120 million.

Note 3: Shandong Company recorded negative net profit, because it was still in the construction period and has not been put into operation yet, thus no operating revenue was generated.

## 4. Operation Discussion and Analysis

### II. Other Disclosure

- (I) Warning and explanation for cumulative net loss expected to be recorded for the period from the beginning of the year to the end of the next reporting period or material changes of cumulative net profit as compared to the corresponding period of the previous year

Not applicable

- (II) Possible risks

1. 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. As for enterprises, 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. Since the government credibility relates to government's financial revenue and expenditure, it is necessary to prevent and control the risk of government credit effectively, particularly in the background of economic downturn and deleveraging policies.

(2) *Risk of change in policy*

During the exclusive license operation period lasting for 20-30 years, the continuity of policies is of great importance and the risk of changes in policy needs close attention from the Company. Not only changes in commodity prices, taxes and other policies will have a direct impact on the adjustment to the water price, but also adjustments to government functions may also affect corporate business development to some degree. Therefore, it is necessary to pay close attention to the policy environment and policy risks.

### *(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 management 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.

## 4. Operation Discussion and Analysis

### *(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.

### **(III) Other disclosure**

Not applicable

## 5. Major Events

### I. SHAREHOLDERS' GENERAL MEETINGS

Session of meeting	Date of meeting	Date of disclosure of the resolutions
2018 Annual General Meeting	14 May 2019	14 May 2019

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

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

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

### III. PERFORMANCE OF COMMITMENT

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

Not applicable

### IV. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

Not applicable

### V. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

Not applicable

### VI. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION

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

Not applicable

## 5. Major Events

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

Unit: Yuan Currency: RMB

During the reporting period:

Complaining party	Responding party	Party to bear joint liability	Type of litigation or arbitration	Particulars of litigation (or arbitration)	Amount involved in litigation (or arbitration)	Whether litigation (or arbitration) forms predicated liability and its amount	Progress of litigation (or arbitration)	Ruling results of litigation (or arbitration) and its effect	Enforcement of award of litigation (or arbitration)
Jiayuanxing	Qudong Company	None	Litigation	Note 1	12,030,003	None	Execution	Note 2	Termination of execution (note 2)
Anguo Company	Anguo Municipal Government	None	Arbitration	Note 5	47,475,320.86	None	Executing	Note 3	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 filed a civil lawsuit in the People’s Court of Hexi District (hereinafter referred to as the “Hexi Court”) in Tianjin. On 3 April 2018, the Hexi Court made a first-instance judgment, ruling that Qudong Company paid Jiayuanxing cold and heat supply energy fees of RMB12,030,003 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 borne by Qudong Company. Both parties refused to accept the first-instance judgment and appealed to the Tianjin Second Intermediate People’s Court. On 25 September 2018, the Tianjin Second 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 had 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. Prior to 30 June 2019, Qudong Company had paid off the first payment in accordance with the content of the settlement agreement. At present, Qudong Company has repaid a total of RMB5,291,300.

Note 3: 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 total amount of (3), (4), (5) mentioned above is RMB51.4232 million. At present, Anguo Municipal Government has returned the water supply fee of RMB3.557 million and the arbitration fee of RMB390,874.5 to Anguo Company.

Note 4: For the total investment of RMB47,475,320.86 for the project, Anguo Municipal Government issued a repayment plan on 21 March 2019, and plans to return RMB10 million as of the end of 2019. The remaining funds will be returned before the end of 2020. Anguo Company filed an enforcement action with Baoding Intermediate People's Court on 3 April 2019. On 15 July 2019, Anguo Municipal Government transferred the refund of the project to Anguo Finance (安國財政), and the two parties are negotiating how to refund the money.

Note 5: 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.

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

Not applicable

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

Not applicable

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

Not applicable



## 5. Major Events

### X. MATERIAL CONNECTED TRANSACTIONS

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

Not applicable

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

Not applicable

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

Not applicable

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

Not applicable

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

Not applicable

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

Not applicable

## XI. MATERIAL CONTRACTS AND PERFORMANCE THEREOF

### 1. Custody, Contracting and Leasing

Not applicable

### 2. Guarantees

Unit: 0'000 Currency: RMB

<b>Guarantees provided to external parties by the Company (excluding guarantees provided to subsidiaries)</b>	
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
<b>Guarantees provided to subsidiaries by the Company</b>	
Total amount of guarantees provided to subsidiaries during the reporting period	81,000.00
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	278,458.67
<b>Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)</b>	
Total amount of guarantees (A+B)	278,458.67
Percentage of the total amount of guarantees to the net assets of the Company (%)	47.86
Of which:	
Amount of guarantees provided to shareholders, de facto controller and their connected parties (C)	0
Amount of debt guarantees provided directly or indirectly to guaranteed entities with a gearing ratio of over 70% (D)	22,000
The amount of total guarantees in excess of 50% of net assets (E)	0
Total of the above three classes of guarantees (C+D+E)	22,000

## 5. Major Events

### XII. 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 work, the counterpart of which was Nancaicun Town (南蔡村鎮) government and the Xixiaoliang Village (西小良村) thereunder, and the assistance agreement was signed. 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 had been paid by the Company as of 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, both of which had been paid on time. And the remaining RMB1,688,000 will be paid before 31 January 2020 as scheduled. 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.

#### 2. Summary of Targeted Poverty Alleviation During the Reporting Period

Not applicable

#### 3. Achievements in Targeted Poverty Alleviation

*Unit: 0'000 Currency: RMB*

Indicators	Quantity and Implementation Details
I. General situation	
Including: Capital	237.91
II. Investment breakdown	
1. Other Projects	
Including: 1.1. Number of projects	1
1.2. Investment amount	237.91
III. Awards (content, level)	Nil

4. **Milestones in the progress of fulfilling the social responsibility of targeted poverty alleviation**

Not applicable

5. **Subsequent Targeted Poverty Alleviation Plan**

Please refer to the above targeted poverty alleviation plan.

### XIII. CONVERTIBLE BONDS

Not applicable

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

The Company is mainly engaged in the sewage treatment business, which involves collecting and treating domestic and municipal sewage by removing the main pollutants therein to the extent that the treated sewage meets the discharge standards stipulated by the national or local government, and then discharging 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. Accordingly, given the fact that most of sewage treatment projects have a designed capacity of exceeding 20,000 tonnes/day, they are classified as key pollutant discharging entities by local environmental protection authorities.

As at the end of the reporting period, the Company owned 35 sewage treatment projects, each of which has 1 or 2 discharge outfalls determined after examination and demonstration by competent authorities and experts in the industry. As per this agreement, currently the effluent water quality required is class A specified in the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (DB12/599-2015) of Tianjin and 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.

## 5. Major Events

No.	Pollutant index requiring basic control	Tianjin local standard - class A	National standard - first grade class A	National standard - first grade class B	
1	COD	30	50	60	
2	BOD	6	10	20	
3	SS	5	10	20	
4	Animal & plant oil	1	1	3	
5	Petroleum	0.5	1	3	
6	Anion surfactant	0.3	0.5	1	
7	Total nitrogen (N)	10	15	20	
8	Ammonia nitrogen (N)	1.5 (3)	5 (8)	8 (15)	
9	Total phosphorus (P)	Constructed before 31 December 2005	0.3	1	1.5
		Constructed after 1 January 2006	0.3	0.5	1
10	Chroma (dilution multiple)	15	30	30	
11	PH	6-9			
12	Number of fecal coliforms/L	1000	1000	10000	

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 14,300 tonnes, 2,800 tonnes, 2,900 tonnes, 6,500 tonnes, 900 tonnes and 200 tonnes, respectively. In aggregate, environmental pollutants, namely, the COD, BOD, SS, total nitrogen, ammonia nitrogen and total phosphorus, were eliminated by approximately 250,900 tonnes, 108,000 tonnes, 149,900 tonnes, 26,600 tonnes, 22,000 tonnes and 4,500 tonnes, respectively, representing a significant contribution to water environmental governance.

### 1. Construction and operation of pollution prevention facilities

During the reporting period, the sewage treatment projects operated by 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.

As for supervision and handling of Xianyang Road Sewage Treatment Plant of the Company (For details, please refer to the relevant disclosure of 2018 interim report and 2018 annual report of the Company), the newly built Xianyang Road Sewage Treatment Plant has achieved overall A standards under the local discharge standards of Tianjin by the end of July 2019, and the "supervision and handling" rectification task was fully implemented. We are currently applying for removal of such supervisory restrictions.

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

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

### 3. Emergency Plans for Sudden Environmental Incidents

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

### 4. Environmental Self-monitoring Program

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

### 5. Other environmental information that should be disclosed

Not applicable

#### (1) Description of environmental information of companies other than those classified as key pollutant discharge entities

Not applicable

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

Not applicable

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

Not applicable

## XV. DETAILS OF OTHER MAJOR EVENTS

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

In December 2018, the Ministry of Finance of the PRC has promulgated the "Accounting Standards for Business Enterprises No. 21 - Leases" (the "New Standard") and required that enterprises listed in both domestic and overseas markets and enterprises listed overseas and applying the International Financial Reporting Standards or the China Accounting Standards for Business Enterprises in preparation of financial statements shall apply the New Standard from 1 January 2019.

## 5. Major Events

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

The New Standard mainly introduces a substantial change to the accounting for lessees of assets as compared with the original provisions. Upon assessment of the implementation of the New Standard, the Company considers that, as the Company has no significant assets leases, the application of the New Standard will not have any material effect on the financial statements of the Company.

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

Not applicable

**(III) Other events**

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

*1. Corporate Governance Code*

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

*2. Audit committee*

On 31 July 2001, the Board approved the establishment of the Audit Committee to review and supervise the Company’s financial reporting procedure and internal controls. The Audit Committee of the current session comprises the independent non-executive Directors, Mr. Guo Yongqing, Mr. Di Xiaofeng and Mr. Wang Xiangfei. The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Company the internal controls and financial reporting matters including the review of the unaudited interim results and the Interim Report. The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group’s unaudited interim accounts for the six months ended 30 June 2019.

*3. Liquidity and financial resources*

No seasonal changes have occurred to the borrowing needs of the Group. As of 30 June 2019, there were no outstanding bank borrowings or interests that were due. Details about the bank borrowings of the Group are set out in the Notes to the Condensed Consolidated Financial Statements as of 30 June 2019.

According to the accounting reports prepared in accordance with the PRC’s Accounting Standards for Business Enterprises, the liquidity ratio as of 30 June 2019 was 58.53%.

#### 4. *Foreign Exchange Risk*

The operations and customers of the Group's Subsidiaries are located in the PRC. Most of the operating assets and transactions are settled in RMB, and all of the Group's borrowings are denominated in RMB. Therefore, the Group is not exposed to significant foreign exchange risk. The sole foreign exchange exposure of the Group arises from long-term payables. Such long-term payables were resulted from the Asset Transfer Agreement signed between the Company and TSC for the purchase of assets generated from foreign bank loans, involving mainly US dollars (USD) and Japanese Yen (Yen).

As at 30 June 2019, a 5% appreciation or depreciation of RMB against USD, with other factors being constant, would result in an increase or decrease of RMB3 million (30 June 2018: RMB3 million) in the net profit of the Group. As at 30 June 2019, a 5% appreciation or depreciation of RMB against Yen, with other factors being constant, would result in an increase or decrease of RMB8 million (30 June 2018: RMB7 million) in the net profit of the Group.

The interest rate risk of the Group mainly came from interest-bearing debts such as borrowings, long-term payables and debentures. The Group has borrowings, long-term payables and debentures. Borrowings and long-term payables at floating rates expose the Group to interest rate risk on cash flows, while borrowings, long-term payables and debentures at fixed rates expose the Group to interest rate risk associated with fair value. As at 30 June 2019, if the loan interest rate increases/decreases by 1%, with other factors being constant, the net profit of the Group for the period will decrease/increase by RMB23 million (30 June 2018: RMB7 million). The Group also considers to minimize its interest rate exposure by way of refinancing, renewal of existing borrowings and alternative financing.

#### 5. *Employee and Emolument Policy*

As at 30 June 2019, the Group had 1,783 employees. During the reporting period, total remuneration paid to employees of the Group was approximately RMB118.05 million. The Group adopted a wage system in accordance with post ranks. The remuneration of the Company's employees under annual salary system is pegged with his/her post rank and the economic benefits to the Company. The remuneration of the Company's employees under the monthly salary system is pegged with his/her post rank, length of service, education background and skills as well as the economic benefits to the Company.

#### 6. *Contingent Liabilities*

The Group did not have any significant contingent liabilities as at 30 June 2019.



## 5. Major Events

### 7. *Rights of Debt*

As at 30 June 2019, pursuant to the “Licensed Operation Agreement in respect of the Four Sewage Water Treatment Plants of the Company including Jizhuangzi” entered into between the Group, Tianjin Water Authority Bureau and TCCC which started to perform from 1 January 2014, the total receivables of the Group from Tianjin Water Authority Bureau amounted to RMB1,393 million, representing approximately 14.28% of the total market capital of the Group as at 30 June 2019.

### 8. *Charge on Assets*

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

### 9. *Acquisition and Disposal of Subsidiaries*

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

### 10. *Details of Preferred Shares*

The Company had no preferred shares during the reporting period.

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

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

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

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

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

### I. CHANGES IN SHARE CAPITAL

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

### II. DETAILS OF SHAREHOLDERS

#### (i) Total number of shareholders

Total number of ordinary shareholders as at the end of the reporting period 87,883

Note: As at 30 June 2019, the total number of shareholders of the Company is 87,883, among which 66 shareholders are shareholders of H shares.

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

Name of shareholder (Full Name)	Shareholdings of the top ten shareholders			Number of restricted shares held (shares)	Pledged or frozen	Nature of the shareholder
	Increase/decrease during the reporting period (shares)	Number of shares held as at the end of the period (shares)	Percentage (%)			
TMICL	0	715,565,186	50.14	0	Nil	State-owned legal person
HKSCC Nominees Limited	-90	337,854,810	23.67	0	Unknown	Other
Central Huijin Investment Co., Ltd.	0	14,169,800	0.99	0	Nil	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)	534,944	5,148,952	0.36	0	Nil	Other
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	10,900	3,340,900	0.23	0	Nil	Domestic non-state-owned legal person
An Liangzhou (安亮洲)	2,320,700	3,014,300	0.21	0	Nil	Domestic natural person
Hong Kong Securities Clearing Company Limited	1,386,947	2,615,311	0.18	0	Nil	Other
Wu Zuojia (吳作佳)	0	2,241,219	0.16	0	Nil	Domestic natural person
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)	528,300	2,065,317	0.14	0	Nil	Other
Wang Zhanfu (王占府)	1,796,000	2,021,400	0.14	0	Nil	Domestic natural person

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

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

Name of shareholder	Number of non-restricted circulating shares held (shares)	Type and number of shares	
		Type	Number (shares)
TMICL	715,565,186	Ordinary RMB Shares	715,565,186
HKSCC Nominees Limited	337,854,810	H Shares	337,854,810
Central 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)	5,148,952	Ordinary RMB Shares	5,148,952
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	3,340,900	Ordinary RMB Shares	3,340,900
An Liangzhou (安亮洲)	3,014,300	Ordinary RMB Shares	3,014,300
Hong Kong Securities Clearing Company Limited	2,615,311	Ordinary RMB Shares	2,615,311
Wu Zuojia (吳作佳)	2,241,219	Ordinary RMB Shares	2,241,219
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)	2,065,317	Ordinary RMB Shares	2,065,317
Wang Zhanfu (王占府)	2,021,400	Ordinary RMB Shares	2,021,400

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

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

Notes: (1) According to the register of members as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. There was no single client who owned 5% or more interest in the total share capital of the Company.

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

### (iii) Strategic investors or general legal persons becoming the top ten shareholders through share placement

Not applicable

### III. CHANGES IN THE CONTROLLING SHAREHOLDER OR THE ULTIMATE CONTROLLER

Not applicable

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

As at 30 June 2019, the following entities, other than the Directors, Supervisors or chief executive of the Company, had interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

Name of Shareholder	Capacity	Number and class of securities (Note)	Approximate percentage in the relevant class of securities	Approximate percentage in 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 security interests in shares	18,659,000H Shares (L)	5.49%	1.31%
	Interests of controlled corporation	486,502 H Shares (L)	0.14%	0.03%
	Interests of controlled corporation	18,000 H Shares (L)	0.00%	0.00%

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

Save as disclosed above, there is no person (other than the Directors, Supervisors or chief executive of the Company) who, as at 30 June 2019, had an interest and/or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## 7. Directors, Supervisors, Senior Management

### I. CHANGES IN SHAREHOLDINGS

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

Not applicable

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

Not applicable

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

As at 30 June 2019, 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 (as defined in Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name	The Company/name of associated corporations	Capacity	Number and class of securities (Note)	Approximate percentage in the total issued share capital of the Company/ associated corporations
<i>Deputy General Manager</i> Zhang Jian	The 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.

Save as disclosed above, none of the Directors, Supervisors or chief executives of the Company, who, as at 30 June 2019, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

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

Not applicable

## 8. Details of the Company's 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

During the reporting period, the Company has completed interest payment of “18津創01” for the year 2019 as scheduled, while “16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 have other special terms such as exchangeable terms. During the reporting period, both the issuer's option to adjust the coupon rate and investors' put option were not triggered for “18津創01”. Issuing targets of “18津創01” are eligible investors who satisfy requirements of laws and regulations.

### II. CONTACT PERSON AND MEANS OF COMMUNICATION OF 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
	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

## 8. Details of the Company's Bonds

### III. USE OF PROCEEDS FROM BOND OFFERING

Scale of issue of “16津創01” reached RMB700 million, the proceed reached RMB697.2 million (net of underwriting fees). As at the end of the reporting period, the proceed is fully utilized as intended as mentioned in the prospectus and the 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 at the end of reporting period, RMB1,092,931,649.84 of the proceed was utilized as intended as mentioned in the prospectus and the remaining amount was RMB4,428,350.16.

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, and its use of proceeds is in line with intended use as mentioned in the prospectus, plan of use and other arrangements.

### IV. BOND RATING OF THE COMPANY

On 17 May 2019, United Credit Rating Co., Ltd. completed ongoing credit rating for the Company, “16津創01” and “18津創01”; long term credit of the Company maintained at “AA+”, the credit rating outlook maintained at “stable”, credit rating of the bond loans, “16津創01” and “18津創01”, maintained at “AA+”. Investors should be aware that relevant disclosure will be made in the Shanghai Stock Exchange website ([www.sse.com.cn](http://www.sse.com.cn)).

### V. BOND CREDIT ENHANCEMENT MECHANISM, DEBT REPAYMENT SCHEDULE AND OTHER RELEVANT INFORMATION OF THE COMPANY 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 term of the corporate bonds, the corporate bond trustee strictly complies with the arrangement stated in the “Corporate Bond Trustee Agreement” and performs 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 performed obligations as stipulated in the corporate bond prospectus. The corporate bond trustee actively performed its responsibilities and protected the legal rights of bondholders.

Investors should be aware that corporate bond trustee has issued its corporate bond trustee management report of Tianjin Capital Environmental Protection Group Company Limited (2018) on 28 June 2019 and has disclosed on the Shanghai Stock Exchange website (www.sse.com.cn).

## VIII ACCOUNTING DATA AND FINANCIAL INDICATORS AS OF THE END OF THE CURRENT REPORTING PERIOD AND AS OF THE END OF LAST YEAR (OR DURING THE REPORTING PERIOD AND DURING THE SAME PERIOD LAST YEAR)

Unit: Yuan Currency: RMB

Major Indicators	As at the end of the	As at the end	Increase/decrease	Reasons
	current reporting period	of last year	as at the end of the current reporting period as compared to the end of last year (%)	
Current ratio	1.48	1.56	-5.13%	—
Quick ratio	1.48	1.56	-5.13%	—
Assets liability ratio (%)	58.53	57.83	1.21%	—
Debt service ratio (%)	100	100	0.00	—
	During the	During the same	Increase/decrease	Reasons
	reporting period (from January to June)	period last year	for the current reporting period as compared to the same period last year (%)	
EBITDA interest protection multiples	4.25	7.30	-41.78	The Company's profits decreased compared to the same period last year
Interest coverage rate (%)	100	100	0.00	—

## IX. EXPLANATION ON OVERDUE DEBTS

Not applicable

## X. REDEMPTION OF OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

Not applicable



## 8. Details of the Company's Bonds

### XI. BANK CREDIT OF THE COMPANY DURING THE REPORTING PERIOD

As at the end of the reporting period, the Company has obtained, in aggregate, a credit facility of RMB11.162 billion from various banks, of which approximately RMB2.918 billion was utilized with a remaining balance of approximately RMB8.244 billion. During the reporting period, the Company has repaid each bank loan as scheduled and there is no renewal or concession for such loans.

### XII. 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 and commitments as set out in its bond prospectus. This is no major impact to the bondholders.

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

There are no 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》).

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

#### Interim Condensed Consolidated Balance Sheet

As at 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

	Notes	As at	
		30 June 2019 Unaudited RMB' 000	31 December 2018 Audited RMB' 000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	662,484	497,580
Investment property	6	20,510	84,052
Intangible assets	6	10,717,960	10,314,469
Land use rights	6, 22	—	60,358
Right-of-use assets	6, 22	59,276	—
Investments accounted for using the equity method	7	195,000	195,000
Financial asset at fair value through other comprehensive income		2,000	2,000
Long-term receivables	9	245,067	253,686
Other non-current assets		114,322	109,181
		<u>12,016,619</u>	<u>11,516,326</u>
<b>Current assets</b>			
Inventories		13,967	13,991
Trade receivables	8	2,019,240	2,091,760
Other current assets		276,992	179,477
Other receivables		58,317	36,162
Prepayments		30,356	23,531
Cash and cash equivalents		2,024,293	1,808,543
Restricted cash		16,384	17,658
		<u>4,439,549</u>	<u>4,171,122</u>
<b>Total assets</b>		<u><u>16,456,168</u></u>	<u><u>15,687,448</u></u>

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

#### Interim Condensed Consolidated Balance Sheet

As at 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

	Notes	As at	
		30 June 2019 Unaudited RMB' 000	31 December 2018 Audited RMB' 000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	11	4,338,920	4,114,683
Deferred revenue	12	2,110,298	2,101,085
Deferred income tax liabilities	13	141,370	138,812
Other non-current liabilities		38,000	38,000
Provisions for other liabilities and charges	14	10,069	10,069
		<u>6,638,657</u>	<u>6,402,649</u>
<b>Current liabilities</b>			
Trade payables	15	220,762	176,398
Contract liabilities	15	534,107	469,185
Wages payables		11,557	53,942
Income tax and other taxes payables	15	54,215	68,893
Dividend payable		150,699	1,912
Other payables	15	1,051,332	1,456,133
Borrowings	11	971,230	443,369
		<u>2,993,902</u>	<u>2,669,832</u>
<b>Total liabilities</b>		<u>9,632,559</u>	<u>9,072,481</u>
<b>Net assets</b>		<u>6,823,609</u>	<u>6,614,967</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	10	1,427,228	1,427,228
Other reserves		948,131	948,131
Retained earnings		3,510,061	3,442,844
		<u>5,885,420</u>	<u>5,818,203</u>
<b>Non-controlling interests</b>		<u>938,189</u>	<u>796,764</u>
<b>Total equity</b>		<u>6,823,609</u>	<u>6,614,967</u>

Liu Yujun

Niu Bo

The notes on page 46 to 77 form an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

For the Half-Year of 2019

(All amounts in RMB thousand unless otherwise stated)

	Notes	Unaudited Half-year	
		2019 RMB' 000	2018 RMB' 000
<b>Continuing operations</b>			
Revenue	4(a)	1,224,716	1,107,798
Tax expenses and surcharge		(18,907)	(26,466)
Cost of sales		(817,630)	(597,640)
<b>Gross profit</b>		<b>388,179</b>	<b>483,692</b>
Other income	4(a)	60,744	38,598
Other gains – net		1,370	3,112
Administrative expenses		(68,032)	(55,631)
Distribution costs		(1,987)	(2,730)
Net impairment losses on financial assets		98	2,923
<b>Operating profit</b>	5	<b>380,372</b>	<b>469,964</b>
Finance income		10,980	11,246
Finance expenses		(104,103)	(87,495)
Finance expenses – net	16	(93,123)	(76,249)
<b>Profit before income tax</b>		<b>287,249</b>	<b>393,715</b>
Income tax expense	17	(56,154)	(92,228)
<b>Profit from continuing operations</b>		<b>231,095</b>	<b>301,487</b>
<b>Total comprehensive income for the half-year</b>		<b>231,095</b>	<b>301,487</b>
Profit/Total comprehensive income for the half-years is attributable to:			
– Owners of the parent		218,503	282,565
– Non-controlling interests		12,592	18,922
		<b>231,095</b>	<b>301,487</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company (in RMB per share)</b>			
– Basic earnings per share		0.15	0.20
– Diluted earnings per share		0.15	0.20
<b>Interim dividends</b>	18	—	—

The notes on page 46 to 77 form an integral part of this condensed consolidated interim financial information.

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

#### Interim Condensed Consolidated Statement of Changes in Equity

For the Half-Year of 2019

(All amounts in RMB thousand unless otherwise stated)

Notes	Unaudited					Total Equity RMB' 000
	Attributable to owners of the Company				Non- controlling interests RMB' 000	
	Share capital RMB' 000	Other Reserves RMB' 000	Retained Earnings RMB' 000	Sub-Total RMB' 000		
Balance at 1 January 2019	1,427,228	948,131	3,442,844	5,818,203	796,764	6,614,967
Comprehensive income						
– Profit for the half-year	—	—	218,503	218,503	12,592	231,095
Total comprehensive income for the half-year	—	—	218,503	218,503	12,592	231,095
Transactions with owners in their capacity as owners:						
– Non-controlling interest on setting up subsidiary	—	—	—	—	129,224	129,224
– Dividends provided for or paid	—	—	(151,286)	(151,286)	(391)	(151,677)
	—	—	(151,286)	(151,286)	128,833	(22,453)
Balance at 30 June 2019	1,427,228	948,131	3,510,061	5,885,420	938,189	6,823,609
Balance at 1 January 2018	1,427,228	879,022	2,978,876	5,285,126	296,736	5,581,862
Comprehensive income						
– Profit for the period	—	—	282,565	282,565	18,922	301,487
Total comprehensive income	—	—	282,565	282,565	18,922	301,487
Transactions with owners in their capacity as owners:						
– Capital contribution from non-controlling interests	—	16,818	—	16,818	46,275	63,093
– Non-controlling interest on acquisition of subsidiary	—	—	—	—	320,273	320,273
	—	16,818	—	16,818	366,548	383,366
Balance at 30 June 2018	1,427,228	895,840	3,261,441	5,584,509	682,206	6,266,715

The notes on page 46 to 77 form an integral part of this condensed consolidated interim financial information.

### Interim Condensed Consolidated Statement of Cash Flow

For the Half-Year of 2019

(All amounts in RMB thousand unless otherwise stated)

	Unaudited Half-year 2019 RMB' 000	2018 RMB' 000
<b>Cash flows from operating activities</b>		
Cash generated from operations	770,279	640,332
Income tax paid	(81,360)	(307,771)
Bank deposit interest received	6,221	6,232
<b>Net cash inflow from operating activities</b>	<u>695,140</u>	<u>338,793</u>
<b>Cash flows from investing activities</b>		
Payment for acquisition of subsidiary, net of cash acquired	—	(396,957)
Payments for property, plant and equipment, intangible assets	(1,280,910)	(703,353)
Proceeds on disposal of property, plant and equipment	30	—
Interest received on financial assets held as investments	—	200
Increase in restricted cash	1,274	—
Government grants received	34,567	18,900
<b>Net cash outflow from investing activities</b>	<u>(1,245,039)</u>	<u>(1,081,210)</u>
<b>Cash flows from financing activities</b>		
Repayments of bank borrowings	(496,037)	(1,342,192)
Dividends paid to Company's shareholders	(978)	—
Interest paid	(111,076)	(81,533)
Proceeds from bank borrowings	1,244,516	1,386,695
Proceeds from debentures	—	1,100,000
Capital contributions by non-controlling interests	129,224	63,093
<b>Net cash inflow from financing activities</b>	<u>765,649</u>	<u>1,126,063</u>
<b>Net decrease in cash and cash equivalents</b>	<u>215,750</u>	<u>383,646</u>
Cash and cash equivalents at the beginning of the half-year	<u>1,808,543</u>	<u>1,893,689</u>
<b>Cash and cash equivalents at the end of the half-year</b>	<u><u>2,024,293</u></u>	<u><u>2,277,335</u></u>

The notes on page 46 to 77 form an integral part of this condensed consolidated interim financial information.

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

## 1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES

Tianjin Capital Environmental Protection Group Company Limited (the ‘Company’) was established on 8 June 1993 in Tianjin, the People’s Republic of China (the ‘PRC’) as a joint stock limited liability company. The holding company and the ultimate holding company of the Company are Tianjin Municipal Investment Company Limited (‘Municipal Investment’) and Tianjin City Infrastructure Construction and Investment Group Company Limited (‘City Infrastructure Construction and Investment’) respectively. The address of its registered office is No.45 Guizhou Road, Heping District, Tianjin. The Company’s H-shares are listed on The Stock Exchange of Hong Kong Limited and the A-shares are listed on The Shanghai Stock Exchange.

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

#### (a) Processing of sewage water

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

Plant	Location	Agreement date	Customer
Guiyang	Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying	Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi	Hubei	15 July 2005	Chibi Construction Bureau
Fuyang	Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qujing	Yunnan	25 December 2005	Qujing City Water General Company
Honghu	Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou	Zhejiang	20 November 2006	Hangzhou Municipal Facilities Supervision Center
Jinghai	Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng	Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an	Shanxi	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-rural Construction Bureau
Karamay	Xinjiang	4 November 2016	Karamay Construction Bureau
Linxia	Gansu	13 May 2017	Linxia Housing and Urban-rural Construction Bureau
Changsha	Hunan	5 June 2017	Ningxiang Economic and Technological Development Zone Management Committee

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

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

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

Plant	Location	Agreement date	Customer
Hefei	Anhui	16 June 2017	Hefei Urban-Rural Construction Committee
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 – Rural Construction Bureau
Shibing	Guizhou	12 July 2018	Shibing Water Authority Bureau
Hefei	Anhui	28 November 2018	Hefei Urban-rural Construction Commission
Hanshou	Hunan	11 March 2019	Hanshou Water Authority Bureau
Gaocheng	Hebei	2 April 2019	Hebei Gaocheng Economic Development Zone Management Committee

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.



## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

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

##### (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.

This condensed consolidated interim financial information was approved for issue on 26 August 2019.

This condensed consolidated financial information has not been audited.

#### 2 SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

In this period, the Group operated its business smoothly. With winning the bidding of four water projects, the Group set up Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd. and Hanshou Tianchuang Capital Water Co., Ltd. The Group will continue to focus on process of sewage water, new energy, hazardous waste treatment and other environmental services.

The financial position and performance of the Group was particularly affected by the following events and transactions during the six months to 30 June 2019:

- an increase in revenue as the result of the increase of the processing quantity or unit price of different franchising project (note 4).
- the adoption of the new leasing standard HKFRS 16 Leases (note 22).

#### 3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of market risks (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance.

The interim condensed consolidated financial statement do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

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

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

**3 FINANCIAL RISK MANAGEMENT** (Continued)

(a) **Market risk:**

(i) *Foreign currency risk:*

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign currency exposure of the Group arises from fluctuation of US dollar ('USD') and Japanese Yen ('JPY') pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from Tianjin Sewage Company ('Sewage Company').

As at 30 June 2019, 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 RMB3 million (30 June 2018: 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 period would have been RMB8 million (30 June 2018: RMB7 million) higher/lower.

(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 assets and liabilities at carrying amounts, categorized by the maturity dates.

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (a) Market risk: (Continued)

##### (ii) Interest rate risk: (Continued)

	Fixed RMB' 000	Floating RMB' 000	Total RMB' 000
<b>As at 30 June 2019 (Unaudited)</b>			
Short-term borrowings	200,000	—	200,000
Other current liabilities			
– Current portion of long-term bank borrowings	—	741,534	741,534
– Current portion of long-term payables	17,984	11,713	29,697
Long-term borrowings	—	2,283,376	2,283,376
Long-term payables	193,526	77,542	271,068
Long-term bonds	1,796,872	—	1,796,872
<b>Total</b>	<b>2,208,382</b>	<b>3,114,165</b>	<b>5,322,547</b>
<b>As at 31 December 2018 (Audited)</b>			
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
<b>Total</b>	<b>2,201,479</b>	<b>2,356,573</b>	<b>4,558,052</b>

As at 30 June 2019, if interest rates on borrowings had been 1% risen/fallen with all other variables held constant, net profit for the period would have been decreased/increased by RMB23 million (30 June 2018: RMB7 million).

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

#### (b) Credit risk:

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

The Group manages credit risk on bank deposits by placing the majority of its cash and bank balances with state owned/ listed banks in the PRC. The Group has not had any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

The credit risk on trade receivables is concentrated on a few customers, all of which are PRC government background. Therefore, the management considers that the risk is limited.

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

3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk:

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

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

	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Over 5 years RMB' 000	Total RMB' 000	Carrying value RMB' 000
<b>As at 30 June 2019(Unaudited)</b>						
Short-term bank borrowings	200,000	—	—	—	200,000	200,000
Long-term bank borrowings	830,934	771,660	795,652	1,100,948	3,499,194	3,024,909
Long-term payables	28,943	29,726	94,891	307,951	461,511	300,765
Trade and other payables	1,272,123	—	—	—	1,272,123	1,272,123
Long-term bonds	78,780	78,780	2,128,170	—	2,285,730	1,796,872
Dividend payable	150,699	—	—	—	150,699	150,699
	<u>2,561,479</u>	<u>880,166</u>	<u>3,018,713</u>	<u>1,408,899</u>	<u>7,869,257</u>	<u>6,745,368</u>
<b>As at 31 December 2018(Audited)</b>						
Short-term bank borrowings	200,000	—	—	—	—	200,000
Long-term bank 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
Trade and other payables	176,398	—	—	—	176,398	176,398
Other payables	1,456,133	—	—	—	1,456,133	1,456,133
Debentures	78,780	78,780	1,837,215	—	1,994,775	1,796,363
Dividend payable	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>

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Capital management

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

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

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

For the period ended 30 June, 2019, the Group's strategy is to maintain a gearing ratio of 20% – 40%. The gearing ratio of the Group is as follows:

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Total borrowings	5,322,547	4,558,052
Less: Cash and cash equivalents	(2,024,293)	(1,808,543)
Net debt	<u>3,298,254</u>	<u>2,749,509</u>
Total equity	<u>6,823,609</u>	<u>6,614,967</u>
Total capital	<u>10,121,863</u>	<u>9,364,476</u>
Gearing ratio	<u>33%</u>	<u>29%</u>

As at 30 June 2019, the gearing ratio of the Group almost remained unchanged compared to last year.

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

3 FINANCIAL RISK MANAGEMENT (Continued)

(e) Fair value estimation

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2019 and 31 December 2018 on a recurring basis:

At 30 June 2019	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through other comprehensive income (FVOCI)				
Equity securities	—	—	2,000	2,000
<b>Total financial assets</b>	<b>—</b>	<b>—</b>	<b>2,000</b>	<b>2,000</b>

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

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

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

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For all of these instruments, the fair value are not materially different from their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short term in nature.

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

#### 4 REVENUE AND SEGMENT INFORMATION

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

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

	Unaudited Half-year 2019 RMB'000	2018 RMB'000
Revenue from contracts with customers (Note 4(b))	1,224,716	1,107,798
Other income	60,744	38,598
	<u>1,285,460</u>	<u>1,146,396</u>

(b) Operating segment analysis

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

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

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

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

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

4 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Operating segment analysis (Continued)

(i) For the half-year ended 30 June 2019 (Unaudited)

	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	458,172	120,167	292,961	137,078	40,417	49,703	18,493	107,725	1,224,716
Timing of revenue recognition:									
At a point in time	—	—	—	—	—	—	—	—	—
Over time	458,172	120,167	292,961	137,078	40,417	49,703	18,493	107,725	1,224,716
Segment expense	(332,824)	(89,973)	(222,315)	(91,113)	(33,371)	(37,868)	(10,315)	(119,688)	(937,467)
Results before share of profits of an associate									287,249
Profit before income tax									287,249
Income tax expense									(56,154)
Profit for the period									231,095
Segment assets	5,936,592	1,055,436	5,782,445	1,221,492	677,580	423,103	67,951	1,096,569	16,261,168
Investment accounted for using the equity method									195,000
Total assets									16,456,168
Total liabilities	5,631,437	291,927	2,264,608	596,566	349,901	92,867	10,047	395,206	9,632,559
Other information									
- Interest income	1,459	1,004	157	7,384	487	18	376	95	10,980
- Interest expenses	(65,737)	(4,936)	(34,084)	(25)	(1,140)	(668)	—	—	(106,590)
- Depreciation	(109)	—	(837)	(17,698)	(188)	(48)	(503)	(2,684)	(22,067)
- Amortization	(63,267)	(26,016)	(84,695)	(2,968)	(11,344)	(7,683)	(1)	(1,328)	(197,302)
- Capital expenditures	12,742	—	515,617	929	32,613	44,798	52	130	606,881



## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

#### 4 REVENUE AND SEGMENT INFORMATION (Continued)

##### (b) Operating segment analysis (Continued)

(ii) For the half-year ended 30 June 2018 (Unaudited)

	Sewage processing and facility construction services			Recycle water and pipeline connection	Heating and cooling	Tap water	Environmental protection equipment	All other segments	Group
	Tianjin plants RMB' 000	Hangzhou plant RMB' 000	Other plants RMB' 000						
Segment revenue	413,312	133,377	201,559	149,040	36,574	46,059	10,250	117,827	1,107,798
Timing of revenue recognition:									
At a point in time	—	—	—	—	—	—	—	—	—
Over time	413,312	133,377	201,559	149,040	36,574	46,059	10,250	117,827	1,107,798
Segment expense	(288,494)	(96,412)	(152,854)	(116,483)	(30,851)	(33,819)	(10,859)	(76,539)	(806,311)
Results before share of profits of an associate	166,172	50,117	61,100	41,479	8,229	14,463	(716)	52,871	393,715
Profit before income tax									393,715
Income tax expense									(92,228)
Profit for the period									301,487
Segment assets	5,578,806	1,072,204	3,611,822	1,310,797	578,646	407,871	43,674	1,430,980	14,034,800
Investment accounted for using the equity method									—
Total assets									14,034,800
Total liabilities	4,449,684	329,324	1,253,121	614,818	259,095	99,997	4,055	757,991	7,768,085
Other information									
– Interest income	2,945	826	872	859	367	14	128	5,235	11,246
– Interest expenses	(73,577)	(5,440)	(8,044)	(33)	(551)	(937)	—	—	(88,582)
– Depreciation	(114)	—	(108)	(17,961)	(428)	—	(935)	(3,093)	(22,639)
– Amortisation	(62,672)	(28,724)	(51,601)	(1,965)	(8,775)	(6,926)	(1)	(1,522)	(162,186)
– Capital expenditures	246,361	—	1,012,241	167,487	17,333	143,204	694	9,593	1,596,913

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

## 5 OPERATING PROFIT

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

	2019 RMB' 000	Unaudited Half-year 2018 RMB' 000
Crediting:		
Rental of investment properties	(751)	(3,908)
Charging:		
Depreciation and amortisation expenses	219,369	184,825
Staff costs	149,479	116,094
Raw materials and consumables used	146,312	60,114
Repair and maintenance expenses	46,456	33,993

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

	Property, plant and equipment RMB' 000	Investment properties RMB' 000	Intangible assets (a) RMB' 000	Land use rights (Note 22) RMB' 000	Right-of-use assets (Note 22) RMB' 000
Half-year ended 30 June 2019 (Unaudited)					
Net book amount at 1 January 2019	497,580	84,052	10,314,469	—	60,358
Additions	273,887	—	599,711	—	—
Disposals	(297)	—	—	—	—
Depreciation and amortisation	(21,813)	(253)	(196,220)	—	(1,082)
Transfer from Investment properties	63,289	—	—	—	—
Transfer to property, plant and equipment	—	(63,289)	—	—	—
Transfer to concession rights	(150,162)	—	—	—	—
Impairment provision	—	—	—	—	—
At 30 June 2019	<u>662,484</u>	<u>20,510</u>	<u>10,717,960</u>	<u>—</u>	<u>59,276</u>
Half-year ended 30 June 2018 (Unaudited)					
Net book amount at 1 January 2018	404,488	86,820	6,869,701	36,717	—
Additions	10,925	—	1,615,640	—	—
Disposals	(118)	—	—	—	—
Depreciation and amortisation	(20,802)	(1,837)	(161,519)	(667)	—
Impairment provision	—	—	—	—	—
At 30 June 2018	<u>394,493</u>	<u>84,983</u>	<u>8,323,822</u>	<u>36,050</u>	<u>—</u>

- (a) Concession rights with net book value of RMB2,722 million (31 December 2018: 2,758 million) have been secured against loans.

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

## 7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

### Summarised financial information for Bihai Sponge City

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Net book value of investments	195,000	195,000
Attributable comprehensive income for the year:		
– Net loss (i)	—	—
– Other comprehensive income (i)	—	—
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>

(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.

## 8 TRADE RECEIVABLES

Details of the trade receivables are as follows:

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Receivables from third parties	2,032,694	2,089,992
– Trade receivables	2,025,422	2,079,697
– Notes receivable	7,272	10,295
Receivables from related parties	36,032	51,352
	<b>2,068,726</b>	<b>2,141,344</b>
Less: loss allowance for impairment of trade receivables (Note(a))	(49,486)	(49,584)
	<b>2,019,240</b>	<b>2,091,760</b>

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

8 TRADE RECEIVABLES (Continued)

(a) Impaired trade receivables

(i) The aging of trade receivables is analysed below:

	Unaudited 30 June 2019		Audited 31 December 2018	
	Amount RMB' 000	% of total balance	Amount RMB' 000	% of total balance
Within 1 year	1,539,777	74	1,468,039	68
1 to 2 years	460,568	22	649,268	29
2 to 3 years	34,837	1	15,464	1
3 to 4 years	28,987	1	7,024	1
4 to 5 years	3,046	1	1,549	1
Over 5 years	1,511	1	—	—
Total	<u>2,068,726</u>	<u>100</u>	<u>2,141,344</u>	<u>100</u>

(ii) As at 30 June 2019, 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	1,392,638	0.05	791	i)
Qijing Sewage Company	161,461	21.28	34,357	ii)
Hangzhou Municipal Facilities Supervision Center	93,918	0.05	30	i)
Guiyang Water Authority Bureau	61,469	0.05	2	i)
Xi'an Infrastructure Investment Group	14,998	0.05	14	i)
Tianjin Qudong Culture Media Co. LTD	7,239	100.00	7,239	iii)
Total	<u>1,731,723</u>		<u>42,433</u>	

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

## 8 TRADE RECEIVABLES (Continued)

### (a) Impaired trade receivables (Continued)

(ii) As at 30 June 2019, provision for bad debts by individual is analysed as below: (Continued)

- 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 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 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 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%. In summary, the Group expects that the expected credit loss rate of receivables from Qujing City Water General Company in the whole period is 21.28%.
- 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%.

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

8 TRADE RECEIVABLES (Continued)

(a) Impaired trade receivables (Continued)

(iii) As at 30 June 2019, provision for bad debts by respective groupings is analysed as below:

Group – banker’s acceptance

As at 30 June 2019, 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

	Carrying amount	30 June 2019	
		Expected credit loss rate	Loss allowance
	Amount RMB’000		Amount RMB’000
Undue	47,308	0.01	4
1-90 days overdue	83,471	0.05	19
90-180 days overdue	32,883	0.20	52
>180 days overdue	67,506	0.50	324
	<u>231,168</u>		<u>399</u>

Group – others

	Carrying amount	30 June 2019	
		Expected credit loss rate	Loss allowance
	Amount RMB’000		Amount RMB’000
Undue	33,759	0.10	35
1-30 days overdue	2,662	0.50	141
30-90 days overdue	18,734	2.00	405
>90 days overdue	43,408	5.00	6,073
	<u>98,563</u>		<u>6,654</u>

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

#### 8 TRADE RECEIVABLES (Continued)

##### (a) Impaired trade receivables (Continued)

- (iv) The accrued bad debt provision in this half-year is RMB573,000, and the bad debts provision reversed is RMB671,000. 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 Qudong Culture Media Co. LTD	Trade receivables collected	Long Aging	671	Collected by cash
			<u>671</u>	

The bad debt provision of RMB671,000 for receivables from Tianjin Qudong Culture Media Co. Ltd. is reversed in this half-year, the corresponding book value of trade receivables is RMB671,000.

#### 9 LONG-TERM RECEIVABLES

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Receivables from toll road concession	265,211	276,613
Less: loss allowance for impairment of long-term receivables	<u>(138)</u>	<u>(138)</u>
	265,073	276,475
Less: non-current assets due within one year	<u>(20,006)</u>	<u>(22,789)</u>
	<u>245,067</u>	<u>253,686</u>

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%.

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

## 10 SHARE CAPITAL

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

	Circulating A-shares RMB' 000	Circulating H-shares RMB' 000	Total RMB' 000
At 31 December 2018 (Audited) and at 30 June 2019 (Unaudited)	1,087,228	340,000	1,427,228

A-shares represent shares listed on The Shanghai Stock Exchange and H-shares represent shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. All the A-shares and H-shares rank pari passu in all respects.

There is no movement in the Group's issue A-share and H-share during the half-year ended 30 June 2019 and 2018.

## 11 BORROWINGS

	Notes	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
<i>Non-current liabilities:</i>			
Long-term bank borrowings	(a), (b)	3,024,910	2,265,905
Less: Current portion	(a), (b)	(741,534)	(213,952)
		2,283,376	2,051,953
Debentures	(c)	1,796,872	1,796,363
Less: Current portion	(c)	—	—
		1,796,872	1,796,363
Long-term payables	(d)	288,368	295,784
Less: Current portion	(d)	(29,696)	(29,417)
		258,672	266,367
<i>Total non-current borrowings</i>		4,338,920	4,114,683
<i>Current liabilities:</i>			
Current portion of long-term bank borrowings	(a)	741,534	213,952
Current portion of long-term payables	(d)	29,696	29,417
Short-term bank borrowings	(e)	200,000	200,000
		971,230	443,369
<i>Total current borrowings</i>		971,230	443,369



## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

#### 11 BORROWINGS (Continued)

##### (a) Long-term bank borrowings

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

	Unaudited RMB' 000
<b>Half-year ended 30 June 2019</b>	
Opening amount as at 1 January 2019	2,265,905
Proceeds of new borrowings	1,244,516
Repayments of borrowings	(485,511)
	<u>3,024,910</u>
Closing amount as at 30 June 2019	<u>3,024,910</u>
<b>Half-year ended 30 June 2018</b>	
Opening amount as at 1 January 2018	727,160
Proceeds of new borrowings	1,386,695
Repayments of borrowings	(308,028)
	<u>1,805,827</u>
Closing amount as at 30 June 2018	<u>1,805,827</u>

These borrowings mature as follows:

	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Over 5 years RMB' 000	Total RMB' 000
<b>As at 30 June 2019 (Unaudited)</b>					
Long-term bank borrowings	<u>741,534</u>	<u>706,649</u>	<u>670,185</u>	<u>906,542</u>	<u>3,024,910</u>
<b>As at 31 December 2018 (Audited)</b>					
Long-term bank borrowings	<u>213,952</u>	<u>763,828</u>	<u>959,302</u>	<u>328,823</u>	<u>2,265,905</u>

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

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Long-term bank borrowings:		
Secured	611,982	400,633
Guaranteed	129,000	147,000
Unsecured	<u>2,283,928</u>	<u>1,718,272</u>
	<u>3,024,910</u>	<u>2,265,905</u>

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

11 BORROWINGS (Continued)

(c) Debentures

	Audited 31 December 2018 RMB' 000	Amortization RMB' 000	Additions RMB' 000	Due within 1 year RMB' 000	Unaudited 30 June 2019 RMB' 000
Debentures payable					
– par value	1,800,000	—	—	—	1,800,000
– transaction cost	(3,637)	509	—	—	(3,128)
	<u>1,796,363</u>	<u>509</u>	<u>—</u>	<u>—</u>	<u>1,796,872</u>

On 25 October 2016, the Company issued a long-term bond at par value of RMB700 million on The Shanghai Stock Exchange. The fixed interest rate of 3.13% has been accrued and settled per annum. The bond will be due for repayment on 25 October 2021. The principal will be repaid on maturity.

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

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

	Unaudited 30 June 2019 RMB' 000	Unrecognized financial charges	Audited 31 December 2018 RMB' 000	Unrecognized financial charges
Payable to Sewage Company for assets acquisition	Payable 458,092	(169,887)	Payable 462,321	(166,537)
	<u>458,092</u>	<u>(169,887)</u>	<u>462,321</u>	<u>(166,537)</u>

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

#### 11 BORROWINGS (Continued)

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

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

	Maturity date	Original balance RMB'000	Effective interest rate	Ending balance RMB'000	Due within 1 year RMB'000
Sewage Company	20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>266,367</u>	<u>29,417</u>

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

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

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
JPY	208,178	205,116
US dollar	<u>80,027</u>	<u>90,668</u>
	<u>288,205</u>	<u>295,784</u>

The balance denominated in US dollar bears an interest rate at 6 month LIBOR plus 0.6%, the balance denominated in JPY bears fixed interest rates of 1% and 1.55% per annum respectively.

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

**11 BORROWINGS** (Continued)

The carrying amounts of the Group's borrowings are denominated in RMB.

(e) **Short-term bank borrowings**

Movement of bank borrowings is analyzed as follows:

	Unaudited RMB' 000
<b>Half-year end 30 June 2019</b>	
Opening amount as at 1 January 2019	200,000
Proceeds of new borrowings	100,000
Repayments of borrowings	(100,000)
	200,000
Closing amount as at 30 June 2019	200,000

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

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Unsecured	200,000	200,000
	200,000	200,000

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

## 12 DEFERRED REVENUE

Deferred revenue represents the subsidies received from governmental authorities with respects to Group's certain construction and research and development projects. The details of deferred revenue are as below:

	Audited 31 December 2018 RMB' 000	Additions RMB' 000	Demolition costs RMB' 000	Recognised in Other gains-net RMB' 000	Unaudited 30 June 2019 RMB' 000	Relating to assets/costs
Sewage water processing plants:						
– Jingu	1,258,545	—	—	25,643	1,232,902	assets
– Jingu upgrading project	163,000	—	—	—	163,000	assets
– Beichen upgrading project	90,000	—	—	—	90,000	assets
– Xianyanglu-upgrading project	59,079	—	—	1,182	57,897	assets
– Dongjiao-upgrading project	41,456	—	—	829	40,627	assets
– Ningxiang project	18,279	—	—	—	18,279	assets
– Beishiqiao-upgrading project	10,354	—	—	359	9,995	assets
– Linxia project	7,600	—	—	42	7,558	assets
Water recycling plants:						
– Jingu	206,393	—	—	—	206,393	assets
– Dongjiao	21,081	—	—	338	20,743	assets
– Beichen	18,112	—	—	263	17,849	assets
– Xianyanglu	13,200	—	—	—	13,200	assets
Heating and cooling supply service project	180,357	34,567	—	3	214,921	assets
Others	13,629	3,322	2	15	16,934	costs
Total	<u>2,101,085</u>	<u>37,889</u>	<u>2</u>	<u>28,674</u>	<u>2,110,298</u>	

## 13 DEFERRED INCOME TAX LIABILITIES

	Unaudited Half-year 2019 RMB' 000	2018 RMB' 000
Opening balance as at 1 January	138,812	120,259
Charged to profit or loss	<u>2,558</u>	<u>4,423</u>
Closing balance as at 30 June	<u>141,370</u>	<u>124,682</u>

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

#### 14 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Major overhauls for the assets of concession right Unaudited RMB' 000
Balance at 31 December 2018 (Audited) and 30 June 2019 (Unaudited)	10,069

Analysis of total provisions:

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Non-current	10,069	10,069
Current	—	—
	10,069	10,069

#### 15 TRADE PAYABLES, CONTRACT LIABILITIES, OTHER PAYABLES AND INCOME TAX AND OTHER TAXES PAYABLES

	Notes	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Trade payables	(a)	220,762	176,398
Contract liabilities	(b)	534,107	469,185
Other payables	(c)	1,051,332	1,456,133
Income tax and other taxes payables		54,215	68,893
		1,860,416	2,170,609

(a) As at 30 June 2019, the majority of trade payables are aged within one year.

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

#### 15 TRADE PAYABLES, CONTRACT LIABILITIES, OTHER PAYABLES AND INCOME TAX AND OTHER TAXES PAYABLES (Continued)

(b) Contract liabilities

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
For recycled water and pipeline connection services	470,598	453,602
For toll road fee	46,055	—
For heating and cooling supply service	5,264	4,074
For Project Hangu	4,467	4,467
Others	7,723	7,042
	<u>534,107</u>	<u>469,185</u>

(c) Other payables comprise:

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Construction costs payable	910,182	1,328,505
Interest payable for borrowings	26,271	43,768
Payable for purchases of property, plant and equipment and concession right	13,892	13,892
Others	100,987	69,968
	<u>1,051,332</u>	<u>1,456,133</u>

As at 30 June 2019, other payables of RMB160 million (31 December 2018: RMB453 million) were aged over one year, which mainly represented payables and deposits for sewage plants upgrading projects. The balances had yet to be settled as those projects and their final accounts have not been completed.

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

## 16 FINANCE EXPENSES – NET

	Unaudited Half-year	
	2019 RMB' 000	2018 RMB' 000
Interest expenses of borrowings	106,590	88,582
Less: Interest income	(10,980)	(11,246)
– long-term receivables	(4,759)	(5,014)
– bank deposits	(6,221)	(6,232)
Others	(2,487)	(1,087)
	<u>93,123</u>	<u>76,249</u>

## 17 INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong as at 30 June 2019 (30 June 2018: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

Tax charges comprises:

	Unaudited Half-year	
	2019 RMB' 000	2018 RMB' 000
Current income tax	53,594	87,805
Deferred income tax	2,560	4,423
	<u>56,154</u>	<u>92,228</u>



## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

#### 17 INCOME TAX EXPENSE (Continued)

Reconciliation between profit before income tax and the aggregate tax at the rates applicable to profits in the respective entities concerned is set below:

	Unaudited Half-year	
	2019 RMB' 000	2018 RMB' 000
Profit before tax	287,249	393,715
Calculated at applicable income tax rate	71,812	98,429
Effect of preferential tax rate applicable to certain subsidiaries	—	(3,760)
Income not subject to tax	(8,234)	(9,747)
Expenses not deductible for taxation purposes	3,136	7,793
Utilisation of previously deductible tax losses for which no deferred income tax assets was recognized	(249)	(772)
Current year deductible temporary differences for which no deferred income tax asset was recognised	5,612	(731)
Current year tax losses for which no deferred income tax asset was recognised	(15,923)	1,016
Income tax expense	56,154	92,228

#### 18 INTERIM DIVIDENDS

No interim dividend was proposed by the Board of Directors of the Company for the half- year ended 30 June 2019 (30 June 2018: Nil).

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

19 COMMITMENTS AND CONTINGENT EVENT

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

	Contracted but not provided for		Authorised but not contracted for	
	Unaudited 30 June 2019 RMB'million	Audited 31 December 2018 RMB'million	Unaudited 30 June 2019 RMB'million	Audited 31 December 2018 RMB'million
Sewage Water Processing Plants Project:				
– Heifei Taochong Project	507	—	43	586
– Honghu	87	5	118	258
– Dalian Chunliuhe project	31	38	—	—
– Jingu	28	28	—	—
– Karamay	20	20	—	—
– Jinghai project	17	22	49	49
– Beichen	14	14	—	—
– Ningxiang project	12	13	5	6
– Hefei project	11	11	—	—
– Linxia project	7	17	—	—
– Ninghe project	7	5	—	8
– Xianning Yongan project	5	6	—	—
– Yingshang	5	5	—	—
– Changsha project	2	2	67	67
– Honghu project	1	1	—	—
– Gaocheng Project	—	—	525	—
Solid waste Project				
– Shandong Tancheng	103	97	203	245
– Shandong Yishui	63	228	30	43
Energy Station Project:				
– Houtai	3	3	108	108
– Heiniucheng Road	—	16	—	—
Tap Water:				
– Hanshou Project	—	—	105	—
	923	531	1,253	1,370

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

## 20 RELATED PARTY TRANSACTIONS

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of the business between the Group and its related parties during the period.

(i) Income:

Related parties	Nature of transaction	Unaudited Half-year	
		2019 RMB'000	2018 RMB'000
City Infrastructure Construction and Investment	Commission income from contract operation	27,736	38,104
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	12,489	16,612
City Infrastructure Construction and Investment	Commission income from construction agent service	—	5,105
Tianjin Machinery & Electric Equipment Imp. & Exp. Co., Ltd.	Income from technical services	—	708
		40,225	60,529
		40,225	60,529

(ii) Key management compensation for the half-year ended 30 June 2019 is summarized as follows:

	Unaudited Half-year	
	2019 RMB'000	2018 RMB'000
Key management compensation	7,308	7,015
	7,308	7,015

(iii) Receivables from to related parties:

	Unaudited	Audited
	30 June 2019 RMB'000	31 December 2018 RMB'000
– City Infrastructure Construction and Investment	30,703	39,523
– Tianjin Lecheng Properties Limited	4,803	9,630
– Tianjin City Resource Operation Co., Ltd.	381	381
– Tianjin Metro Resources Investment Co., Ltd.	—	1,589
	35,887	51,123
	35,887	51,123

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

**20 RELATED PARTY TRANSACTIONS** (Continued)

(iv) Commitment

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

	Unaudited 30 June 2019 RMB' 000	Audited 31 December 2018 RMB' 000
Guarantee received City Infrastructure Construction and Investment	129,000	147,000

(v) Transactions/balances with other state owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as 'state-owned enterprises').

During the half-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 30 June 2019, majority of the Group's cash and cash equivalents and borrowings are dealt with state controlled banks.

**21 BASIS OF PREPARATION OF HALF-YEAR REPORT**

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard HKAS 34 Interim Financial Reporting.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 31 December 2018 and any public announcements made by the Group during the interim reporting period.

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

## 9. Financial Reports

### I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

#### 21 BASIS OF PREPARATION OF HALF-YEAR REPORT (Continued)

##### (a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16 Leases.

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

#### 22 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 22(a) below.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassification and arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

##### (a) Adjustments recognised on adoption of HKFRS 16

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	Unaudited 30 June 2019 RMB' 000	Unaudited 1 January 2019 RMB' 000
Land use right	59,276	60,358
<b>Total right-of-use assets</b>	<b>59,276</b>	<b>60,358</b>

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

## 22 CHANGES IN ACCOUNTING POLICIES (Continued)

### (a) Adjustments recognised on adoption of HKFRS 16 (Continued)

#### (i) *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

### (b) **The Group's leasing activities and how these are accounted for**

The Group's leasing activity only contains land use right. Rental contracts are typically made for fixed periods of 25 to 50 years with no extension option. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until the 2018 financial year, the leases were classified as land use right.

From 1 January 2019, the leases are recognised as a right-of-use asset.

# 9. Financial Reports

## II. Prepared in accordance with The PRC Accounting Standards

### Consolidated and Company Balance Sheet

As at at 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

ASSETS	Note	30 June	31 December	30 June	31 December
		2019	2018	2019	2018
		Consolidated (Unaudited)	Consolidated (Audited)	Company (Unaudited)	Company (Audited)
<b>Current assets</b>					
Cash at bank and on hand	4(1)	2,040,677	1,826,201	789,728	595,990
Notes receivable	4(2)	7,272	10,295	—	—
Trade receivables	4(3)/13(1)	2,011,968	2,081,465	1,508,357	1,687,179
Advances to suppliers	4(4)	30,356	23,531	2,880	822
Other receivables	4(5)/13(2)	58,317	36,162	144,134	134,560
Inventories	4(6)	13,967	13,991	4,496	3,992
Current portion of non-current assets	4(8)	20,006	22,789	20,006	22,789
Other current assets	4(7)	256,986	156,688	657,826	824,650
<b>Total current assets</b>		<b>4,439,549</b>	<b>4,171,122</b>	<b>3,127,427</b>	<b>3,269,982</b>
<b>Non-current assets</b>					
Long-term receivables	4(8)	245,067	253,686	245,067	253,686
Long-term equity investments	4(9)/13(3)	195,000	195,000	3,864,160	3,520,705
Other equity instruments investment	4(10)	2,000	2,000	2,000	2,000
Investment properties	4(11)	20,510	84,052	—	63,289
Fixed assets	4(12)	395,830	346,641	163,619	107,316
Construction in progress	4(12)	266,654	150,939	3,175	—
Intangible assets	4(13)	10,777,236	10,374,827	4,029,296	4,092,295
Other non-current assets	4(7)	114,322	109,181	108,832	190,519
<b>Total non-current assets</b>		<b>12,016,619</b>	<b>11,516,326</b>	<b>8,416,149</b>	<b>8,229,810</b>
<b>TOTAL ASSETS</b>		<b>16,456,168</b>	<b>15,687,448</b>	<b>11,543,576</b>	<b>11,499,792</b>

Consolidated and Company Balance Sheet  
As at 30 June 2019  
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND OWNERS' EQUITY	Note	30 June 2019 Consolidated (Unaudited)	31 December 2018 Consolidated (Audited)	30 June 2019 Company (Unaudited)	31 December 2018 Company (Audited)
<b>Current liabilities</b>					
Short-term borrowings	4(17)	200,000	200,000	200,000	200,000
Trade payables	4(15)	220,762	176,398	62,306	46,500
Contract liabilities	4(15)	534,107	469,185	51,021	4,541
Taxes payable	4(15)	54,215	68,893	—	250
Other payables	4(15)	1,202,031	1,458,045	962,455	961,291
Accrued payroll	4(16)	11,557	53,942	8,310	24,868
Current portion of non-current liabilities	4(17)	771,230	243,369	580,696	81,417
<b>Total current liabilities</b>		<b>2,993,902</b>	<b>2,669,832</b>	<b>1,864,788</b>	<b>1,318,867</b>
<b>Non-current liabilities</b>					
Long-term borrowings	4(17)	2,283,376	2,051,953	893,782	1,318,713
Debentures payable	4(17)	1,796,872	1,796,363	1,796,872	1,796,363
Long-term payables	4(17)	258,672	266,367	258,672	266,367
Provisions	4(18)	10,069	10,069	10,069	10,069
Deferred income	4(19)	2,110,298	2,101,085	1,637,392	1,662,338
Deferred tax liabilities	4(20)	141,370	138,812	69,885	67,841
Other non-current liabilities	4(17)	38,000	38,000	290,000	290,000
<b>Total non-current liabilities</b>		<b>6,638,657</b>	<b>6,402,649</b>	<b>4,956,672</b>	<b>5,411,691</b>
<b>Total liabilities</b>		<b>9,632,559</b>	<b>9,072,481</b>	<b>6,821,460</b>	<b>6,730,558</b>
<b>Shareholder's equity</b>					
Share capital	4(21)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	4(22) (a)	431,024	431,024	380,788	380,788
Surplus reserve	4(22) (b)	517,107	517,107	517,107	517,107
Undistributed profits	4(22) (c)	3,510,061	3,442,844	2,396,993	2,444,111
Total equity attributable to equity owners of the parent		5,885,420	5,818,203	4,722,116	4,769,234
Minority interests		938,189	796,764	—	—
<b>Total owners' equity</b>		<b>6,823,609</b>	<b>6,614,967</b>	<b>4,722,116</b>	<b>4,769,234</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>16,456,168</b>	<b>15,687,448</b>	<b>11,543,576</b>	<b>11,499,792</b>

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

Company representative:

Liu Yujun

Person in charge of  
accounting function:

Peng Yilin

Person in charge of  
accounting department:

Liu Tao



## 9. Financial Reports

### II. Prepared in accordance with the PRC Accounting Standards

#### Consolidated and Company Income Statements

For the year ended at 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Six Months	Six Months	Six Months	Six Months
		Ended 30 June 2019 Consolidated (Unaudited)	Ended 30 June 2018 Consolidated (Unaudited)	Ended 30 June 2019 Company (Unaudited)	Ended 30 June 2018 Company (Unaudited)
<b>1. Revenue</b>	4(23)/14(4)	1,224,716	1,107,798	537,958	501,691
Less: Cost of sales	4(23)/14(4)	(814,360)	(643,812)	(349,007)	(251,247)
Taxes and surcharges	4(24)	(18,907)	(26,466)	(5,697)	(11,191)
Selling and distribution expenses	4(25)	(1,987)	(2,730)	—	—
General and administrative expenses	4(25)	(68,032)	(55,631)	(38,019)	(31,205)
Research and development expenses	4(26)	(3,270)	(5,045)	—	—
Financial expenses-net	4(27)	(93,123)	(76,249)	(74,797)	(70,464)
Including: interest expense		(106,590)	(88,582)	(82,147)	(79,385)
interest income		10,980	11,246	6,085	7,910
Add: Other income	4(28)	60,744	89,615	34,098	57,549
Investment gains	4(29)/13(5)	—	200	19,301	12,076
Including: Share of profit of associates		—	—	—	—
Credit impairment losses	4(30)	98	2,923	—	—
Gains on disposals of assets	4(31)	1,201	—	—	—
<b>2. Operating profit</b>		287,080	390,603	123,837	207,209
Add: Non-operating income	4(32)	2,549	4,099	1,092	14
Less: Non-operating expenses	4(33)	(2,380)	(987)	(2,379)	(674)
<b>3. Total profit</b>		287,249	393,715	122,550	206,549
Less: Income tax expenses	4(34)	(56,154)	(92,228)	(18,382)	(51,587)
<b>4. Net profit</b>		231,095	301,487	104,168	154,962
Classified by continuity of operations					
Net profit from continuing operations		231,095	301,487	104,168	154,962
Net profit from discontinued operations		—	—	—	—
Classified by ownership of the equity					
Minority interests		12,592	18,922	—	—
Attributable to equity owners of the Company		218,503	282,565	104,168	154,962
<b>5. Other comprehensive income after deduction of impact of income tax</b>					
<b>6. Total comprehensive income</b>		231,095	301,487	104,168	154,962
Attributable to equity owners of the Company		218,503	282,565	104,168	154,962
Attributable to minority shareholders		12,592	18,922	—	—
<b>Earnings per share (in RMB Yuan)</b>					
Basic		0.15	0.20	—	—
Diluted		0.15	0.20	—	—

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

Company representative:

Liu Yujun

Person in charge of  
accounting function:

Peng Yilin

Person in charge of  
accounting department:

Liu Tao

### Consolidated and Company Cash Flow Statements

For the year ended at 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Six Months Ended 30 June 2019 Consolidated (Unaudited)	Six Months Ended 30 June 2018 Consolidated (Unaudited)	Six Months Ended 30 June 2019 Company (Unaudited)	Six Months Ended 30 June 2018 Company (Unaudited)
<b>1. Cash flows from operating activities</b>					
Cash received from sales of goods or rendering of services		1,487,655	1,030,672	851,851	604,314
Refund of taxes and surcharges		17,864	54,608	5,604	24,818
Cash received relating to other operating activities	4(36) (c)	173,011	195,825	23,558	96,894
<b>Sub-total of cash inflows</b>		<b>1,678,530</b>	<b>1,281,105</b>	<b>881,013</b>	<b>726,026</b>
Cash paid for goods and services		(534,015)	(424,689)	(272,236)	(158,492)
Cash paid to and on behalf of employees		(180,613)	(156,876)	(73,804)	(68,703)
Payments of taxes and surcharges		(161,893)	(307,771)	(45,583)	(114,565)
Cash paid relating to other operating activities	4(36) (d)	(72,302)	(53,779)	(41,789)	(28,480)
<b>Sub-total of cash outflows</b>		<b>(948,823)</b>	<b>(943,115)</b>	<b>(433,412)</b>	<b>(370,240)</b>
<b>Net cash flows from operating activities</b>	4(36) (a)	<b>729,707</b>	<b>337,990</b>	<b>447,601</b>	<b>355,786</b>
<b>2. Cash flows from investing activities</b>					
Cash received from returns on investments		—	200	—	14,080
Net cash received from disposal of fixed assets	4(36) (e)	30	—	—	—
Cash received relating to other investing activities		5,174	18,900	756,820	186,346
<b>Sub-total of cash inflows</b>		<b>5,204</b>	<b>19,100</b>	<b>756,820</b>	<b>200,426</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(1,280,910)	(699,252)	(150,369)	(185,836)
Cash paid to acquire investments		—	(396,957)	(343,455)	(496,275)
Cash paid relating to other investing activities		(3,900)	(4,101)	(499,470)	(405,601)
<b>Sub-total of cash outflows</b>		<b>(1,284,810)</b>	<b>(1,100,310)</b>	<b>(993,294)</b>	<b>(1,087,712)</b>
<b>Net cash flows from investing activities</b>		<b>(1,279,606)</b>	<b>(1,081,210)</b>	<b>(236,474)</b>	<b>(887,286)</b>

## 9. Financial Reports

### II. Prepared in accordance with the PRC Accounting Standards

#### Consolidated and Company Cash Flow Statements

For the year ended at 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Six Months	Six Months	Six Months	Six Months
		Ended	Ended	Ended	Ended
		30 June 2019	30 June 2018	30 June 2019	30 June 2018
		Consolidated	Consolidated	Company	Company
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>3. Cash flows from financing activities</b>					
Cash received from borrowings		1,244,516	1,386,695	474,069	1,250,000
Cash received from issuance of debentures		—	1,100,000	—	1,100,000
Cash received from capital contributions		129,224	63,896	—	—
Including: Cash received from capital contributions by minority shareholders of subsidiaries		129,224	63,896	—	—
<b>Sub-total of cash inflows</b>		<b>1,373,740</b>	<b>2,550,591</b>	<b>474,069</b>	<b>2,350,000</b>
Cash repayments of borrowings		(496,037)	(1,342,192)	(400,000)	(1,199,000)
Cash payments for distribution of interest expenses		(111,076)	(81,533)	(91,458)	(68,302)
Payments for distribution of dividends or profits		(978)	—	—	—
Including: Dividends and profits paid to minority shareholders by subsidiaries		—	—	—	—
<b>Sub-total of cash outflows</b>		<b>(608,091)</b>	<b>(1,423,725)</b>	<b>(491,458)</b>	<b>(1,267,302)</b>
<b>Net cash flows from financing activities</b>		<b>765,649</b>	<b>1,126,866</b>	<b>(17,389)</b>	<b>1,082,698</b>
<b>4. Effect of foreign exchange rate changes on cash</b>					
		—	—	—	—
<b>5. Net (decrease)/increase in cash</b>					
		215,750	383,646	193,738	551,198
Add: Cash at beginning of year		1,808,543	1,893,689	586,888	779,808
<b>6. Cash at end of year</b>					
	4(36)(b)	<b>2,024,293</b>	<b>2,277,335</b>	<b>780,626</b>	<b>1,331,006</b>

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

Company representative:

Liu Yujun

Person in charge of  
accounting function:

Peng Yilin

Person in charge of  
accounting department:

Liu Tao

### Consolidated Statement of Changes in Owners' Equity

For the six months ended 30 June 2019

(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 31 December 2017 (Audited)		1,427,228	399,115	479,907	2,810,790	296,736	5,413,776
Changes in accounting policies		—	—	—	168,086	—	168,086
Balance at 1 January 2018 (Audited)		1,427,228	399,115	479,907	2,978,876	296,736	5,581,862
Movements for the period ended 30 June 2018							
Total comprehensive income							
Net profit		—	—	—	282,565	18,922	301,487
Total comprehensive income for the year		—	—	—	282,565	18,922	301,487
Capital contribution by shareholders		—	16,818	—	—	366,548	383,366
Profit distribution							
Appropriation to surplus reserves		—	—	—	—	—	—
Dividend distribution to shareholders		—	—	—	—	—	—
Balance at 30 June 2018 (Unaudited)		1,427,228	415,933	479,907	3,261,441	682,206	6,266,715
Balance at 31 December 2018 (Audited)		1,427,228	431,024	517,107	3,442,844	796,764	6,614,967
Changes of accounting policies		—	—	—	—	—	—
Balance at 1 January 2019 (Unaudited)		1,427,228	431,024	517,107	3,442,844	796,764	6,614,967
Movements for the period ended 30 June 2019							
Total comprehensive income							
Net profit		—	—	—	218,503	12,592	231,095
Total comprehensive income for the year		—	—	—	218,503	12,592	231,095
Capital contribution by shareholders		—	—	—	—	129,224	129,224
Profit distribution							
Dividend distribution to shareholders	4(22)(c)	—	—	—	(151,286)	(391)	(151,677)
Balance at 30 June 2019 (Unaudited)		1,427,228	431,024	517,107	3,510,061	938,189	6,823,609

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

Company representative:

Liu Yujun

Person in charge of  
accounting function:

Peng Yilin

Person in charge of  
accounting department:

Liu Tao

## 9. Financial Reports

### II. Prepared in accordance with the PRC Accounting Standards

#### Company Statement of Changes in Owners' Equity

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

Item	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 31 December 2017 (Audited)	1,427,228	380,788	479,907	2,111,266	4,399,189
Changes in accounting policies	—	—	—	(1,964)	(1,964)
Balance at 1 January 2018 (Audited)	1,427,228	380,788	479,907	2,109,302	4,397,225
<b>Movements for the period ended 30 June 2018</b>					
Total comprehensive income					
Net profit	—	—	—	154,962	154,962
Total comprehensive income for the year	—	—	—	154,962	154,962
Profit distribution					
Appropriation to surplus reserves	—	—	—	—	—
Dividend distribution to shareholders	—	—	—	—	—
Balance at 30 June 2018 (Unaudited)	1,427,228	380,788	479,907	2,264,264	4,552,187
Balance at 31 December 2018 (Audited)	1,427,228	380,788	517,107	2,444,111	4,769,234
Changes of accounting policies	—	—	—	—	—
Balance at 1 January 2019 (Unaudited)	1,427,228	380,788	517,107	2,444,111	4,769,234
<b>Movements for the period ended 30 June 2019</b>					
Total comprehensive income					
Net profit	—	—	—	104,168	104,168
Total comprehensive income for the year	—	—	—	104,168	104,168
Profit distribution					
Appropriation to surplus reserves	—	—	—	—	—
Dividend distribution to shareholders	—	—	—	(151,286)	(151,286)
Balance at 30 June 2019 (Unaudited)	1,427,228	380,788	517,107	2,396,993	4,722,116

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

Company representative:

Liu Yujun

Person in charge of  
accounting function:

Peng Yilin

Person in charge of  
accounting department:

Liu Tao

## Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

### 1 GENERAL INFORMATION

Tianjin Capital Environmental Protection Group Company Limited (the “Company”) was established on the basis of Tianjin Bohai chemical industry (Group) Company Limited (“Bohai Chemical Industry”). Bohai Chemical Industry was established on 8 June 1993 in Tianjin, the People’s Republic of China (the ‘PRC’), listed in Hong Kong Stock Exchange (“H share”) in May 1994 and Shanghai Stock Exchange (“A share”) in June 1995. Bohai Chemical Industry appeared significant losses in 1998 and 1999. Approved by Tianjin Government, the Company had completed the equity and assets reorganization of Bohai Chemical Industry at the end of year 2000. The address of the Company’s registered office is No. 45 Guizhou Road, Heping District, Tianjin. The parent company and ultimate holding company of the Company are Tianjin Municipal Investment Company Limited (“Municipal Investment”) and Tianjin City Infrastructure Construction and Investment Group Company Limited (“City Infrastructure Construction and Investment”), respectively. As at 30 June 2019, the Company’s total share capital is RMB1,427 million with a par value of RMB1 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

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

Notes to the Financial Statements  
For the six months ended 30 June 2019  
(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(a) Processing of sewage water (Continued)

Location	Agreement date	Authorized by
Dongjiao, Tianjin	18 February 2014	TUCC and TWAB
Beicang, Tianjin	18 February 2014	TUCC and TWAB
Yingshang, Anhui	16 June 2016	Yingshang Housing and Urban Construction Bureau
Karamay, Xinjiang	4 November 2016	Karamay Construction Bureau
Linxia, Gansu	13 May 2017	Linxia Housing and Urban Construction Bureau
Ningxiang, Changsha	5 June 2017	Ningxiang Economic and Technological Development Zone Management Committee
Hefei, Anhui	16 June 2017	Hefei Urban Construction Committee
Dalian, Liaoning	1 November 2017	Dalian Urban Construction Bureau
Bayannur, Inner Mongolia	12 December 2017	Bayannur Water Bureau 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
Hanshou, Hunan	11 March 2019	Hanshou Water Bureau
Gaocheng, Hebei	2 April 2019	Hebei Gaocheng Economic and Technological Development Zone Management Committee

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

(b) Construction and management of the sewage water processing facilities

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

(c) Supply of tap water

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

(d) Recycled water business

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

## Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

### 1 GENERAL INFORMATION (Continued)

#### (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 are set out in Note 5.

(g) These financial statements were approved by the Company's Board of Directors on 26 August 2019.

### 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(8)), depreciation and amortization of fixed assets and intangible assets (Note 2(12) and (15)), recognition and amortization of concession rights (Note 2(15)(b)), timing of revenue recognition (Note 2(20)) and so on.

Key assumption adopted by the Group in determining significant accounting policies are set out in Note 2(25).

#### (1) Basis of preparation

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

The financial statements are prepared on a going concern basis.

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

The financial statements of the Company for the six months ended 30 June 2019 are in compliance with the Accounting Standard for Business Enterprise and truly and completely present the consolidated and the Company's financial position of the Company as of 30 June 2019 and of their financial performance, cash flows and other information for the year then ended.



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

Notes to the Financial Statements  
For the six months ended 30 June 2019  
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(3) Accounting year

The Company's accounting year starts on 1 January and ends on 31 December. This financial statement is dated from 1 January 2019 to 30 June 2019.

(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.

(5) Preparation of consolidated financial statements

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

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

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

## Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

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

#### (5) 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.

#### (6) Cash

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

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

Notes to the Financial Statements  
For the six months ended 30 June 2019  
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Foreign currency translation

(a) Foreign currency transactions

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

At the balance sheet date, monetary items denominated in foreign currencies are translated into recording currency using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are 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.

(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.

## Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

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

#### (8) 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.

##### 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:

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(i) Classification and measurement (Continued)

Measured at amortised cost:

The Group's business model for financial asset management aims to receive contractual cash flows. The contractual cash flow characteristics of such financial assets are consistent with basic loan arrangement, which means the cash flow generated at certain date is only the payment for the principal and the corresponding interest based on unpaid principal. The interest income of such financial assets is recognised using the effective interest method. The Group's financial assets mainly include cash at bank and on hand, Notes receivable, 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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) 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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

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.

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 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 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 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.

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

**(8) Financial instruments** (Continued)

*(a) Financial assets (Continued)*

(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.

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 payable, 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.



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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

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

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

(9) 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 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.*

## Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

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

#### (10) Long-term equity investments

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

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

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

##### (a) Determination of investment cost

For long-term equity investment acquired 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Long-term equity investments (Continued)

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

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.

(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(16)).

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

**(11) 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.

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(16)).

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) 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%

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

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

Notes to the Financial Statements

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

**(12) Fixed assets** (Continued)

(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(16)).

(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.

**(13) 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(16)).

**(14) 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 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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Borrowing costs (Continued)

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.

(15) 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.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Intangible assets (Continued)

(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.

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.



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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Intangible assets (Continued)

(e) *Research and development (Continued)*

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(16)).

(16) 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.

## Notes to the Financial Statements

For the six months ended 30 June 2019

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

#### (16) Impairment of long-term assets (Continued)

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.

#### (17) Employee benefits

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

##### (a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The Short-term employee benefit liabilities are 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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Employee benefits (Continued)

(b) *Post-employment benefits*

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

Basic pensions

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

(18) Dividends distribution

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

(19) 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.

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

**(19) Provisions** (Continued)

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

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

**(20) 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.

*(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.

*(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.

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

### (20) Revenue (Continued)

#### (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 (Note 2(8)). 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.

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.

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

#### (20) Revenue (Continued)

##### (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.

##### (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.

#### (21) 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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Government grants (Continued)

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.

(22) 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.

## Notes to the Financial Statements

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

#### (22) Deferred tax assets and deferred tax liabilities (Continued)

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.

#### (23) Leases

A lease is a contract whereby the lessor assigns the right to use the asset to the lessee for consideration within a certain period of time.

##### *The Group Acts as Lessor*

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

##### (a) Operating leases

While the Group leased property, plant and equipment out, payment made under operating lease were charged to profit or loss on a straight-line basis over the period of the lease. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.



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

### (24) 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.

### (25) 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.

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

**(25) 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.

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

### (25) 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 for the six months ended 2019.

##### (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.

Notes to the Financial Statements

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

**(26) Significant changes in accounting policies**

In 2018, the Ministry of Finance promulgated the revised “Accounting Standards for Business Enterprises No. 21 – Leases” (hereinafter referred to as the “New Leases Standards”) and in 2019, the Ministry of Finance issued the ‘Circular on the A to the formats of Corporate Financial Statements for the Year of 2019’ (Cai Kuai [2019]), the Group has adopted the above standards and notices to prepare the 6 months ended 2019 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	
		December 31 2018	January 1 2018
The Group splited notes and trade receivables to notes receivable and trade receivables.	Trade receivables	2,081,465	1,930,158
	Notes receivable	10,295	1,900
	Notes and trade receivable	(2,091,760)	(1,932,058)

(ii) The impact on the company balance sheet and income statement is as follows (increase/(decrease)):

Content and reasons for changes in accounting policies	Line items affected	Amount affected	
		December 31 2018	January 1 2018
The Group splited notes and trade receivables to notes receivable and trade receivables.	Trade receivables	1,687,179	1,663,178
	Notes receivable	—	—
	Notes and trade receivable	(1,687,179)	(1,663,178)

*(b) Leases*

According to the New Lease Standards, there were no material impact on the first execution date for the Group and the Company.

## 9. Financial Reports

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### 3 TAXATION

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

Category	Tax base	Tax rate
Enterprise income tax (Note (a))	Taxable income	0%-25%
Value added tax ("VAT") (Note (b))	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%-16%
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. 54) issued by the State Taxation Administration, during the period from January 1, 2018 solstice to December 31, 2020, the newly purchased equipment of less than RMB5 million yuan can be recorded into the current cost one-time deduction in the following month after use. It will be deducted from the taxable income amount and no longer be depreciated annually.
- (b) Pursuant to the '2019 Circular on Deeply Reform of Adjustment of Tax Rate of Value Added Tax' (Shui Zong Fa Ban [2019] 34) jointly issued by the Ministry of Finance and the State Administration of Taxation, the applicable tax rate of revenue arising from painting system producing, sales, arrangement and maintenance is 13% and 9% from 1 April 2019, while it was 16% and 10% before then.

Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

3 TAXATION (Continued)

(2) Preferential tax policies for enterprise income tax

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

Name of subsidiaries	Enterprise income tax rate for 2019	Reason for the preferential tax policy
The Company	15%	According to <i>Announcement on the Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> (Announcement 2019 No. 60), corporate income tax shall be levied at a reduced rate of 15% for qualified third-party enterprises engaged in pollution prevention and control.
Fuyang Capital Water Co., Ltd.	12.5%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2014 for the first 3 years and reduction half for the next 3 years.
Gui Zhou Capital Water Co., Ltd.	15 %	According to <i>Notice of Guizhou Provincial SAT on Implementation of Preferential Tax Policy Relating to Development of Western Regions</i> , (Qian Guo shui Han [2011] No. 19) from 2011 to 2020.
Xi'an Capital Water Co., Ltd.	15 %	According to <i>Notice of Shaanxi Provincial SAT on Issuing Measures for Review and Management of Preferential Tax Policy of Enterprises Relating to Development of Western Regions</i> , (Notice [2010] No. 3) from 2011 to 2020.
Hangzhou Tianchuang Capital Water Co., Ltd.	0%	Income from engagement in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 1 July 2016 for the first 3 years and reduction half for the next 3 years.
Tianjin Caring Technology Development Co., Ltd	15 %	High-tech enterprise entitled to preferential tax policy from 2013 to 2018.
Tianjin Water Recycling Co., Ltd.	The taxable income is 90% of revenue	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, the taxable income amount is 90% of the total revenue.

9. Financial Reports  
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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 2019	Reason for the preferential tax policy
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.
Dalian Oriental Chunliuhe Water Quality Purification 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.

Notes to the Financial Statements

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**4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Cash at bank and on hand**

	30 June 2019	31 December 2018
Cash on hand	111	61
Cash at bank	2,024,182	1,808,482
Other cash balances	16,384	17,658
	<u>2,040,677</u>	<u>1,826,201</u>
Including: Bank deposits overseas	<u>8,513</u>	<u>8,499</u>

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

	30 June 2019	31 December 2018
Cash at bank and on hand	2,040,677	1,826,201
Less: Restricted bank deposits (Note (i))	<u>(16,384)</u>	<u>(17,658)</u>
Cash listed in cash flow statement (Note 4(36))	<u>2,024,293</u>	<u>1,808,543</u>

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

**(2) Notes receivable**

	30 June 2019	31 December 2018
Bank acceptance notes	7,272	10,295
Less: Provision for bad debts	—	—
	<u>7,272</u>	<u>10,295</u>

- (a) As at 30 June 2019, the Group has no pledged notes receivable.

*(b) Provision for bad debts:*

As at 30 June 2019, provision for bad debts by group is analyzed as below:

As at 30 June 2019, 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.



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables

	30 June 2019	31 December 2018
Trade receivables	2,061,454	2,131,049
Less: Provision for bad debts	(49,486)	(49,584)
	<u>2,011,968</u>	<u>2,081,465</u>

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

	30 June 2019	31 December 2018
Within 1 year	1,532,505	1,457,744
1 to 2 years	460,568	649,268
2 to 3 years	34,837	15,464
3 to 4 years	28,987	7,024
4 to 5 years	3,046	1,549
Over 5 years	1,511	—
Total	<u>2,061,454</u>	<u>2,131,049</u>

(b) As at 30 June 2019, 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>1,740,304</u>	<u>(35,295)</u>	<u>85%</u>

(c) Provision for bad debts:

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

Notes to the Financial Statements

For the six months ended 30 June 2019

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(i) As at 30 June 2019, provision for bad debts by individual is analyzed as below:

	Carrying amount	ECL rate	Provision	Reasons
TWAB	1,392,638	0.05%	(791)	1)
Qijing Sewage Company	161,461	21.28%	(34,357)	2)
Hangzhou Municipal Facilities Supervision Center	93,918	0.05%	(30)	1)
Guiyang water bureau	61,469	0.05%	(2)	1)
Xi'an Infrastructure Investment Group	14,998	0.05%	(14)	1)
Tianjin Qudong Culture Media Co. Ltd.	7,239	100.00%	(7,239)	3)
Total	<u>1,731,723</u>		<u>(42,433)</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 Qijing Capital Water Co., Ltd. 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 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 Qijing City Water General Company in the whole period is 21.28%.
- 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%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(ii) As at 30 June 2019, provision for bad debts by group is analyzed as below:

Group – Non-provincial government customers

	Carrying amount Amount	30 June 2019	
		ECL rate	Provision Amount
Undue	47,308	0.010%	(4)
1-90 days overdue	83,471	0.050%	(19)
90-180 days overdue	32,883	0.200%	(52)
>180 days overdue	67,506	0.500%	(324)
	<u>231,168</u>		<u>(399)</u>

Group – others

	Carrying amount Amount	30 June 2019	
		ECL rate	Provision Amount
Undue	33,759	0.100%	(35)
1-30 days overdue	2,662	0.500%	(141)
30-90 days overdue	18,734	2.000%	(405)
>90 days overdue	43,408	5.000%	(6,073)
	<u>98,563</u>		<u>(6,654)</u>

Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(iii) The bad debts provision accrued in this year is RMB573 thousand, and bad debts provision collected or reversed is RMB671 thousand and the carrying amount is RMB671 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 Qudong Culture Media Co. Ltd.	Trade receivables collected	Long Aging	<u>671</u>	Collected by cash

For the six-months ended 30 June 2019, the amount of bad debt provision reversed of Tianjin Qudong Culture Media Co. Ltd. is RMB671 thousand, and the corresponding book balance is RMB671 thousand.

(4) Advances to suppliers

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

	30 June 2019		31 December 2018	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	27,349	90%	22,431	95%
1 to 2 years	2,112	7%	202	1%
Over 2 years	895	3%	898	4%
	<u>30,356</u>	<u>100%</u>	<u>23,531</u>	<u>100%</u>

As at 30 June 2019, advances to suppliers of RMB3 million (31 December 2018: RMB1.1 million) with aging over one year were mainly for prepaid electricity.

(b) As at 30 June 2019, 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>6,863</u>	<u>23%</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables

	30 June 2019	31 December 2018
Project deposits	26,722	18,922
VAT refund	10,682	10,379
Others	20,924	6,871
	<u>58,327</u>	<u>36,172</u>
Less: Provision for bad debts	(10)	(10)
	<u>58,317</u>	<u>36,162</u>

(a) The ageing analysis of other receivable is as follows:

	30 June 2019	31 December 2018
Within 1 year	45,521	19,267
1 to 2 years	818	13,177
2 to 3 years	8,946	51
Over 3 years	3,042	3,677
	<u>58,327</u>	<u>36,172</u>
Total	<u>58,327</u>	<u>36,172</u>

(b) Movement of loss provision and carrying amount

As at 30 June 2019, the Group has no other receivables belonging to stage 2 and stage 3. Provisions for bad debts of other receivables in stage 1 are analyzed as follows :

(i) As at 30 June 2019, other receivables are all belonging to stage 1. Provision for bad debts by group is analyzed as below:

	Carrying amount Amount	30 June 2019 Provision Amount	Percentage
Project Deposits Group:			
Within 1 year	14,484	7	0.05%
Others:			
Within 1 year	20,350	3	0.10%
	<u>34,834</u>		<u>0.15%</u>

(c) For the six-months ended 30 June 2019, the changes of other receivables' provision of the Group is not significant.

## Notes to the Financial Statements

For the six months ended 30 June 2019

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

## (5) Other receivables (Continued)

(d) As at 30 June 2019, 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
Shijiazhuang Gaocheng District Construction Investment Co. Ltd.	Project deposits	10,000	Within 1 year	17%	—
Linxia City Water Supply and Sewerage Company	Project deposits	8,000	2 to 3 years	14%	(4)
Xi'an Hi-tech District State Taxation Bureau	VAT refund	3,287	Within 1 year	6%	—
Tianjin State Taxation Bureau	VAT refund	2,294	Within 1 year	4%	—
Fuyang State Taxation Bureau	VAT refund	1,808	Within 1 year	3%	—
		<u>25,389</u>		<u>44%</u>	<u>(4)</u>

(e) As at 30 June 2019, 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. The Company	VAT refund	3,287	Within 1 year	VAT refund receivable, fully collected in 2019
Fuyang Capital Water Co., Ltd.	VAT refund	2,262	Within 1 year	VAT refund receivable, fully collected in 2019
Guizhou Capital Water Co., Ltd.	VAT refund	1,808	Within 1 year	VAT refund receivable, fully collected in 2019
Qujing Capital Water Co., Ltd.	VAT refund	1,051	Within 1 year	VAT refund receivable, fully collected in 2019
Baoying Capital Water Co., Ltd.	VAT refund	578	Within 1 year	VAT refund receivable, fully collected in 2019
Inner Mongolia Bayannur Capital Water Co., Ltd.	VAT refund	385	Within 1 year	VAT refund receivable, fully collected in 2019
Deqing Capital Water Co., Ltd.	VAT refund	366	Within 1 year	VAT refund receivable, fully collected in 2019
Wuhan Tianchuang Capital Water Co., Ltd.	VAT refund	336	Within 1 year	VAT refund receivable, fully collected in 2019
Wendeng Capital Water Co., Ltd.	VAT refund	312	Within 1 year	VAT refund receivable, fully collected in 2019
Anguo Capital Water Co., Ltd.	VAT refund	201	Within 1 year	VAT refund receivable, fully collected in 2019
Tianjin Water Recycling Co., Ltd.	VAT refund	64	Within 1 year	VAT refund receivable, fully collected in 2019
		<u>32</u>	Within 1 year	VAT refund receivable, fully collected in 2019
		<u>10,682</u>		

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Inventories

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

	30 June 2019			31 December 2018		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	10,544	—	10,544	9,897	—	9,897
Finished goods	2,817	—	2,817	3,746	—	3,746
Spare parts and low cost consumables	606	—	606	348	—	348
	<u>13,967</u>	<u>—</u>	<u>13,967</u>	<u>13,991</u>	<u>—</u>	<u>13,991</u>

(7) Other current and non-current assets

	30 June 2019	31 December 2018
<b>Other current assets:</b>		
Input VAT to be deducted	178,587	98,605
Assets of Anguo	36,913	36,913
Income tax prepaid	26,554	10,598
Input VAT to be verified	14,932	10,572
	<u>256,986</u>	<u>156,688</u>

	30 June 2019	31 December 2018
<b>Other non-current assets:</b>		
Prepayments of construction	105,697	50,927
Input VAT to be deducted	—	49,122
Others	8,625	9,132
	<u>114,322</u>	<u>109,181</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	30 June 2019	31 December 2018
Toll road concession	265,211	276,613
Less: Bad debt provision	(138)	(138)
	265,073	276,475
Less: Listed in non-current assets due within one year	(20,006)	(22,789)
	245,067	253,686

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%.

(9) Long-term equity investments

	30 June 2019	31 December 2018
Investment in an associate (a)	217,358	217,358
Less: Impairment of Long-term equity investments (c)	(22,358)	(22,358)
	195,000	195,000

(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%



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) 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 2018	New investment	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	30 June 2019	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 2018	New investment	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	30 June 2019	Provision for impairment at the end of the year
Bihai Sponge City	195,000	195,000	–	–	–	–	195,000	–

Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) 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 period	Accumulated unrecognised losses at the end of the period
International Machinery	480	293	773

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

	31 December 2018	Additions	Disposals	30 June 2019
International Machinery	22,358	—	—	22,358

(10) Other equity instruments investment

	30 June 2019	31 December 2018
Equity instruments		
Equity of unlisted company		
– Tianjin Beifang Rencaigang Company Ltd.	2,000	2,000
	30 June 2019	31 December 2018
Tianjin Beifang Rencaigang Company Ltd.		
– Cost	2,000	2,000
– Accumulated fair value changes	—	—
	2,000	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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Investment properties

	Buildings
<b>Cost</b>	
31 December 2018	118,408
Transfer to fixed assets	(91,682)
	<hr/>
30 June 2019	26,726
	<hr/>
<b>Accumulated depreciation</b>	
31 December 2018	(34,356)
Charge for the period	(253)
Transfer to fixed assets	28,393
	<hr/>
30 June 2019	6,216
	<hr/>
<b>Net Book Value</b>	
30 June 2019	20,510
	<hr/> <hr/>
31 December 2018	84,052
	<hr/> <hr/>

The Group's investment properties mainly represent the apportioned cost of its 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 property of Tianjin Water Recycling Co., Ltd. 30 June 2019 was approximately RMB83 million (2018: RMB94 million) and its carrying amount was approximately RMB21 million.

Notes to the Financial Statements

For the six months ended 30 June 2019

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Fixed assets and construction in progress

(a) Fixed assets

	Buildings and structures (note (i)) Self-use	Machinery and equipment Self-use	Motor vehicles & others Self-use	Total
<b>Cost –</b>				
31 December 2018	312,739	299,585	69,933	682,257
Changes in accounting policy	–	–	–	–
1 January 2019	312,739	299,585	69,933	682,257
Additions in the current period	3,150	2,369	2,491	8,010
Transferred from investment properties (note (ii))	91,682	–	–	91,682
Disposals in the current period	–	–	(1,800)	(1,800)
30 June 2019	<u>407,571</u>	<u>301,954</u>	<u>70,624</u>	<u>780,149</u>
<b>Accumulated depreciation –</b>				
31 December 2018	<u>(101,369)</u>	<u>(183,760)</u>	<u>(50,487)</u>	<u>(335,616)</u>
Transferred from investment properties (note (ii))	(28,392)	–	–	(28,392)
Charge for the period (note (iii))	(8,196)	(12,485)	(1,133)	(21,814)
Disposals in the current period	–	–	1,503	1,503
30 June 2019	<u>(137,957)</u>	<u>(196,245)</u>	<u>(50,117)</u>	<u>(384,319)</u>
<b>Carrying Amount –</b>				
31 December 2019	<u><u>269,614</u></u>	<u><u>105,709</u></u>	<u><u>20,507</u></u>	<u><u>395,830</u></u>
31 December 2018	<u><u>211,370</u></u>	<u><u>115,825</u></u>	<u><u>19,446</u></u>	<u><u>346,641</u></u>

(i) All of the Group's buildings and structures are located in the PRC.

(ii) In 2019, the Company reclassified its office building located in Tianjin to fixed assets.

(iii) The Group's depreciation expenses of RMB48 million (2018: RMB19 million) have been included in cost of sales and RMB2 million (2018: RMB2 million) in general and administrative expenses.

(iii) As at 30 June 2019, 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 2018: cost of RMB173 million and carrying amount of RMB117 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, management believes that the titles will be received in due course without any legal barrier or additional significant cost to the Group.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Construction in progress

Name	Budgeted amount	31 December 2018	Increase in the current period	Transfer to Intangible assets	30 June 2019	Proportion of expenditures incurred to budgeted amount	Progress	The accumulated balance of capitalization of requested fee	Including: borrowing costs capitalized in current period	Capitalisation rate	Source of funds
Shandong- Yishui & Tancheng City Solid Waste Treatment project	640,000	148,954	92,176	—	241,130	38%	38%	2,910	2,281	5.15%	Special loan/ Self-raised fund
Fuyang- Jieshou PPP Project of sewage operation	402,300	—	30,556	(30,556)	—	100%	100%	6,406	1,251	4.90%	Self-raised fund
Honghu-Honghu township sewage water processing plant PPP project	437,770	—	29,877	(29,877)	—	53%	53%	2,986	1,126	4.90%	Self-raised fund
Anhui-Heifei Taochong sewage water processing plant PPP project	585,895	—	25,386	(25,386)	—	54%	54%	92	92	4.13%	Self-raised fund
Tianjin- Heiniucheng Roads energy station project	209,975	—	22,795	(22,795)	—	73%	73%	167	167	4.13%	Self-raised fund
Tianjin-Ji Zhuang Zi pipe network seven standard maintenance project	28,101	—	21,202	—	21,202	75%	75%	—	—	—	Self-raised fund
Tianjin-R&D Center comprehensive management project	7,400	—	3,175	—	3,175	100%	100%	—	—	—	Self-raised fund
Others		1,985	40,710	(41,548)	1,147			23,485	4,449	4.48%	Self-raised fund
		<u>150,939</u>	<u>265,877</u>	<u>(150,162)</u>	<u>266,654</u>			<u>36,046</u>	<u>9,366</u>		

As at 30 June 2019, bank borrowing of RMB167 million (31 December 2018: RMB80 million) is secured by property and equipment under construction with original cost of RMB197 million (31 December 2018: RMB149 million).

As at 30 June 2019, the group has no provision for construction in progress (31 December 2018: nil).

Notes to the Financial Statements

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Intangible assets

	30 June 2019	31 December 2018
Concession rights (a)	10,713,600	10,309,775
Land use rights (b)	59,276	60,358
Technical know-how and computer software (c)	4,360	4,694
	<u>10,777,236</u>	<u>10,374,827</u>

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

Cost	
1 January 2018	8,649,998
Transfers from construction in progress (Note 4(12)(b))	2,170,036
Business combination	1,124,058
Other additions	495,049
	<u>12,439,141</u>
31 December 2018	12,439,141
Transfers from construction in progress (Note 4(12)(b))	150,162
Other additions	449,426
	<u>13,038,729</u>
30 June 2019	13,038,729
Accumulated amortisation	
1 January 2018	(1,733,319)
Charge for the year	(343,964)
	<u>(2,077,283)</u>
31 December 2018	(2,077,283)
Charge for the period	(195,763)
	<u>(2,273,046)</u>
30 June 2019	(2,273,046)
Provision for impairment	
31 December 2018 and 30 June 2019	(52,083)
	<u>(52,083)</u>
Net Book Value	
30 June 2019	10,713,600
	<u>10,713,600</u>
31 December 2018	10,309,775
	<u>10,309,775</u>

(i) As at 30 June 2019, certain concession right with carrying amount of approximately RMB2,722 million (cost of RMB3,323 million) (31 December 2018: carrying amount of RMB2,758 million with cost of RMB3,323 million) has been used as collateral for the loan of RMB445 million (31 December 2018: RMB321 million) (Note 4(17)(a)).

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Intangible assets (Continued)

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

Cost	
1 January 2018 and 31 December 2018	65,445
Addition in the current period	—
30 June 2019	65,445
Accumulated amortisation	
31 December 2018	(5,087)
Charge for the period	(1,082)
30 June 2019	(6,169)
Net Book Value	
30 June 2019	59,276
31 December 2018	60,358

(i) As at 30 June 2019, bank borrowing of RMB80 million (31 December 2018: RMB80 million) is secured by land use right with carrying amount of RMB27 million and original cost of RMB28 million (31 December 2018: land use right with carrying amount of RMB27 million and original cost of RMB28 million).

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

Cost	
31 December 2018	11,946
Increase in the current period	123
30 June 2019	12,069
Accumulated amortisation	
31 December 2018	(7,252)
Charge for the period	(457)
30 June 2019	(7,709)
Net Book Value	
30 June 2019	4,360
31 December 2018	4,694

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Intangible assets (Continued)

- (d) For the six months ended 30 June 2019, the amounts of amortization charged to cost of sales and general and administrative expenses were RMB196 million (For the six months ended 30 June 2018: RMB161 million) and RMB1 million (For the six months ended 30 June 2018: RMB1 million), respectively.

(14) Provision for asset impairment and loss

	31 December 2018	Changes in Accounting Policy	1 January 2019	Increase in the current period	Decrease in the current period		30 June 2019
					Reversal	Write-off	
Provision for trade receivables (Notes(i))	49,584	—	649,584,480	573	(672)	—	49,485
Including: Individual provision for bad debts	43,104	—	43,104	—	(672)	—	42,432
Combined provision for bad debts	6,480	—	6,480	573	—	—	7,053
Provision for other receivables	10	—	10	—	—	—	10
Provision for long-term receivables (including other non-current assets due with one year)	138	—	138	—	—	—	138
Provision for contract assets	—	—	—	—	—	—	—
Subtotal	<u>49,732</u>	<u>—</u>	<u>49,732</u>	<u>573</u>	<u>(672)</u>	<u>—</u>	<u>49,633</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>163,608</u>	<u>—</u>	<u>163,608</u>	<u>573</u>	<u>(672)</u>	<u>—</u>	<u>163,509</u>

- (i) For the six months ended 30 June 2019, the Company's subsidiary Tianjin Capital Alternative Energy Technology Co., Ltd has collected part of the trade receivables which had been recognised bad debt provision.



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Trade payables, other payables, taxes payable and contract liabilities

	30 June 2019	31 December 2018
Trade payables (a)	220,762	176,398
Other payables (note (b))	1,202,031	1,458,045
Taxes payable (note (c))	54,215	68,893
Contract liabilities (note (d))	534,107	469,185
	<u>2,011,115</u>	<u>2,172,521</u>

(a) As at 30 June 2019, trade payables are mainly for inventory purchase. Trade payables aged over one year are RMB26 million (31 December 2018: RMB33 million), mainly representing payables for source water from the subsidiary Qujing Capital Water Co., Ltd. Since such amount has not been received from Qujing City Water General Company, it has not been finally settled.

(b) Other payables comprise:

	30 June 2019	31 December 2018
Construction costs payable and deposits	910,182	1,328,505
Interests payable for debentures payable	26,271	43,768
Payable for purchase of fixed assets and concession rights	13,892	13,892
Dividends payable	150,699	1,912
Others	100,987	69,968
	<u>1,202,031</u>	<u>1,458,045</u>

As at 30 June 2019, other payables of RMB160 million (31 December 2018: RMB453 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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Trade payables, other payables, taxes payable and contract liabilities (Continued)

(c) Balances of taxes payable

	30 June 2019	31 December 2018
Enterprise income tax payable	21,830	34,658
Unpaid VAT	22,306	26,213
Others	10,079	8,022
	54,215	68,893
	54,215	68,893

(d) Contract Liabilities

	30 June 2019	31 December 2018
For pipeline connection service	470,598	453,602
Road toll	46,055	—
For cooling and heating service	5,264	4,074
Received from project of Han Gu	4,467	4,467
Others	7,723	7,042
	534,107	469,185
	534,107	469,185

(16) Accrued payroll

	30 June 2019	31 December 2018
Short-term employee benefits payable (a)	11,483	53,724
Defined contribution plans payable (b)	74	218
	11,557	53,942
	11,557	53,942

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Accrued payroll (Continued)

(a) Short-term employee benefits payable

	31 December 2018	Increase in the current period	Decrease in the current period	30 June 2019
Wages and salaries, bonuses, allowances and subsidies	46,947	108,487	(151,008)	4,426
Staff welfare	—	3,558	(3,557)	1
Social security contributions	91	12,291	(12,295)	87
Including: Medical insurance	82	11,316	(11,321)	77
Work injury insurance	1	328	(327)	2
Maternity insurance	8	647	(647)	8
Housing funds	19	31,123	(31,256)	(114)
Labour union funds and employee education funds	6,667	4,181	(3,765)	7,083
	<u>53,724</u>	<u>159,793</u>	<u>(202,034)</u>	<u>11,483</u>

(b) Defined contribution plans payable

	31 December 2018	Increase in the current period	Decrease in the current period	30 June 2019
Basic pensions	211	22,724	(22,780)	155
Annuity	—	7,971	(8,060)	(89)
Unemployment	7	802	(801)	8
	<u>218</u>	<u>31,497</u>	<u>(31,641)</u>	<u>74</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Accrued payroll (Continued)

(c) Directors' emoluments

The remuneration of every director for the six months ended 30 June 2019 is set out below:

	Fees	Salaries and other emoluments	Total
<b>Executive directors:</b>			
Liu Yujun	—	523	523
Wang Jing	—	485	485
Niu Bo	—	396	396
<b>Non-executive directors:</b>			
Wang Xiangfei	110	—	110
Guo Yongqing	110	—	110
Di Xiaofeng	110	—	110
Yu Zhongpeng	—	—	—
Han Wei	—	—	—
Si Xiaolong	—	—	—
	330	1,404	1,734
	330	1,404	1,734

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

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

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Note	30 June 2019	31 December 2018
<b>Non-current:</b>			
Long-term borrowings	(a)	3,024,910	2,265,905
Less: Current portion due within one year	(a)	(741,534)	(213,952)
		<u>2,283,376</u>	<u>2,051,953</u>
Debentures payable	(b)	1,796,872	1,796,363
Less: Current portion due within one year	(b)	—	—
		<u>1,796,872</u>	<u>1,796,363</u>
Long-term payables	(c)	288,368	295,784
Less: Current portion due within one year	(c)	(29,696)	(29,417)
		<u>258,672</u>	<u>266,367</u>
Other non-current liabilities	(e)	<u>38,000</u>	<u>38,000</u>
<b>Current:</b>			
Current portion of long-term borrowings	(a)	741,534	213,952
Current portion of debentures payable	(b)	—	—
Current portion of long-term payables	(c)	29,696	29,417
Current portion of non-current liabilities		<u>771,230</u>	<u>243,369</u>
Short-term borrowings	(d)	<u>200,000</u>	<u>200,000</u>
Other current liabilities	(e)	—	—

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Long-term borrowings

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

	Note	30 June 2019	31 December 2018
Secured	(i)	14,620	2,220
Guaranteed	(ii)	38,000	37,000
Unsecured		688,914	174,732
		741,534	213,952
		741,534	213,952

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

	Note	30 June 2019	31 December 2018
Secured	(iii)	152,580	77,700
Guaranteed	(iv)	91,000	110,000
Unsecured		1,595,014	1,543,540
Pledged	(v)	444,782	320,713
		2,283,376	2,051,953
		2,283,376	2,051,953

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(a) Long-term borrowings (Continued)

- (i) As at 30 June 2019, the current portion of bank borrowings of RMB15 million is mortgaged by land use right (Note 4(13)(b)) and property and equipment under construction (Note 4(12)(b)) of Shandong Capital Environmental Protection Technology Development Co., Ltd. As at 31 December 2018, the current portion of bank borrowings of RMB2 million is mortgaged by land use right (Note 4(13)(b)) and property and equipment under construction (Note 4(12)(b)) of Shandong Capital Environmental Protection Technology Development Co., Ltd.
- (ii) As at 30 June 2019, the current portion of bank borrowings of RMB38 million (2018: RMB37 million) is guaranteed by City Infrastructure Construction and Investment for Xi'an Capital Water Co., Ltd, the subsidiary of the Company (Note 7(5)(b)).
- (iii) As at 30 June 2019, the current portion of bank borrowings of RMB153 million (31 December 2018: RMB78 million) is mortgaged by land use right (Note 4(13)(b)) and property and equipment under construction (Note 4(12)(b)) of Shandong Capital Environmental Protection Technology Development Co., Ltd.
- (iv) As at 30 June 2019, the non-current portion of bank borrowings of RMB91 million ((31 December 2018: RMB110 million) is guaranteed by City Infrastructure Construction and Investment for Xi'an Capital Water Co., Ltd, the subsidiary of the Company (Note 7(5)(b)).
- (v) As at 30 June 2019, bank borrowing of RMB445 million (31 December 2018: RMB321 million) is pledged by all earnings and equity of Jingu and Beicang upgrading project under the Group's concession right(Note 4(13)(a)).
- (vi) As at 30 June 2019, these long-term borrowings bear interest rates between 4.275% and 5.145% (31 December 2018: between 4.275% and 5.463%).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Debentures payable

	31 December 2018 (including due within 1 year)	Issue	Payment	Amortization	30 June 2019
Debentures payable					
– Par value	1,800,000	–	–	–	1,800,000
– Transaction cost	(3,637)	–	–	509	(3,128)
	<u>1,796,363</u>	<u>–</u>	<u>–</u>	<u>509</u>	<u>1,796,872</u>

General information of debentures payable are as follows:

	Per Value	Issuance date	Maturity	Issuance amount
Corporate Debenture (note (i))	700,000	2016-10-25	5 years	700,000
Corporate Debenture (note (ii))	1,100,000	2018-04-25	5 years	1,100,000

Interests payable of debentures are analyzed as follows:

	31 December 2018	Interest Accrued		30 June 2019
		Interest accrued in the current period	Interest paid in the current period	
Corporate Debenture (note (i))	4,021	10,866	–	14,887
Corporate Debenture (note (ii))	38,952	28,201	(56,870)	10,283
	<u>42,973</u>	<u>39,067</u>	<u>(56,870)</u>	<u>25,170</u>

(i) 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.

(ii) 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.



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Long-term payables

	30 June 2019			31 December 2018		
	Payables	Unrecognised financial charges	Total	Payables	Unrecognised financial charges	Total
Payable for assets acquisition	<u>458,092</u>	<u>(169,887)</u>	<u>288,205</u>	<u>462,321</u>	<u>(166,537)</u>	<u>295,784</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>288,205</u>	<u>29,533</u>	<u>258,672</u>

As at 30 June 2019, 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%.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Long-term payables (Continued)

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

	30 June 2019	31 December 2018
JPY	208,178	205,116
USD	80,027	90,668
	<u>288,205</u>	<u>295,784</u>

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

	30 June 2019	31 December 2018
JPY	352,739	351,147
USD	105,353	111,174
	<u>458,092</u>	<u>462,321</u>

The balance denominated in USD bears an interest rate at 6-month LIBOR plus 0.6%, whilst the balance denominated in JPY bears fixed interest rates at 1% and 1.55% per annum respectively.

(iv) The long-term payables mature as follows. As at 30 June 2019, the current portion of long-term payables of RMB29.5 million (31 December 2018: RMB29 million) was classified as current liabilities.

	30 June 2019	31 December 2018
Within 1 year	29,533	29,417
1-2 years	28,680	28,551
2-5 years	81,847	81,380
Over 5 years	148,145	156,436
	<u>288,205</u>	<u>295,784</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(d) short-term borrowings

Summary of short-term borrowings by terms

	30 June 2019	31 December 2018
Unsecured	<u>200,000</u>	<u>200,000</u>

(e) Other liabilities

	30 June 2019	31 December 2018
Non-current:		
– Cooling service fee	<u>38,000</u>	<u>38,000</u>
	<u>38,000</u>	<u>38,000</u>
Current:		
– Others	<u>–</u>	<u>92</u>
	<u>–</u>	<u>92</u>

(18) Provisions

	31 December 2018	Increase in the current period	Decrease in the current period	30 June 2019
Maintenance cost of sewage water processing plants	10,069	–	–	10,069
Less: Provisions expected to be paid within one year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>10,069</u>	<u>–</u>	<u>–</u>	<u>10,069</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) 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 2018	Increase in the current period	Decrease in the current period Recognised in other income	Recognised in non-operating income	30 June 2019	Related to assets/ incomes
Sewage water processing plants						
– Jingu sewage water processing plant	1,258,545	–	(25,643)	–	1,232,902	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	59,079	–	(1,182)	–	57,897	Assets
– Dongjiao upgrading project	41,456	–	(829)	–	40,627	Assets
– Ningxiang Economic and Technological Development Zone sewage water processing plant upgrading project	18,279	–	–	–	18,279	Assets
– Beishiqiao plant upgrading project	10,354	–	(359)	–	9,995	Assets
– Linxia sewage water processing plant reconstruction and extension project	7,600	–	(42)	–	7,558	Assets
Water recycling plants						
– Jingu water recycling project	206,393	–	–	–	206,393	Assets
– Dongjiao water recycling project	21,081	–	(338)	–	20,743	Assets
– Beichen water recycling project	18,112	–	(263)	–	17,849	Assets
– Xianyang Road water recycling project	13,200	–	–	–	13,200	Assets
Heating and cooling supply project	180,357	34,567	(3)	–	214,921	Assets
Others	13,629	3,322	(15)	(2)	16,934	Incomes
	<u>2,101,085</u>	<u>37,889</u>	<u>(28,674)</u>	<u>(2)</u>	<u>2,110,298</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) 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:

	30 June 2019	31 December 2018
Deductible temporary difference – provision for asset impairment (Note 4(14))	162,936	163,608
Deductible losses	48,343	43,950
Maintenance cost of sewage water processing plants (Note 4(18))	10,069	10,069
	<u>221,348</u>	<u>217,627</u>

- (ii) Deductible losses that are not recognised as deferred tax assets will expire in the following years:

	30 June 2019	31 December 2018
2019	–	18,056
2020	6,243	6,243
2021	5,124	5,124
2022	3,466	3,466
2023	11,061	11,061
2024	22,449	–
	<u>48,343</u>	<u>43,950</u>

(b) *Deferred income tax liabilities*

	30 June 2019		31 December 2018	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Amortization of intangible assets	127,878	511,511	125,082	500,328
Business combination	13,492	53,970	13,730	54,920
	<u>141,370</u>	<u>565,481</u>	<u>138,812</u>	<u>555,248</u>
Including:				
Expected to be recovered within one year (inclusive)	471		8,296	
Expected to be recovered after one year	140,899		130,516	
	<u>141,370</u>		<u>138,812</u>	

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) 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 30 June 2019 and 31 December 2018	<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.

(22) Capital surplus, surplus reserve and undistributed profits

(a) Capital surplus

	31 December 2018	Increase in the current period	Decrease in the current period	30 June 2019
Share premium	382,311	—	—	382,311
A subsidiary reformed as a stock limited company	16,804	—	—	16,804
Capital Increase by minority shareholders	31,909	—	—	31,909
	<u>431,024</u>	<u>—</u>	<u>—</u>	<u>431,024</u>
	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	—	31,909	—	31,909
	<u>399,115</u>	<u>31,909</u>	<u>—</u>	<u>431,024</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Surplus reserve

	31 December 2018	Increase in the current period	Decrease in the current period	30 June 2019
Statutory surplus reserve	517,107	—	—	517,107

  

	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

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

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Undistributed profits at the beginning of the year (before adjustment)	3,442,844	2,810,790
Adjustment	—	168,086
Undistributed profits at the beginning of the year (after adjustment)	3,442,844	2,978,876
Add: Net profit attributable to owners of the parent for the current period	218,503	282,565
Less: Appropriation for statutory surplus reserve	—	—
Dividends distribution to shareholders (note (i))	(151,286)	—
Undistributed profits at the end of the year	3,510,061	3,261,441

- (i) On 14 May 2019, the board of directors proposed a cash dividend in respect of year ended 31 December 2018 of RMB1.06 (gross tax) for every 10 shares to all shareholders on the basis of 1,427 million shares issued. Cash dividends to be distributed amounted to RMB151 million.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Revenue and cost of sales

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	1,148,445	749,986	1,021,838	597,640
Other operations	76,271	64,374	85,960	51,217
	<u>1,224,716</u>	<u>814,360</u>	<u>1,107,798</u>	<u>648,857</u>

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water and construction of related facility	871,299	580,714	748,048	419,744
Water recycling and connection project	137,078	95,676	149,040	108,777
Heating and cooling supply services	40,417	30,545	36,574	25,587
Tap water supplying	49,703	32,478	46,059	28,795
Sale of environmental protection equipment	18,493	6,885	10,250	10,740
Others	31,455	3,688	31,867	3,997
	<u>1,148,445</u>	<u>749,986</u>	<u>1,021,838</u>	<u>597,640</u>

Analysis by locations is as follows:

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Tianjin	681,838	420,089	639,087	360,692
Hangzhou	120,167	86,230	133,377	80,822
Xi'an	62,772	42,750	60,003	40,748
Qijing	55,826	37,253	52,321	35,929
Others	227,842	163,664	137,050	79,449
	<u>1,148,445</u>	<u>749,986</u>	<u>1,021,838</u>	<u>597,640</u>



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Revenue and cost of sales (Continued)

(b) Revenue from other operations and cost of sales

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	65,949	51,569	61,367	45,629
Technical service fee	7,911	9,590	13,674	1,958
Rental income (i)	751	1,850	3,908	3,381
Others	1,660	1,365	7,011	250
	<u>76,271</u>	<u>64,374</u>	<u>85,960</u>	<u>51,218</u>

- (i) The Group's rental income comes from the rental of its own property, plant and equipment. For the six-month period ending 30 June 2019, the variable rental income based on a certain percentage of the lessee's sales is RMB0 yuan.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Revenue and cost of sales (Continued)

(c) The Group's operating income in the six months ended 30 June 2019 listed as follows:

	For the six months ended 30 June 2019								
	Processing of sewage and construction of related facility			Recycled water	Heating and cooling supply	Tap water	Sale of environmental protection equipment	Others	Group
Tianjin	Hangzhou	Others							
Revenue	452,450	120,167	298,682	43,002	40,417	49,703	18,493	125,531	1,148,445
Of which: confirm at a certain point in time	-	-	-	-	-	-	-	-	-
Confirm within a certain period of time	452,450	120,167	298,682	43,002	40,417	49,703	18,493	125,531	1,148,445
Other operating income	-	-	-	-	-	-	-	76,271	76,271
	<u>452,450</u>	<u>120,167</u>	<u>298,682</u>	<u>43,002</u>	<u>40,417</u>	<u>49,703</u>	<u>18,493</u>	<u>201,802</u>	<u>1,224,716</u>

As at 30 June 2019, 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 30 June 2019, the consideration for pipeline connection services of RMB471 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.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Taxes and surcharges

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Tax base
Land use tax	7,643	7,182	RMB1.5-30 per square meter
City maintenance and construction tax	4,187	7,814	7%/5% of the VAT paid
Property tax	3,478	3,467	Self-use: 1.2% (deducted 30% of the original value of the property) Rental: 12% of the rental income
Educational surcharge	1,960	3,535	2%/3% of the VAT paid
Local educational surcharge	1,117	2,121	2% of the VAT paid
Others	522	2,347	
	<u>18,907</u>	<u>26,466</u>	

(25) Selling expenses and general and administrative expenses

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	General and administrative expenses	Selling expenses (i)	General and administrative expenses	Selling expenses
Employee benefits	47,730	1,674	38,193	2,467
Consulting service fees	1,519	—	3,016	—
Travelling, meeting and business entertainment expenses	2,112	265	1,864	226
Depreciation of fixed assets	2,932	9	2,344	8
Expenses of secretary of the board	1,585	—	1,991	—
General office expenses	2,227	4	1,296	6
Audit fees	2,424	—	1,986	—
Repair and maintenance expenses	1,605	—	1,073	—
Power and gas fees	703	—	764	—
Other taxes	209	—	219	—
Amortisation of intangible assets	1,434	—	946	—
Others	3,552	35	1,939	23
	<u>68,032</u>	<u>1,987</u>	<u>55,631</u>	<u>2,730</u>

- (i) For the six months ended 30 June 2019, the Group incurred selling expenses of RMB2 million, mainly representing the compensation for employees whose responsibilities are development of the market of deodorization equipment.

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Research and development expenses

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Environmental protection equipment	3,270	5,045

(27) Financial expenses

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Interest expenses	125,457	91,355
Less: Amount capitalized on qualifying assets	(18,867)	(2,773)
Interest expenses	106,590	88,582
Less: Interest income	(10,980)	(11,246)
Including: From long-term receivables	(4,702)	(5,014)
From bank deposits	(6,278)	(6,232)
Exchange losses (a)	(1,269)	(2,467)
Others	(1,218)	1,380
	93,123	76,249

- (a) For the six months ended 30 June 2019, the exchange loss on the long-term payables denominated in JPY and US dollar were RMB1.27 million (For the six months ended 30 June 2018: RMB2.5 million of the exchange gain).

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) Other Income

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Related to assets/incomes
VAT refund	32,070	60,986	Incomes
Government Grants (a)	28,674	28,629	Assets/Incomes
	<u>60,744</u>	<u>89,615</u>	

(a) Details of government grants

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Related to assets/incomes
Compensation for relocation and Construction of Jizhuangzi sewage processing plant	25,643	25,643	Assets
Special construction fund of Xianyanglu upgrading project	1,182	1,182	Assets
Special construction fund of Dongjiao sewage water processing plant	829	829	Assets
Compensation for heating and cooling services	3	—	Assets
Others	1,017	975	Assets/Incomes
	<u>28,674</u>	<u>28,629</u>	

(29) Investment Income

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Dividends income from other equity instruments investment	<u>—</u>	<u>200</u>

(30) Credit impairment losses

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Trade receivables losses	<u>(98)</u>	<u>(2,923)</u>

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

**(31) Gains on disposals of assets**

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Amount recognised in non-recurring profit or loss
Gains on disposals of fixed assets	<u>1,201</u>	<u>—</u>	<u>1,201</u>

**(32) Non-operating income**

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Amount recognised in non-recurring profit or loss
Government Grants (note (a))	2,399	2,228	2,399
Others	<u>150</u>	<u>1,871</u>	<u>150</u>
	<u>2,549</u>	<u>4,099</u>	<u>2,549</u>

*(b) Details of government grants*

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Related to assets/incomes
Others	<u>2,399</u>	<u>2,228</u>	Incomes
	<u>2,399</u>	<u>2,228</u>	

**(33) Non-operating expenses**

	For the six months ended 30 June 2019	For the six months ended 30 June 2018	Amount recognised in non-recurring profit or loss
Donation	2,380	—	2,380
Losses on scrap of fixed assets	—	118	—
Others	<u>—</u>	<u>869</u>	<u>—</u>
	<u>2,380</u>	<u>987</u>	<u>2,380</u>

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) Income tax expenses

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Current income tax calculated based on tax law and related regulations	53,596	87,805
Deferred income tax	<u>2,558</u>	<u>4,423</u>
	<u><u>56,154</u></u>	<u><u>92,228</u></u>

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

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Total profit	<u>287,249</u>	<u>393,715</u>
Calculated at applicable income tax rates (25%)	71,812	98,429
Effect of favourable tax rates	(15,923)	(3,760)
Income not subject to tax	(8,234)	(9,747)
Costs, expenses and losses not deductible for tax purposes	3,136	7,793
Utilization of previously deductible tax losses for which no deferred income tax was recognised	(249)	(772)
Tax temporary differences for which no deferred income tax asset was recognised	5,612	(731)
Deductible losses for which no deferred income tax asset was recognised	<u>—</u>	<u>1,016</u>
Income tax expenses	<u><u>56,154</u></u>	<u><u>92,228</u></u>

Notes to the Financial Statements

For the six months ended 30 June 2019

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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 RMB219 million (For the six months ended 30 June 2018: RMB283 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (For the six months ended 30 June 2018: 1,427 million shares).

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Consolidated net profit attributable to ordinary shareholders of the Company	218,503	282,565
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>0.15</u>	<u>0.20</u>
Including:		
– Basic earnings per share for operations on a going concern	0.15	0.20
– Basic earnings per share for discontinued operations	–	–

(b) *Diluted earnings per share*

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in the six months ended 30 June 2019 (For the six months ended 30 June 2018: nil), diluted earnings per share equal to basic earnings per share.



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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Net profit	231,095	301,487
Add:		
Provision for asset impairments	(98)	(2,923)
Credit impairment losses		
Depreciation of fixed assets and investment properties	50,206	22,639
Amortisation of intangible assets	197,302	162,186
Net losses from disposal of fixed assets	(1,201)	118
Net financial expenses	92,393	86,115
Investment gains	—	(200)
Increase/(decrease) in deferred tax liabilities	2,558	4,423
Decrease in inventories	24	1,913
Decrease in operating receivables	35,421	(186,075)
Increase/(decrease) in operating payables	122,007	(51,693)
Net cash flows from operating activities	729,707	337,990
Net movement in cash		
Cash at the end of the period	2,024,293	2,277,335
Less: Cash at the beginning of the period	(1,808,543)	(1,893,689)
Net increase in cash	215,750	383,646

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

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Cash		
Including: Cash on hand	111	61
Cash at bank	2,024,182	1,808,482
Cash listed in cash flow statement	2,024,293	1,808,543

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4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Cash received relating to other operating activities

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Deposit on project bids received	7,133	64,212
Collection of deposit on project bids	97,195	54,131
Interest income from bank deposits	6,221	6,232
Subsidies received	37,889	27,855
Project fund on behalf of sewage mud project	451	10,000
Others	24,122	33,395
	<u>173,011</u>	<u>195,825</u>

(d) Cash paid relating to other operating activities

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Deposit on Project bids paid	16,344	5,325
Consulting service fees	3,303	5,480
Travelling, meeting and business entertainment expenses	2,568	3,989
Expenses of secretary of the board	1,585	2,344
Repair and maintenance expenses	48,286	33,993
Others	216	2,648
	<u>72,302</u>	<u>53,779</u>

(e) Net cash received from disposals of fixed assets

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Carrying amount of disposals of fixed assets	1,231	118
Net losses from disposal of fixed assets	<u>(1,201)</u>	<u>(118)</u>
Net cash received from disposals of fixed assets	<u>30</u>	<u>—</u>

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## Notes to the Financial Statements

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## 5 EQUITY IN OTHER ENTITIES

### (a) Subsidiaries

Name of subsidiaries	Type of subsidiary	Major business location	Place of registration	Nature of business and business activity	Shareholding(%)		Establishment
					Direct	Indirect	
Qijing Capital Water Co., Ltd.	A	Qijing	Qijing	Processing of sewage water, tap water supply	87	—	Capital contribution
Guizhou Capital Water Co., Ltd.	A	Guizhou	Guizhou	Processing of sewage water	95	—	Capital contribution
Baoying Capital Water Co., Ltd.	A	Baoying	Baoying	Processing of sewage water	70	—	Capital contribution
Hangzhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Hangzhou	Processing of sewage water	70	—	Capital contribution
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Tianjin	Manufacturing and sale of new building materials	71	—	Capital contribution
Fuyang Capital Water Co., Ltd.	B	Fuyang	Fuyang	Processing of sewage water	100	—	Capital contribution
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Hong Kong	Processing of sewage water	100	—	Capital contribution
Wendeng Capital Water Co., Ltd.	B	Wendeng	Wendeng	Processing of sewage water	100	—	Capital contribution
Tianjin Jing Hai Capital Water Co., Ltd.	B	Tianjin	Tianjin	Processing of sewage water	100	—	Capital contribution
Tianjin Water Recycling Co., Ltd.	B	Tianjin	Tianjin	Production and sales of recycled water, development and construction of water recycling facilities, and technical consulting for water recycling business	100	—	Capital contribution
Xi'an Capital Water Co., Ltd.	B	Xi'an	Xi'an	Processing of sewage water	100	—	Capital contribution
Tianjin Caring Technology Development Co., Ltd	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 selling 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
Hanshou Tianchuang Capital Water Co., Ltd.	A	Hanshou	Hanshou	Supplying tap water	75	—	Capital contribution
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd.	A	Gaocheng	Gaocheng	Processing of sewage water, producing and saling of recycled water	59	—	Capital contribution

A: Holding subsidiary

B: Wholly-owned subsidiary

Notes to the Financial Statements

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5 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests

Name	Minority interests ratio	Minority interests in the six months ended 30 June 2019	Declared distribution of cash dividends in the six months ended 30 June 2019	Minority interests as at 30 June 2019
Qijing Capital Water Co., Ltd. ("Qijing Company")	13.44%	1,565	—	37,588
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd. ("Dalian Company")	36.12%	808	—	24,796
Bayannur Company	30.00%	1,156	—	334,514
Baoying Capital Water Co., Ltd. ("Baoying Company")	30.00%	837	—	33,940
Tianjin Caring Technology Development Co., Ltd. ("Caring Company")	40.00%	2,799	—	48,935
Shandong Capital Environmental Protection Technology Development Co., Ltd. ("Shandong Company")	45.00%	(1,153)	—	83,024

The major financial information of the significant holding subsidiaries of the Group is listed below:

*Balance Sheet*

	30 June 2019					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	315,613	702,966	1,018,579	150,317	162,375	312,692
Qijing Company	134,992	255,804	390,796	80,193	30,930	111,123
Dalian Company	30,924	185,550	216,474	54,581	74,626	129,207
Bayannur Company	59,254	1,076,389	1,135,643	7,104	13,492	20,596
Baoying Company	27,228	92,847	120,075	1,155	5,787	6,942
Caring Company	139,593	9,271	148,864	26,223	304	26,527
Shandong Company	127,601	285,081	412,682	75,604	152,580	228,184
	<u>835,205</u>	<u>2,607,908</u>	<u>3,443,113</u>	<u>395,177</u>	<u>440,094</u>	<u>835,271</u>

	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
Qijing 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>

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5 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests (Continued)

*Income Statement*

	For the six months ended 30 June 2019				Total comprehensive income
	Revenue	Total profit	Income tax expenses	Net profit	
Hangzhou Company	120,272	31,355	(7,902)	23,453	23,453
Qijing Company	57,904	15,591	(3,947)	11,644	11,644
Dalian Company	13,809	2,237	—	2,237	2,237
Bayannur Company	35,928	4,043	(190)	3,853	3,853
Baoying Company	10,161	3,217	(427)	2,790	2,790
Caring Company	48,828	8,132	(1,134)	6,998	6,998
Shandong Company	47	(2,562)	—	(2,562)	(2,562)
	<u>286,949</u>	<u>62,013</u>	<u>(13,600)</u>	<u>48,413</u>	<u>48,413</u>

	For the six months ended 30 June 2018				Total comprehensive income
	Revenue	Total profit	Income tax expenses	Net profit	
Hangzhou Company	133,591	50,308	(13,152)	37,156	37,156
Qijing Company	53,572	12,397	(3,522)	8,875	8,875
Dalian Company	—	—	—	—	—
Bayannur Company	26,931	9,699	—	9,699	9,699
Baoying Company	9,455	3,435	(415)	3,020	3,020
Caring Company	45,236	8,021	(1,204)	6,817	6,817
Shandong Company	47	(1,431)	—	(1,431)	(1,431)
	<u>268,832</u>	<u>82,429</u>	<u>(18,293)</u>	<u>64,136</u>	<u>64,136</u>

Notes to the Financial Statements

For the six months ended 30 June 2019

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5 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests (Continued)

*Cash Flow Statement*

	For the six months ended 30 June 2019				Cash at the end of the year
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash at the beginning of the year/Acquisition date	
Hangzhou Company	14,968	(7,954)	(61,582)	260,307	205,739
Qijing Company	1,526	(1,102)	(16,206)	20,499	4,717
Dalian Company	270	(15,076)	16,382	6,400	7,976
Bayannur Company	5,780	(1,776)	—	8,328	12,332
Baoying Company	4,189	(10,610)	7,862	19,873	21,314
Caring Company	8,970	(110)	—	83,023	91,883
Shandong Company	(2,343)	(77,317)	151,280	26,446	98,066
	<u>33,360</u>	<u>(113,945)</u>	<u>97,736</u>	<u>424,876</u>	<u>442,027</u>
	For the six months ended 30 June 2018				
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash at the beginning of the year/Acquisition date	Cash at the end of the year
Hangzhou Company	(6,678)	(22,679)	(71,438)	255,739	154,944
Qijing Company	3,663	(324)	(13,694)	14,201	3,846
Dalian Company	(124)	(32,947)	28,301	12,144	7,374
Bayannur Company	5,210	(176)	(17)	20	5,037
Baoying Company	6,050	(22)	(5,477)	10,234	10,785
Caring Company	8,164	(2,826)	60,067	19,645	85,050
Shandong Company	(1,129)	(48,220)	—	73,116	23,767
	<u>15,156</u>	<u>(107,194)</u>	<u>(2,258)</u>	<u>385,099</u>	<u>290,803</u>

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

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#### 5 EQUITY IN OTHER ENTITIES (Continued)

##### (c) Non-essential information of associates

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
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.

#### 6 SEGMENT INFORMATION

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

The 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.

Notes to the Financial Statements

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6 SEGMENT INFORMATION (Continued)

(a) Segment information as at and for the six months ended 30 June 2019 is as follows:

	Processing of sewage and construction of related facility			Recycled water	Heating and cooling supply	Tap water	Sale of environ-mental protection equipment	All other segments	Group
	Tianjin	Hangzhou	Others						
Revenue from external customers (Note 4(23))	458,172	120,167	292,961	137,078	40,417	49,703	18,493	107,725	1,224,716
Cost for operations	(293,921)	(87,047)	(199,746)	(95,676)	(30,545)	(32,478)	(6,885)	(68,062)	(814,360)
Interest income (Note 4(27))	1,459	1,004	157	7,384	487	18	376	95	10,980
Interest expenses (Note 4(27))	(65,737)	(4,936)	(34,084)	(25)	(1,140)	(668)	—	—	(106,590)
Results before share of profits of an associate	125,348	30,194	70,646	45,965	7,045	11,835	8,178	(11,962)	287,249
Segment total profit	125,348	30,194	70,646	45,965	7,045	11,835	8,178	(11,962)	287,249
Income tax expenses	(31,106)	(7,697)	(11,988)	(10,849)	(2,598)	(2,813)	(1,227)	12,124	(56,154)
Segment net profit	94,242	22,497	58,658	35,116	4,447	9,022	6,951	162	231,095
Net profit									231,095
Depreciation expenses	(109)	—	(837)	(17,698)	(188)	(48)	(503)	(2,684)	(22,067)
Amortization	(63,267)	(26,016)	(84,695)	(2,968)	(11,344)	(7,683)	(1)	(1,328)	(197,302)
Segment assets	5,936,592	1,055,436	5,782,445	1,221,492	677,580	423,103	67,951	1,096,569	16,261,168
Long-term equity investment in associate									195,000
Total assets									16,456,168
Total liabilities	5,631,437	291,927	2,264,608	596,566	349,901	92,867	10,047	395,206	9,632,559
Non-current assets addition (i)	12,742	—	515,617	929	32,613	44,798	52	130	606,881



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6 SEGMENT INFORMATION (Continued)

(b) Segment information as at and for the six months ended 30 June 2018 is as follows:

	Processing of sewage and construction of related facility			Recycled water	Heating and cooling supply	Tap water	Sale of environmental protection equipment	All other segments	Group
	Tianjin	Hangzhou	Others						
Revenue from external customers (Note 4(23))	413,112	133,377	201,559	149,040	36,574	46,059	10,250	117,827	1,107,798
Cost for operations	(214,061)	(80,822)	(124,862)	(108,777)	(25,587)	(28,795)	(10,739)	(55,214)	(648,857)
Interest income (Note 4(27))	2,945	826	872	859	367	14	128	5,235	11,246
Interest expenses (Note 4(27))	(73,577)	(5,440)	(8,044)	(33)	(551)	(937)	—	—	(88,582)
Results before share of profits of an associate	166,172	50,117	61,100	41,479	8,229	14,463	(716)	52,871	393,715
Segment total profit	166,172	50,117	61,100	41,479	8,229	14,463	(716)	52,871	393,715
Income tax expenses	(41,554)	(13,152)	(12,395)	(8,922)	(2,506)	(2,223)	107	(11,583)	(92,228)
Segment net profit	124,618	36,965	48,705	32,557	5,723	12,240	(609)	41,288	301,487
Net profit									301,487
Depreciation expenses	(114)	—	(108)	(17,961)	(428)	—	(935)	(3,093)	(22,639)
Amortization	(62,672)	(28,724)	(51,601)	(1,965)	(8,775)	(6,926)	(1)	(1,522)	(162,186)
Segment assets	5,578,806	1,072,204	3,611,822	1,310,797	578,646	407,871	43,674	1,430,980	14,034,800
Long-term equity investment in associate									—
Total assets									14,034,800
Total liabilities	4,449,684	329,324	1,253,121	614,818	259,095	99,997	4,055	757,991	7,768,085
Non-current assets addition (i)	246,361	—	1,012,241	167,487	17,333	143,204	694	9,593	1,596,913

(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 RMB452 million is derived from a single customer, accounting for 37% of the Group's total revenue (For the six months ended 30 June 2018: RMB408 million, 37%).

Notes to the Financial Statements

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(All amounts in RMB thousand unless otherwise stated)

**7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

**(1) Information of the parent of the Company**

*(a) General information of the parent company*

	Type	Place of registration	Legal representative	Nature of business and principal activities
Municipal Investment	Limited company	Tianjin, China	Yu Zhongpeng	Development and management of municipal infrastructures

The Company's ultimate controlling party is City Infrastructure Construction and Investment.

*(b) Registered capital and changes in registered capital of the parent company*

	31 December 2018	Increase in the period	Decrease in the period	30 June 2019
Municipal Investment	1,820,000	—	—	1,820,000

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

	30 June 2019		31 December 2018	
	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 5.

**(3) Information of associates**

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

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7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(4) Information of other related parties

	Relationship with the Group
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Metro Resources Investment Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Haihe Construction Developing Investment Co., Ltd.	Controlled by the same ultimate holding company
Tianjin Jinrongcheng Property Management Co. Ltd.	Controlled by the same ultimate holding company
Tianjin Ruiding Real Estate Co. Ltd.	Controlled by the same ultimate holding company
Tianjin Metro Construction and Development Co. Ltd.	Controlled by the same ultimate holding company
Tianjin Metro Group Co. Ltd.	Controlled by the same ultimate holding company
Tianjin City Investment Property Management Co. Ltd.	Controlled by the same ultimate holding company
Tianjin City Road & Network Supporting Construction Investment Co. Ltd	Controlled by the same ultimate holding company
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Subsidiary of associate

(5) Related party transactions

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions between the Group and its related parties during the year:

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

Purchase of goods, receive of services:

Related Party Name	Nature of Transaction	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Purchase of equipment	27,831	7,406
Tianjin City Property Management Co. Ltd.	Property management services	—	2,167
		<u>27,831</u>	<u>9,573</u>

Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

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

Rendering of services

Related party name	Nature of transaction	For the six months ended 30 June 2019	For the six months ended 30 June 2018
City Infrastructure Construction and Investment	Commission income from contract operation	27,736	38,104
Tianjin Lecheng Properties Co., Ltd.	Income from heating and cooling supply	12,489	16,612
City Infrastructure Construction and Investment	Commission income from construction agent service	—	5,105
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	Nitrogen removal technology services	—	708
		40,225	60,529

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.	129,000	28 September 2008	27 September 2022	No

(c) Key management compensation

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Key management compensation	7,308	7,015

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7 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Receivables from and payables to related parties

Receivables from related parties

Related party name	30 June 2019		31 December 2018	
	Carrying amount	Provision	Carrying amount	Provision
Trade receivable				
City Infrastructure Construction and Investment	30,818	115	39,638	115
Tianjin Lecheng Properties Co., Ltd.	4,813	10	9,640	10
Tianjin Metro Resources Investment Co., Ltd.	—	—	1,673	84
Tianjin City Resource Operation Co., Ltd.	401	20	401	20
	<u>36,032</u>	<u>145</u>	<u>51,352</u>	<u>229</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. RMB145 thousand provisions are held against receivables from related parties.

Payables to related parties

Related party name	30 June 2019	31 December 2018
Other payables		
Tianjin Machinery & Electric Equipment Import & Export Co., Ltd.	<u>18,505</u>	<u>123,775</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.

## Notes to the Financial Statements

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### 8 COMMITMENTS

#### (1) Capital commitments

The Group's capital commitments at the balance sheet date are as follows:

	Contracted but not provided for		Authorized but not contracted for	
	30 June 2019 RMB million	31 December 2018 RMB million	30 June 2019 RMB million	31 December 2018 RMB million
Sewage water processing plant projects:				
– Dalian Chunliuhe project	31	38	—	—
– Tianjin Jingu upgrading project	28	28	—	—
– Tianyu upgrading project	17	22	49	49
– Karamy project	20	20	—	—
– Linxia PPP project	7	17	—	—
– Tianjin Beichen upgrading project	14	14	—	—
– Ningxiang PPP project	12	13	5	6
– Hefei Yuwan project	11	11	—	—
– Xianning Yongan upgrading project	5	6	—	—
– Honghu PPP project	87	5	118	258
– Ninghe upgrading project	7	5	—	8
– Yingshang project	5	5	—	—
– Changsha Ningxiang project	2	2	67	67
– Honghu upgrading project	1	1	—	—
– Bayannur PPP project	—	—	—	—
– Jieshou upgrading project	—	—	—	—
– Hefei Taochong project	507	—	43	586
– Hebei Shijiazhuang Gaocheng regional water environment comprehensive treatment project	—	—	525	—
Solid wastes treatment projects:				
– Shandong Yishui project	63	228	30	43
– Shandong Tancheng project	103	97	203	245
Tap water supplying projects:				
– Hunan Hanshou Yuanquan project	—	—	105	—
Energy station projects:				
– Heiniu Urban Roads energy station project	—	16	—	—
– Houtai energy station project	3	3	108	108
	<u>923</u>	<u>531</u>	<u>1,253</u>	<u>1,370</u>

#### (2) Investment commitments

According to the announcement of the 11th meeting of the 8th Board of Directors of the Company on 18 June 2019, the Company plans to set up Jiuquan Capital Water Co., Ltd. (“Jiuquan Company”). As at 30 June 2019, the addition capital contribution of RMB35 million was not paid. The registered capital of Jiuquan Company is RMB178,237.9 thousand yuan, and the Company contributes RMB158,237.9 thousand yuan, accounting for 88.78% of the share capital. The Company completed the capital injection on 19 July 2019.

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## 9 IMPACT OF EVENTS AFTER THE BALANCE SHEET DATE

On 13 August 2019, the Company held the 16th meeting of the 8th Board of Directors. According to the resolution of the meeting, the Company will additionally invest RMB52.6 million to the Fuyang Capital Water Co.,Ltd. for Yingdong Sewage Water Processing Project (2nd batch).

## 10 FINANCIAL INSTRUMENTS AND THEIR RISKS

The Group's activities expose it to a variety of financial risks: market risk (primarily including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Those financial risks and the Group's overall risk management programme which focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance are as below:

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

### (1) Market risk:

#### (a) Foreign exchange risk:

The Group has no significant foreign exchange risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign exchange risk of the Group arises from fluctuation of USD and JPY pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from Sewage Company (Note 4(17)(c)(i)).

At 30 June 2019, 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 (30 June 2018: 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 (30 June 2018: RMB7 million) higher/lower.

Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

**10 FINANCIAL INSTRUMENTS AND THEIR RISKS** (Continued)

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

(b) *Interest rate risk:*

The Group's interest rate risk arises mainly from interest-bearing liabilities including borrowings, long-term payables and debentures payable.

The Group has significant borrowings, long-term payables and debentures payable. Those taken at variable rates expose the Group to cash flow interest-rate risk, whilst those taken at fixed rates expose the Group to fair value interest-rate risk.

The Group's finance department at its headquarters continuously 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. For the six months ended 30 June 2019 and For the six months ended 30 June 2018, the Group did not enter into any interest rate swap agreements.

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

	Fixed	Floating	Total
At 30 June 2019			
Short-term borrowings	200,000	—	200,000
Other non-current liabilities due within one year:			
Current portion of long-term borrowings	—	741,534	741,534
Current portion of long-term payables	17,984	11,713	29,697
Long-term borrowings	—	2,283,376	2,283,376
Long-term payables	193,526	77,542	271,068
Debentures payable	1,796,872	—	1,796,872
	<u>2,208,382</u>	<u>3,114,165</u>	<u>5,322,547</u>
Total	<u>2,208,382</u>	<u>3,114,165</u>	<u>5,322,547</u>



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10 FINANCIAL INSTRUMENTS AND THEIR 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			

At 30 June 2019, 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 RMB23 million (30 June 2018: RMB7 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 receivable, trade receivables, other receivables and contract assets. As at 30 June 2019, 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.

In addition, the Group has policies to limit the credit exposure on notes receivable, trade receivables, other receivables and contract assets. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

As at 30 June 2019, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage.

Notes to the Financial Statements

For the six months ended 30 June 2019

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10 FINANCIAL INSTRUMENTS AND THEIR 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. The Group monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity 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:

	30 June 2019				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	830,934	771,660	795,652	1,100,948	3,499,194	3,024,909
Long-term payables	28,943	29,726	94,891	307,951	461,511	300,765
Notes payable and trade payables	1,272,123	—	—	—	1,272,123	1,272,123
Other payables	150,699	—	—	—	150,699	150,699
Debentures payable	78,780	78,780	2,128,170	—	2,285,730	1,796,872
	<u>2,561,479</u>	<u>880,166</u>	<u>3,018,713</u>	<u>1,408,899</u>	<u>7,869,257</u>	<u>6,745,368</u>
	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>

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#### 11 FAIR VALUE ESTIMATION

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data

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

As at 30 June 2019, 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 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

## Notes to the Financial Statements

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### 11 FAIR VALUE ESTIMATION (Continued)

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

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 receivable, trade receivables, 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 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, 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.

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#### 12 CAPITAL MANAGEMENT (Continued)

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

	30 June 2019	31 December 2018
Total borrowings	5,322,546	4,558,052
Short-term borrowings	200,000	200,000
Long-term borrowings	3,024,910	2,265,905
Current portion of debentures payable	—	—
Debentures payable	1,796,872	1,796,363
Long-term payables	300,765	295,784
Other non-current assets – Government loan and others	—	—
Less: Cash	(2,060,767)	(1,808,543)
Net debt	3,261,779	2,749,509
Total equity	6,823,609	6,614,967
Total capital	10,085,388	9,364,476
Gearing ratio	32%	29%

As at 30 June 2019, 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.

#### 13 NOTES TO THE COMPANY FINANCIAL STATEMENTS

##### (1) Trade receivables

	30 June 2019	31 December 2018
Trade receivables	1,510,321	1,689,143
Less: Provision for bad debts	(1,964)	(1,964)
	1,508,357	1,687,179

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

	30 June 2019	31 December 2018
Within 1 year	1,098,697	1,060,286
1 to 2 years	401,978	623,795
2 to 3 years	6,263	3,620
3 to 4 years	2,001	—
4 to 5 years	7	1,442
Over 5 years	1,375	—
Total	1,510,321	1,689,143

Notes to the Financial Statements

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

(1) **Trade receivables (Continued)**

- (b) As at 30 June 2019, 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>1,472,737</u>	<u>(1,055)</u>	<u>98%</u>

- (c) Provision for bad debts:

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

- (i) As at 30 June 2019, provision for bad debts by individual is analyzed as below:

	Carrying amount	ECL rate	Provision	Reasons
TWAB	1,392,638	0.05%	(791)	Notes 4(3)(c)(i))
Tianjin Water Recycling Co., Ltd.	<u>21,060</u>	0.05%	<u>(25)</u>	
Total	<u>1,413,698</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%.

(2) **Other receivables**

	30 June 2019	31 December 2018
Receivables from subsidiaries	118,182	117,906
Project deposits	23,385	14,385
VAT refund receivable	2,262	2,037
Others	<u>403</u>	<u>330</u>
	144,232	134,658
Less: Provision for bad debts	<u>(98)</u>	<u>(98)</u>
	<u>144,134</u>	<u>134,560</u>

As at 30 June 2019, there were no other receivables overdue but unimpaired (31 December 2018: Nil).

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13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(a) The ageing analysis of other receivable is as follows:

	30 June 2019	31 December 2018
Within 1 year	37,503	124,869
1 to 2 years	97,132	8,263
2 to 3 years	8,071	—
Over 3 years	1,522	1,526
Total	<u>144,232</u>	<u>134,658</u>

(b) Movement of loss provision and carrying amount

As at 30 June 2019, the Group has no other receivables belonging to stage 2 and stage 3. Provisions for bad debts of other receivables in stage 1 are analyzed as follows:

(i) As at 30 June 2019, other receivables are all belonging to stage 1. Provision for bad debts by group is analyzed as below:

	Carrying amount Amount	30 June 2019 Provision Amount	Percentage
Project Deposits Group:			
Within 1 year	13,900	7	0.05%
Others:			
Within 1 year	<u>21,316</u>	<u>21</u>	<u>0.10%</u>
	<u>35,216</u>		<u>0.15%</u>

(c) For the six months ended 30 June 2019, the changes of other receivables' provision of the Company is not significant.

Notes to the Financial Statements

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13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(d) As at 30 June 2019, 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 years	67.30%	73
Shijiazhuang Gaocheng District Construction Investment Co. Ltd.	Project deposits	10,000	Within 1 year	6.94%	—
Tianjin Water Recycling Co., Ltd.	Receivable due from subsidiaries	8,680	Within 1 year	6.02%	4
Linxia Water Supply and Drainage Co., Ltd.	Project deposit	8,000	2 to 3 years	5.55%	—
Tianjin State Taxation Bureau	VAT refund receivable	2,262	Within 1 year	1.57%	—
		125,942		87.38%	77

(e) As at 30 June 2019, government grants confirmed according to receivables are analyzed as below:

Name	Amount	Aging	Estimated time, amount and basis of collection
VAT refund	2,262	Within 1 year	It's expected to received fully in 2019 because the nature is VAT refund.

(3) Long-term equity investments

	30 June 2019	31 December 2018
Investment in subsidiaries (a)	3,801,941	3,458,486
Associate (b)	195,000	195,000
Less: Impairment of Long-term equity investments (c)	(132,781)	(132,781)
	3,864,160	3,520,705



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13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries

	Investment cost	31 December 2018	Movement for the period			30 June 2019	Provision for impairment	Cash dividends declared/ Investment income in the current period
			Additions	Disposals	Provision			
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))	337,485	191,302	146,182	—	—	337,484	—	—
Tianjin Water Recycling Co., Ltd.	100,436	100,436	—	—	—	100,436	—	—
Wuhan Tianchuang Capital Water Co., Ltd.	197,229	197,229	—	—	—	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	—	—
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.	58,100	58,100	—	—	—	58,100	—	—
Tianjin Capital New Materials Co., Ltd.	26,500	—	—	—	—	—	(26,500)	—
Subtotal	<u>1,943,867</u>	<u>1,679,903</u>	<u>146,182</u>	<u>—</u>	<u>—</u>	<u>1,826,085</u>	<u>(117,781)</u>	<u>—</u>

Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

	Investment cost	31 December 2018	Movement for the period			30 June 2019	Provision for impairment	Cash dividends declared/ Investment income in the current period
			Additions	Disposals	Provision			
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	—	—
Yingshang Capital Water Co., Ltd.	53,000	53,000	—	—	—	53,000	—	—
Shandong Capital Environmental Protection Technology Development Co., Ltd.(note(ii))	105,600	70,400	35,200	—	—	105,600	—	—
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 Chunliube Water Quality Purification Co., Ltd.	47,981	47,981	—	—	—	47,981	—	—
Changsha Tianchuang Capital Water Co., Ltd.	15,318	15,318	—	—	—	15,318	—	—
Inner Mongolia Bayannur Capital Water Co.Ltd.	776,957	776,957	—	—	—	776,957	—	—
Honghu Tianchuang Capital Water Co., Ltd.	111,631	111,631	—	—	—	111,631	—	—
Hefei Capital Water Co., Ltd.	205,957	205,957	—	—	—	205,957	—	—
Deqing Capital Water Co., Ltd.	54,000	54,000	—	—	—	54,000	—	—
Hanshou Tianchuang Capital Water Co., Ltd.(note(iii))	33,750	—	33,750	—	—	33,750	—	—
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd. (note(iii))	128,323	—	128,323	—	—	128,323	—	—
Subtotal	1,858,075	1,645,802	197,273	—	—	1,843,075	(15,000)	—
Total	3,801,942	3,325,705	343,455	—	—	3,669,160	(132,781)	—

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

Notes to the Financial Statements  
For the six months ended 30 June 2019  
(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries (Continued)

- (i) In 2019, the Company increased capital of RMB146 million to its subsidiary Fuyang Capital Water Co., Ltd. for the construction and operation of Jieshou sewage water treatment plant phase II upgrading project.
- (ii) In 2019, the Company invested RMB10 million yuan to Shangdong Capital Environmental Protection Technology Development Co., Ltd. (Shandong Company) for Tancheng Comprehensive Disposal Center Project of hazardous waste and future development of hazardous waste business. In 2019, the Company invested RMB25 million yuan to Shandong Company to make up the residual registered capital of Tancheng Comprehensive Disposal Center Project.
- (iii) In 2019, the Company contributed RMB34 million to set up Hanshou Tianchuang Capital Water Co., Ltd and RMB128 million to set up Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd. The shareholding ratio is 75% and 59% respectively.

(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 2018	Additions	Disposals	30 June 2019
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
	<u>132,781</u>	<u>—</u>	<u>—</u>	<u>132,781</u>

Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	483,601	294,029	438,859	213,413
Other operations	54,357	54,978	62,832	37,834
	<u>537,958</u>	<u>349,007</u>	<u>501,691</u>	<u>251,247</u>

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water and construction of related facility	452,450	290,469	407,617	209,853
Road tolls	31,151	3,560	31,242	3,560
	<u>483,601</u>	<u>294,029</u>	<u>438,859</u>	<u>213,413</u>

(b) Revenue from other operations and cost of sales

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	43,549	43,797	38,683	29,040
Rental	6,118	8,604	9,291	8,604
Construction services	—	431	5,567	190
Technical service	2,318	2,146	4,906	—
Others	2,372	—	4,385	—
	<u>54,357</u>	<u>54,978</u>	<u>62,832</u>	<u>37,834</u>

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

Notes to the Financial Statements  
For the six months ended 30 June 2019  
(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales (Continued)

(c) The Company's operating income for the six months ended 30 June 2019 is analyzed as follows:

	For the six months ended 30 June 2019							Total
	Processing of sewage water and construction of related facility	Road tolls	Contract operation income	Rental	Construction services	Technical service	Others	
Revenue	452,450	31,151	—	—	—	—	—	483,601
Of which: confirm at a certain point in time	—	—	—	—	—	—	—	—
Confirm within a certain period of time	452,450	31,151	—	—	—	—	—	483,601
Other operating income	—	—	43,549	6,118	—	2,318	2,372	54,357
	<u>452,450</u>	<u>31,151</u>	<u>43,549</u>	<u>6,118</u>	<u>—</u>	<u>2,318</u>	<u>2,372</u>	<u>537,958</u>

As at 30 June 2019, 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.

(5) Investment income

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Interest income from entrusted loans	19,301	11,876
Dividend income from other equity instruments investment	—	200
	<u>19,301</u>	<u>12,076</u>

Notes to the Financial Statements

For the six months ended 30 June 2019

(All amounts in RMB thousand unless otherwise stated)

**1 STATEMENT OF NON-RECURRING PROFIT OR LOSS**

	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Losses on disposal of non-current assets	1,201	(118)
Government Grants	31,072	30,857
Other non-operating income and expenses – net	(2,230)	1,002
	<u>30,043</u>	<u>31,741</u>
Effect of income tax	(4,813)	(7,935)
Effect of minority interests (after tax)	(280)	(550)
Total	<u><u>24,950</u></u>	<u><u>23,256</u></u>

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

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

**2 RECONCILIATION STATEMENT OF INLAND AND ABROAD FINANCIAL STATEMENT**

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

**3 RATE OF RETURN ON NET ASSETS AND EARNINGS PER SHARE**

	Weighted average income rate of net assets (%)		Basic/Diluted earnings per share	
	For the six months ended 30 June 2019	For the six months ended 30 June 2018	For the six months ended 30 June 2019	For the six months ended 30 June 2018
Net profit attributable to ordinary shareholders of the Company	3.73	5.28	0.15	0.20
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	3.31	4.85	0.14	0.18

## 10. List of Documents Available for Inspection

1. The financial statements signed and sealed by the person in charge of the Company, the officer in charge of accounting operations and the officer in charge of the accounting department (the chief accountant).
2. Original copies of all documents and announcements of the Company publicly disclosed on the website designated by the CSRC during the reporting period.
3. The interim report released on other stock markets.

Tianjin Capital Environmental Protection Group Company Limited

Chairman: Liu Yujun