



*Interim Report for the six
months ended 30th June 2021*



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 (the “**Supervisory Committee**”) of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) and its directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management guarantee that information in this 2021 interim report (the “**Interim Report**”) does not contain any false information, misleading statements or material omissions, and accept several and joint responsibilities for the truthfulness, accuracy and completeness of its contents.
- II. The Interim Report of the Company for the six months ended 30 June 2021 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. Whether more than half of the Directors cannot guarantee the truthfulness, accuracy and completeness of the Interim Report disclosed by the Company
No
- IX. Significant risks warning
No
- X. 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:

“Bayannur Company”	Inner Mongolia Bayannur Capital Water Co., Ltd.
“Caring Company”	Tianjin Caring Technology Development Co., Ltd.
“Company”	Tianjin Capital Environmental Protection Group Company Limited
“Fuyang Company”	Fuyang Capital Water Co., Ltd.
“Gaoyou Compro”	Gaoyou Compro Environmental Resources Co., Ltd.
“Group”	the Company and its subsidiaries
“Hangzhou Company”	Hangzhou Tianchuang Capital Water Co., Ltd.
“Hexi Court”	the People’s Court of Hexi District, Tianjin
“Jiangsu Yonghui”	Jiangsu Yonghui Resources Utilization Co., Ltd.
“Jiayuanxing”	Tianjin Jiayuanxing Innovative Energy Technology Company Limited
“Jieshou Company”	Jieshou Capital Water Co., Ltd.
“Qudong Company”	Tianjin Qudong Media Co., Ltd.
“Shandong Company”	Shandong Capital Environmental Protection Technology Development Co., Ltd.
“Subsidiaries”	Subsidiaries of the Company
“Tianjin Investment Group”	Tianjin City Infrastructure Construction and Investment Group Company Limited
“Water Recycling Company”	Tianjin Water Recycling Co., Ltd.
“Xi’an Company”	Xi’an Capital Water 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. Mona Y.Y. Cho	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	cossec@tjcep.com	guo_fx@tjcep.com

III. BASIC INFORMATION

Registered address of the Company	12/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal code of the registered address of the Company	300381
Office address of the Company	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal code of the office address of the Company	300381
Website of the Company	http://www.tjcep.com
Email address	tjcep@tjcep.com

2. Company Profile and Major Financial Indicators

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

Name of the newspaper designated by the Company for the disclosure of information	Shanghai Securities News
Website designated by China Securities Regulatory Commission (“CSRC”) for the disclosure of Interim Report	www.sse.com.cn
Place where the Interim Report of the Company is available for inspection	Corporate Governance Center, 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

(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	190,395.4	152,139.0	25.15
Net profit attributable to the shareholders of the Company	30,448.9	25,694.8	18.50
Net profit attributable to the shareholders of the Company after deduction of extraordinary items	26,435.2	22,655.0	16.69
Net cash flow from operating activities	66,228.4	25,509.3	159.62

	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	672,457.3	659,135.1	2.02
Total assets	2,009,604.7	1,880,296.9	6.88

(II) Major financial indicators

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)	0.21	0.18	18.33
Diluted earnings per share (RMB/share)	0.21	0.18	18.33
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.19	0.16	18.75
Weighted average return on net assets ratio (%)	4.57	4.13	0.44
Weighted average return on net assets ratio after deduction of extraordinary items (%)	3.97	3.64	0.33

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
Gain or loss on disposal of non-current assets	-0.3
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	4,678.4
Other non-operating income and expenses (excluding the above items)	-75.7
Effect on minority interests	230.9
Effect on income tax	-819.6
Total	<u>4,013.7</u>

3. Management Discussion and Analysis

I. EXPLANATION OF THE INDUSTRY AND PRINCIPAL BUSINESS OF THE COMPANY DURING THE REPORTING PERIOD

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

In line with its strategic objective of being a comprehensive environmental service provider, during the reporting period, the principal business of the Company includes basic business and strategic new business. There was no material change in the business scope and business model of the Company's principal business as compared with the previous year.

1. Basic business, which refers to the business of municipal sewage treatment, water supply and water recycling, is the main business of the Company, and the main source of revenue and profit.

During the reporting period, for the basic business, the Company mainly focused on strengthening and improving the operation quality of the existing water utilities projects. The new equity-type sewage treatment capacity was 84,500 m³ per day, and new pipe network length was 183 km. There was no significant change in the scale of other water utilities business as compared to the beginning of the reporting period. As of the end of the reporting period, the total capacity of the equity-type water utilities business of the Company amounted to approximately 5.6046 million m³ per day, among which the sewage treatment capacity, water supply capacity (including tap water and industrial water supply capacity) and recycled water capacity under the PPP model was approximately 4.8696 million m³ per day, 315,000 m³ per day and 420,000 m³ per day, respectively, and the pipe network length under the integrated plant network was 1,190 km. The above projects are distributed in 15 provinces, municipalities and autonomous regions in China and the sewage treatment capacity under the entrusted operation model was approximately 512,100 m³ per day.

Based on BOT, TOT and PPP models in sewage treatment and water supply, the Company mainly obtained sales revenue from the production and sale of recycled water and the income from provision of recycled water pipeline connection services on recycled water business, with no significant change as compared with the beginning of the reporting period.

2. Strategic new business includes new energy heating and cooling, solid waste treatment, sludge treatment, photovoltaic power generation, technological achievements transformation, etc. In respect of profitability, economic added value, and payback period, it can form a good complement with the basic business and optimize the overall business structure.

During the reporting period, the business scales and operation models of new energy heating and cooling supply business, hazardous waste business and photovoltaic power generation business have not changed significantly as compared with the beginning of the reporting period. As of the end of the reporting period:

3. Management Discussion and Analysis

- (1) The service areas of new energy cooling and heating supply business amounted to 2 million m², which was mainly operated in Tianjin;
- (2) The hazardous wastes business included four projects with the disposal capacity of 128,000 tons/year, and a storage and transit project with the capacity of 20,000 tons/year and a waste landfill project with the aggregate storage of 600,000 m³ with the comprehensive waste utilization capacity of 73,000 tons/year, which were mainly distributed in Shandong Province and Jiangsu Province;
- (3) For the distributed photovoltaic power generation project, the planned annual electricity generation amounted to 2.9216 million kWh, which was mainly distributed in Tianjin and Dalian;
- (4) The total capacity of sludge treatment was 1,560 tons/day, which was mainly distributed in Tianjin and Jiuquan of Gansu.

During the reporting period, the technological achievements transformation business included one new project with the contract value of RMB825,000. There is no significant change to the business promotion model and technical optimization route as compared with the beginning of the reporting period.

(II) Explanation of Industry Situation

With the rising demands on systematized environmental governance and the slowdown in growth of the market size of water utilities industry, sewage treatment enterprises are gradually elevating from sewage treatment to water environmental treatment, and then to ecological management. During the elevation process from water environmental treatment to ecological management, enterprises often take their primary businesses as the starting point to expand business step by step through resources, markets or business relations. Many enterprises accomplish cross-border development through merger and acquisition. In the existing field of solid waste, hazardous waste treatment, co-processing and disposal for organic material (sludge, food waste, kitchen waste, livestock and poultry waste) have a great market demand, which have become the main venue for new business strategic transition of many water environmental enterprises. In addition, in the context of systematic treatment, enterprises focus more on the synergy among industrial chains and the excavating of added value in high-margin segments, therefore, the vertical expansion on high-end devices, technical services and other industrial chains has also become the direction for the strategic layout and optimization of asset-heavy water utilities enterprises.

The Company will continue to leverage its advantages in project operation capability in the future. On the one hand, the Company will solidify its existing businesses, whilst on the other hand, proactively pay attention to market opportunities, expand the scale of water utilities business, speed up the layout of strategic new business and enhance the capability of the comprehensive environmental governance services.

II. Analysis of Core Competitiveness During the Reporting Period

The Group's core competitiveness is 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, systematic and sustainable research and development capabilities; (3) our professional, dedicated, cooperative and innovative staff team; (4) our corporate reputation for being trustworthy, responsible, standardized and reliable. These four core competitiveness complement one another in which corporate integrity, diligent employees and technology innovation provide an ultimate assurance to customers, thereby resulting in the Company's positive brand influence in environmental protection.

After the development in 2021, the Company further consolidated its strengths and enhanced its overall competitiveness.

In respect of basic business, the Company funded to establish Honghu Tianchuang Environmental Protection Co., Ltd.* (洪湖市天創環保有限公司) and Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd.* (天津西青天創環保有限公司), and at the same time increased its capital contributions in the Company's two subsidiaries, Fuyang Company and Jiesshou Company in order to consolidate and upgrade its main water business.

In respect of new environmental protection business, the Company completed the industrial and commercial registration changes of the acquisition of the two companies (Gaoyou Compro and Jiangsu Yonghui), which were acquired at the end of 2020, in order to further promote the development of the Company's new business in hazardous waste, which was conducive to the improvement of its comprehensive environmental service capabilities.

In respect of technical R&D, the Company optimized its technical R&D system. On the one hand, the Company continued to explore smart water services and pay attention to the impacts of "carbon peak and neutrality" on the environmental protection industry. On the other hand, the Company carried out R&D innovation and technological achievements transformation in various forms.

In respect of system reform, the Company fully leveraged the country's regional development strategy during the "14th Five-Year Plan" period to further integrate different resources, adjust its authorization, and strive to build a regional management and business development team.

3. Management Discussion and Analysis

III. Operation Discussion and Analysis

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

During the reporting period, the Company carried out its work according to the operational plans and strategies for 2021 as formulated by the Board by improving economic efficiency as the core, strengthening the operation and the construction strength as the foundation, enhancing the operation management and maximizing efforts in market exploration and innovation on management, thereby accelerating the development of the Company's overall strength and completing various tasks in an orderly manner.

- (1) Vigorously develop strategic new business while consolidating the basic water utilities business. The Company invested RMB780 million to acquire Gaoyou Compro and Jiangsu Yonghui, thereby realizing the implementation of its first merger and acquisition project and also enabling the Company to achieve a new pattern of north-south coordination in the field of hazardous wastes treatment. The Company successfully won the bids for the Xiqing Dasi* (西青大寺) project, Honghu Phase II* (洪湖二期) project, and Jieshou project* (界首項目), thereby consolidating its basic water utilities business.
- (2) Leverage our advantages in operation and construction to ensure the operation quality and revenue of projects while meeting the requirements for improving water quality standards. The Company made full use of its operational and technical advantages while increasing its investment to ensure that all projects are operating in a stable and compliant manner according to corresponding standards. The Company also instructed all operating and engineering projects to earnestly implement the requirements of the Ministry of Ecology and Environment and the local governments on pandemic prevention and control, so as to strictly ensure the safety in production and daily life and fully guarantee the safety of operation and construction projects. At the same time, the Company successfully maintained the concession agreement of each project, ensuring that the projects achieve their expected revenues.
- (3) Promote the effective implementation of the reforms while further optimizing the organizational structure. During the reporting period, based on the effectiveness of market-oriented reforms, the Company reintegrated the foreign Companies and regional companies, optimized its market layout, and achieved regional integration and development. At the same time, the Company improved the long-term control and high-quality development mechanism of its foreign subsidiaries to further improve the market competitiveness and risk management and control capabilities of the foreign subsidiaries.

- (4) Strengthen basic management work and further improve management standards and management efficiency. Recently, the State-owned Assets Supervision and Administration Commission of the State Council (the “SASAC”) announced the list of benchmarking enterprises, benchmarking projects and benchmarking models in the Management Benchmarking Action of Key State-owned Enterprises * (國有重點企業管理標杆創建行動標杆企業、標杆項目和標杆模式名單). After enterprise declaration, expert review and consultation, the Company was selected as a “benchmarking enterprise” (標杆企業) and was the only selected enterprise in Tianjin. In the future, the Company will continue to improve basic management and further consolidate the foundation for development.

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

During the reporting period, the Group recorded operating revenue of RMB1,903.954 million, representing an increase of 25.15% as compared to that in the same period last year. The operating costs were RMB1,267.803 million, representing an increase of 21.53% as compared to that in the same period last year. The net profit attributable to the Company was RMB304.489 million, representing an increase of 18.50% as compared to that in the same period last year. The changes in the above results were mainly due to the increased volume of the sewage treatment business.

(1) Analysis of the principal businesses

During the reporting period, the Group’s principal business segments did not change significantly and was still the sewage treatment business, recycled water business, tap water supply, new energy heating and cooling supply business, toll collection business, technological achievements transformation business and hazardous wastes business. It recorded an income from principal business of RMB1,805.527 million, representing 94.83% of operating income of the Group.

3. Management Discussion and Analysis

- ① Sewage treatment business recorded an income of RMB1,381.489 million, representing an increase of 26.36% as compared to the same period last year, which was mainly attributable to the increased volume of sewage treatment and the upraised sewage treatment service fees of partial sewage treatment plant. During the reporting period, the Group processed a total of 740.16 million m³ of sewage water, representing an increase of 5.01% 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 newly-developed sewage treatment projects were put into operation.
- ② Recycled water business recorded an income of RMB168.224 million, representing an increase of 23.03% as compared to the same period last year. On the one hand, the income from the pipe connection business increased as compared to the same period last year. On the other hand, the water consumption volume of users increased; therefore, the sales income from recycled water increased as compared to the same period last year. During the reporting period, the sales volume of recycled water was 36.59 million m³, representing an increase of 14.93% as compared to the same period last year.
- ③ Tap water supply business recorded an income of RMB57.178 million, representing an increase of 21.85% as compared to the same period last year, which was mainly attributable to the increased water consumption volume by users. The water sales volume was 30.81 million m³, representing an increase of 19.94% as compared to the same period last year.
- ④ New energy heating and cooling supply business recorded an income of RMB39.779 million, representing a decrease of 13.63% as compared to the same period last year, which was mainly attributable to the decreased area of heating supply.
- ⑤ Technological achievements transformation business recorded an income of RMB17.460 million, representing an increase of 28.66% as compared to the same period last year, which was mainly attributable to the increased work quantity of the deodorization business.

- ⑥ Toll collection business recorded an income of RMB31.249 million, which remained more or less the same as the same period last year.
- ⑦ The hazardous wastes business recorded an income of RMB109.958 million, representing an increase of 232.91% as compared to the same period last year, which was mainly attributable to the increased volume of hazardous wastes treatment of two additional hazardous wastes treatment projects (Gaoyou Compro and Jiangsu Yonghui).

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.

3. 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 realized an income of RMB98.427 million, representing a decrease of 5.69% as compared to that in the same period last year. The decrease was mainly due to the fact that the recognition of debugging fee income from the sewage treatment plant relocation project in the same period last year is not available in the current period.

Significant changes in the Company's operations during the reporting period, as well as matters that have a significant impact on the Company's operations during the reporting period and are expected to have a significant impact on the Company's operations in the future

Not applicable

3. Management Discussion and Analysis

IV. The principal business during the reporting period

(I) Analysis of principal businesses

1 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	190,395.4	152,139.0	25.15
Costs of operations	126,780.3	104,322.9	21.53
Distribution costs	1,267.9	792.2	60.05
Administrative expenses	8,285.2	7,025.3	17.93
Impairment losses on financial assets	-207.6	-	-100.00
Other losses – net	-93.3	-258.5	63.91
Financial expenses – net	16,170.2	11,298.7	43.12
Non-controlling interests	3,225.8	2,009.3	60.54
Net cash flows from operating activities	66,228.4	25,509.3	159.63
Net cash flows from investing activities	-118,386.3	-75,781.5	-56.22
Net cash flows from financing activities	71,179.6	22,824.5	211.86

Explanation of changes in income from operations: It was mainly due to the increase in treatment volume of sewage and hazardous wastes business, thus the income increased accordingly.

Explanation of changes in costs of operations: It was mainly due to the increased business and higher effluent quality standards, resulting in increased costs of operations.

Explanation of changes in distribution expenses: It was mainly due to the increased hazardous wastes business, resulting in increased distribution expenses.

Explanation of changes in administrative expenses: It was mainly due to new projects and the commencement of operation of projects, resulting in increased administrative expenses.

Explanation of changes in financial expenses: It was mainly due to the increase in loan principal and the expensed interest expenses after commencement of operation of projects, resulting in increased financial costs.

Explanation of changes in net cash flows from operating activities: It was mainly due to the increase of sewage treatment service fee and other operation-related fees charged in this period as compared to the same period last year and the lower various taxes and other operation-related payments as compared to the same period last year.

Explanation of changes in net cash flows from investing activities: It was mainly due to the payment for the acquisition of Gaoyou Compro and Jiangsu Yonghui in the current period, while there was no such event in the same period of last year.

Explanation of changes in net cash flows from financing activities: It was mainly due to the increase in new debt financing during the period as compared with the corresponding period of last year.

Explanation of changes in non-controlling interests: It was mainly because the net profit of non-wholly owned subsidiaries for the current period was higher than that of the corresponding period of last year, and therefore the non-controlling interests based on equity ratio increased accordingly.

2 Details of material changes in business type, profit composition or profit source of the Company during the period

Not applicable

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

Not applicable

(III) Analysis of assets and liabilities

Not applicable

3. Management Discussion and Analysis

1. 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 same period last year	Percentage of the amount as of the end of the same period last year to the total assets(%)	Percentage of change in amount as of the end of the current period as compared to the end of same period last year(%)	Explanation
Construction in progress	1,716.6	0.09	985.9	0.05	74.12	Mainly due to the increase in investment in construction of projects such as cooling and heating supply and hazardous waste.
Advances to suppliers	9,404.6	0.47	2,622.0	0.14	258.68	Mainly due to the prepaid sludge disposal expenses during the period.
Other current assets	11,918.90	0.59	8,222.80	0.44	44.95	Mainly due to the increase in input VAT to be deducted.
Goodwill	49,876.6	2.48	0	0	Not applicable	Mainly due to the recognition of goodwill upon the acquisition of hazardous waste projects during the period.
Long term borrowings	639,499.2	31.82	422,789.4	22.49	51.26	Mainly due to the new long-term borrowings during the period.
Accrued payroll	2,386.9	0.12	8,562.0	0.46	-72.12	Mainly due to the year-end bonus accrued at the end of 2020.
Debentures payable	0.0	0.00	109,884.8	5.84	-100.00	Mainly due to the repayment of Corporate bonds 18 津創 (phase I) during the period.
Other explanation						
Nil						

2. **Overseas assets**

Not applicable

3. **Major restricted assets as at the end of the reporting period**

For details, please refer to Note 1. Monetary funds, 43. Non-current liabilities due within one year, 45. Long-term loans and 81. Assets with restricted ownership or right of use in item VII of the consolidated financial statements in “Section X Financial Report” of this report.

4. **Other explanations**

Not applicable

(IV) Analysis of investment

1. **Overall analysis of equity investment**

During the reporting period, the total amount of equity investment of the Company amounted to RMB181.2862 million, representing a decrease of RMB34.8717 million as compared to the same period last year, which was mainly because there were fewer new projects secured by the Company in the first half of the year compared to that in the same period last year.

(1) Major equity investment

- (1) On 24 June 2020, the Board of the Company approved to make an additional investment of RMB142.17 million to Xi'an Company for implementing the upgrade and renovation and covering and deodorization project of the sewage treatment plant and the sewage treatment center in Xi'an. Upon the capital increase, the registered capital of Xi'an Company was increased from RMB334 million to RMB476.17 million. During the reporting period, the change of industrial and commercial registration in relation to such capital increase was not yet completed.

3. Management Discussion and Analysis

- (2) On 24 December 2020, the Board of the Company approved to acquire the entire equity interest of Gaoyou Compro to make up for the shortcomings of the hazardous waste business segment of the Company, enhance market competitiveness through regional layout and increase of hazardous waste disposal capacity, and build a full industry chain and regional comprehensive service capacity. Gaoyou Compro was established on 31 March 2016, with a registered capital of RMB100 million and an asset value of RMB405 million as appraised and filed by the SASAC. After negotiation with the shareholders of Gaoyou Compro, the base consideration for the acquisition of Gaoyou Compro Company was RMB382.91 million, which was funded by the Company's own funds and merger and acquisition loans. The actual payment shall be determined after deducting the outstanding debts of Gaoyou Compro as of the date of completion of the equity transfer. During the reporting period, the change of industrial and commercial registration in relation to the transfer of the equity interest has been completed.
- (3) On 24 December 2020, the Board of the Company approved to acquire the entire equity interest of Jiangsu Yonghui to make up for the shortcomings of the hazardous waste business segment of the Company, enhance market competitiveness through regional layout and increase of hazardous waste disposal capacity, and build a full industry chain and regional comprehensive service capacity. Jiangsu Yonghui was established on 9 January 2018 with a registered capital of RMB50 million and an asset value of RMB420 million as appraised and filed by the SASAC. After negotiation with the shareholders of Jiangsu Yonghui, the base consideration for the transfer was RMB397.09 million, which was funded by the Company's own funds and loans for mergers and acquisitions. The actual payment shall be determined after deducting the outstanding debts of Jiangsu Yonghui as of the date of completion of the equity transfer. During the reporting period, the change of industrial and commercial registration in relation to the transfer of the equity interest has been completed.
- (4) On 21 January 2021, the Board of the Company approved to jointly establish Honghu Tianchuang Environmental Protection Co., Ltd.* (洪湖市天創環保有限公司) with CCCC Tianjin Dredging Co., Ltd.* (中交天津航道局有限公司) ("CCCC Tianjin Dredging") and Honghu Water Pollution Control Center for the investment, financing, construction, operation and maintenance of newly-built and upgrade and supporting pipeline network (phase II) PPP project of Honghu township sewage water processing plant. The registered capital was RMB60 million, which was contributed in cash by the shareholders of the project company in proportion to their shareholdings, of which RMB53.4 million was contributed by the Company, accounting for 89%; RMB600,000 was contributed by CCCC Tianjin Dredging, accounting for 1%; and RMB6 million was contributed by the government on behalf of Honghu Water Pollution Control Centre, accounting for 10%. During the reporting period, the business registration of Honghu Tianchuang Environmental Protection Co. has been completed.

- (5) On 30 April 2021, the Board of the Company approved to establish Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd.* (天津西青天創環保有限公司) by capital contribution for the purpose of investment and financing, operation and maintenance of the TOT project of Dasi Sewage Treatment Plant of Xiqing District, Tianjin. The registered capital of the project company was RMB62.1060 million, of which RMB62.1060 million was contributed by the Company, representing 100% of its equity interest; during the reporting period, the business registration of Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd. has been completed.
- (6) On 30 April 2021, the Board of the Company approved to increase the capital of Fuyang Company by RMB65.7802 million for the investment and financing, construction, operation and maintenance of the PPP Project (Third Batch) of Sewage Treatment in Jieshou City. According to the capital increase arrangement, after the Company first made capital contribution to Fuyang Company, Fuyang Company then made a capital contribution of RMB65.7802 million to Jieshou Company. Upon completion of the capital increase, the registered capital of Fuyang Company will increase from RMB389.9085 million to RMB455.6887 million, and the registered capital of Jieshou Company will change from RMB235.1822 million to RMB300.9624 million. During the reporting period, the capital increase of Fuyang Company has not yet been completed.

(2) *Significant non-equity investment*

Not applicable

(3) *Financial assets measured at fair value*

Not applicable

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

Not applicable

3. Management Discussion and Analysis

(VI) Analysis of major companies in which the Company has invested

Unit: 0'000 Currency: RMB

Subsidiaries	Principal Place of Business	Major Products or Services	Registered Capital	Type of Legal Person	Percentage of Interest	Asset Size	Net Asset	Net Profit
Water Recycling Company	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; and manufacturing, installation, debugging, and operation of water recycling facilities, etc.	10,000	Limited company	100%	114,212.46	25,536.53	4,511.53
Hangzhou Company	Hangzhou, Zhejiang	Operation and maintenance of facilities for sewage treatment and recycled water usage, and supporting services such as its technical services and technical training	37,744.50	Limited company	70%	75,176.80	61,364.04	3,346.91
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation, and management of municipal sewage treatment plants, and tap water and its supporting facilities; and R&D and promotion of environment protection technology	33,400	Limited company	100%	78,380.26	59,143.84	1,809.21
Jiayuanxing	Tianjin	Development, consulting, service, and transfer of energy conservation and new energy technologies; property management services; heating supply service; and cooling supply service	19,195.052	Limited company	100%	115,888.77	33,736.32	790.51
Caring Company	Tianjin	Environmental engineering management and technical advice, etc.	3,333.3333	Stock Limited Company	60%	16,182.36	12,835.33	963.50
Bayannur Company	Bayannur, Inner Mongolia	Processing of sewage water, production and sales of recycled water and supply of tap water	106,757.79	Limited company	70%	113,988.23	111,797.61	728.83
Shandong Company	Shandong	Disposal of solid wastes, industrial wastes, hazardous wastes, sludge, kitchen wastes, etc.	19,200	Limited company	55%	56,551.92	19,287.58	376.16
Fuyang Company	Fuyang, Anhui	Development, construction and management of municipal sewage treatment plants, tap water and their supporting facilities and solid waste treatment facilities; research and development and promotion of environmental protection technology	38,990.85	Limited company	100%	115,888.77	57,583.89	5,803.97

Water Recycling Company recorded revenue of RMB160.7803 million from principal operations and an operating profit of RMB62.2961 million in the first half of 2021.

Hangzhou Company recorded revenue of RMB127.7119 million from principal operations and an operating profit of RMB46.0241 million in the first half of 2021.

(VII) Structured entities controlled by the Company

Not applicable

V. OTHER DISCLOSURE

(I) 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 fees 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. Most of the PPP package projects currently promoted included the investment and construction of infrastructures such as pipeline networks with huge investments from social capital sources, the investment return relies on the payment of sewage treatment service fees from the governments. Therefore, the exclusiveness 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 fiscal revenue of the government and the level of its credibility. In case the risk related to government credibility occurs, the project companies will face cash flow problems, which may generate capital risks such as financial risks and financing risks.

(2) Risk of change in policy

Currently, the PRC is at the special stage of comprehensive deepening of reform. For a long period in the future, there will be transformative changes in policies related to economy, finance, prices, financial taxation and government functions, etc. The policy changes in prices and taxes will directly influence the adjustment of water price. During the licensed operation period lasting for 30 years, as a social investor, one needs to focus on the risk of policy changes. In addition, after the end of the licensed operation period, whether it is possible to continue to obtain the right to operate the project will also constitute a potential risk.

3. Management Discussion and Analysis

(3) Risk of operation and management

The government's increasingly stricter requirements on environmental governance will gradually spur the increase of the demands for upgrading sewage treatment plants in order to meet the new standards. In this context, on the one hand, the sewage treatment plant is facing the risk of transformation and operation, and on the other hand, the enterprise is also facing the risk of the adjustment of the original franchise agreement. In addition, whether the sludge disposal after sewage treatment can form a more complete business model is also worthy of attention. Moreover, after the beginning of summer, the operation of water plants also needs to meet flood control requirements and strengthen quality and safety management.

2. Risk control measures

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

Strengthen the concept of corporate governance in accordance with the law and protects its lawful interests by making full use of its overall legal advisory system. Meanwhile, the Company calls for the further assurance of equality of the contracting parties under the licensed operation and PPP projects, tightens up the performance assessment and profit distribution mechanisms, and provides 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 potential 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. Moreover, from a higher level, promoting the structural transformation of enterprises is in fact a fundamental strategy to reduce operation risks.

(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 the careful operation and the best environmental performance of the Company under force majeure conditions. Moreover, it is also very important to maintain smooth contact and strengthen Communication with local governments and regulatory authorities.

4. Corporate Governance

I. SHAREHOLDERS' GENERAL MEETINGS

Session of meeting	Date of meeting	Date of disclosure of the resolutions	Resolutions
2021 First Extraordinary General Meeting	26 January 2021	27 January 2021	To consider and approve the resolution in relation to the change of non-competition undertakings by indirect controlling shareholder of the Company.
2020 Annual General Meeting	27 May 2021	28 May 2021	To consider and approve the resolution in relation to the consideration and approval of the 2020 annual report of the Company and the summary of the report announced within the PRC and overseas, the resolution in relation to the consideration and approval of the work report of the Board of Directors of the Company for the year 2020 and the operating strategy of the Company for the year 2021, the resolution in relation to the consideration and approval of the final financial accounts of the Company for the year 2020 and the financial budget for the year 2021, the resolution in relation to the consideration and approval of the profit appropriation plan of the Company for the year 2020, the resolution in relation to the consideration and approval of the work report of the supervisory committee of the Company for the year 2020, the resolution in relation to the consideration and approval of the work report of independent Directors of the Company for the year 2020, the resolution in relation to the re-appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the external auditors of the Company, and to authorize the Board to decide their remunerations, and the resolution in relation to the consideration and approval of the additional Guarantees of the Company for the financing granted to its subsidiaries not exceeding the amount of RMB3.637 billion and the matters relating to the authorization to the Board of the Company.

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

Name	Position held	Changes
Tang Fusheng	General Manager	Resignation
Li Yang	General Manager	Appointment
Zhao Mingwei	Deputy General Manager	Appointment

III. 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

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

(I). Related Equity Option Incentive Matters Which Have Been Disclosed in Announcements, but without Subsequent Progress or Changes to Their Implementation

Matters related to the 2020 A share option incentive scheme of the Company (“Share Option Incentive Scheme”) were considered and approved at the 38th meeting of the eighth session of the Board of the Company held on 27 November 2020 and the 2020 second extraordinary general meeting, 2020 second A shareholder’s class meeting and 2020 second H shareholder’s class meeting of the Company held on 23 December 2020. On 21 January 2021, the grant conditions under the Share Option Incentive Scheme were met. The Board approved the grant of an aggregate of 12,170,000 share options (the “First Grant”) to 155 participants (the “Participants”) who have fulfilled the grant conditions pursuant to the authorization by the shareholders. The closing price of the A shares of the Company immediately before the date of the First Grant (i.e. 20 January 2021) was RMB6.28/A share. On 29 January 2021, the Company completed the registration for the First Grant of share options under the 2020 share option incentive scheme.

For details of the above Share Option Incentive Scheme, please refer to the relevant announcements and overseas regulatory announcements published on the website of the Stock Exchange on 27 November 2020, 23 December 2020, 21 January 2021 and 29 January 2021, and the relevant circular published on the website of the Stock Exchange on 8 December 2020.

(1) Purpose of the Implementation of the Share Incentive Scheme

The Share Option Incentive Scheme is formulated in accordance with the relevant provisions of the Company Law of the People’s Republic of China, the Securities Law of the People’s Republic of China, the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175)* 《《國有控股上市公司(境內)實施股權激勵試行辦法》(國資發分配[2006]175 號)》, the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171)* 《《關於規範國有控股上市公司實施股權激勵制度有關問題的通知》(國資發分配[2008]171 號)》 and the Administrative Measures on Share Incentives of Listed Companies* 《《上市公司股權激勵管理辦法》》, and based on the current compensation system, performance appraisal system and other management systems implemented in the Company, in order to further improve the corporate governance structure of the Company, promote the establishment and improvement of the incentive and constraints mechanism, fully mobilize the initiative, responsibility and sense of mission of the directors, senior management, other members of the leadership team, the core management staff, core technical personnel, and business backbone staff of the Company and its holding subsidiaries, effectively align the interests of shareholders, the Company and the operators, and attract common attention and joint efforts to the long-term development of the Company

4. Corporate Governance

(2) Determination and Distribution on Participants under Share Option Incentive Scheme

There are not more than 155 Participants for the Share Option Incentive Scheme, including the directors, senior management (excluding the independent directors, external directors and supervisors), other members of the leadership team and core technology, management, business and skill backbones of the Company. The Participants of the Share Option Incentive Scheme do not include supervisors, independent directors, and shareholders or actual controllers who hold more than 5% of the Company's issued shares (including A Shares and H Shares) individually or in aggregate, as well as their spouses, parents and children.

The distribution details of the share options of each of the Participants are set out in the following table:

Name	Title	Number of share options granted (In 10,000 options)	Percentage to the total number of share options granted under the Share Option Incentive Scheme (%)	Percentage to the total share capital as at the end of reporting period (%)
Liu Yujun	Executive Director, Chairman	30.00	2.10	0.0210
Tang Fusheng	General Manager	30.00	2.10	0.0210
Wang Jing	Executive Director	25.00	1.75	0.0175
Zhao Yi	Deputy General Manager	25.00	1.75	0.0175
Zhang Jian	Deputy General Manager	25.00	1.75	0.0175
Li Yang	Deputy General Manager	25.00	1.75	0.0175
Li Jinhe	Deputy General Manager, Chief Engineer	25.00	1.75	0.0175
Peng Yilin	Chief Accountant	25.00	1.75	0.0175
Niu Bo	Executive Director, Secretary to the Board	18.00	1.26	0.0126
Reserved options		210.00	14.72	0.1472
Other Participants (not more than 146 Participants)		989.00	69.31	0.6931
Total		1,427.00	100.00	1.0000

Note: If there are any differences between the total number and the sum of the details in the above table, they are caused by rounding off the results.

(3) *Number of Share Options Proposed to Be Granted under the Share Option Incentive Scheme*

The number of share options proposed to be granted under the Share Option Incentive Scheme is 14,270,000 and the corresponding number of underlying shares is 14,270,000 A Shares, representing not more than 1.0% of the Company's total issued share capital of 1,427,228,430 shares as at the end of the reporting period; where 12,170,000 options will be granted for the first time (the "Share Options Granted for the First Time"), representing approximately 0.85% of the total issued capital (1,427,228,430 Shares) of the Company as at the end of the reporting period, and approximately 85.28% of the total number of the current share options granted; and 2,100,000 options will be reserved (the "Reserved Share Options"), representing approximately 0.15% of the total issued capital (1,427,228,430 Shares) of the Company as at the end of the reporting period, and approximately 14.72% of the total number of the current share options granted.

The nature of the underlying shares is of ordinary A Shares in RMB. The source of the underlying shares is the issuance of new shares by the Company to the Participants. The cumulative number of the underlying shares of the Company involved in the Share Option Incentive Scheme during the Validity Period shall not exceed 10.00% of the total issued share capital of the Company as at the end of reporting period and the date on which the Share Option Incentive Scheme is approved by the shareholders.

(4) *Maximum Number Granted for Each Participant*

None of the Participants of the Share Option Incentive Scheme shall be granted more than 1.00% of the total issued share capital of the Company as at the end of reporting period and the date on which the Share Option Incentive Scheme is approved by the shareholders through the Share Option Incentive Scheme during the validity period.

(5) *Vesting Period*

The vesting period is the interval between the date of grant and the first exercise date. The vesting period of the share options granted to the Participants under the Share Option Incentive Scheme is 24 months, and the exercise of options is not allowed during the vesting period.

(6) *Exercise Period and Exercisable Date*

The Participants of the Share Option Incentive Scheme shall not exercise the share options until the expiration of the vesting period. The exercisable date shall be a trading day within the validity period of the Share Option Incentive Scheme, provided that exercise is not allowed in the following periods:

4. Corporate Governance

- (i) the period from the date of 30 days prior to the announcements of the periodic reports of the Company to 2 trading days after the announcement, provided that if the announcement date of the periodic report is delayed due to special reasons, it shall be calculated from 30 days prior to the pre-determined announcement date;
- (ii) the period from the date of 10 days prior to the announcement of the results forecast and preliminary results of the Company to 2 trading days after the announcement;
- (iii) the period from the date of the major transaction or major event decision process to 2 trading days after the announcement of the event;
- (iv) the period from the date of occurrence of other material events that may affect the stock price to 2 trading days after the announcement.

The aforementioned “major transaction”, “major event” and “material events that may affect the stock price” are transactions or other major events that should be disclosed by the Company in accordance with the Listing Rules of the Shanghai Stock Exchange.

During the exercise period, if the exercise conditions stipulated in the Share Option Incentive Scheme are met, the Participants shall exercise the options in three phases in the next 36 months after the expiration of 24 months from the date of grant (including the Share Options Granted for the First Time and Reserved Share Options). The exercise arrangement is as follows:

Exercise period	Exercise time	Percentage of exercise
First exercise period	From the first trading day after 24 months has passed since the date of grant to the last trading day within 36 months from the date of grant	1/3
Second exercise period	From the first trading day after 36 months has passed since the date of grant to the last trading day within 48 months from the date of grant	1/3
Third exercise period	From the first trading day after 48 months has passed since the date of grant to the last trading day within 60 months from the date of grant	1/3

The Participants shall exercise within the exercise period. Where the exercise conditions cannot be fulfilled, the current share options shall not be exercised. Where the exercise conditions are fulfilled, such part of the share options that are not fully exercised during the aforementioned exercise period will be cancelled by the Company.

(7) *Exercise Price and Determination Method*

The exercise price of the share option granted under the Share Option Incentive Scheme is RMB6.98 per share, that is, each share option granted to the Participant carries the right to purchase one A Share of the Company at RMB6.98 per share during the validity period, subject to the fulfillment of the exercise conditions. The exercise price of Reserved Share Options is RMB6.98 per Share. The exercise price of share options granted under the Share Option Incentive Scheme shall not be lower than the par value of A Share and shall not be lower than the higher of:

- (i) The average trading price of the A shares of the Company on the trading day immediately before the date of the announcement on the Share Option Incentive Scheme on 27 November 2020, being approximately RMB6.98 per A share;
- (ii) The average trading price of the A shares of the Company for the 20 trading days immediately before the date of the announcement on the Share Option Incentive Scheme on 27 November 2020, being approximately RMB6.98 per A share.

The method for determining the exercise price of Reserved Share Options is consistent with that for determining the exercise price of the Share Options Granted for the First Time.

During the period from the date of the announcement on the Share Option Incentive Scheme on 27 November 2020 to the completion of the exercise of share options by the Participants, the exercise price of the share options shall be adjusted accordingly in the event of any capitalization issue, bonus issue, share subdivision or share consolidation, rights issue, issuance of new shares, dividend distribution, etc.

(8) *Validity Period*

The validity period of the Share Option Incentive Scheme shall commence from the date of grant of the share options, and end on the date on which all the share options granted under the Share Option Incentive Scheme have been exercised or cancelled, and shall not be longer than 60 months.

4. Corporate Governance

(9) *Value and Relevant Accounting Policies of Share Options*

As of the date of this report, the fair value assessment of the share options on the grant date is still in progress. The Company will determine the value of the share options after the assessment is completed.

Pursuant to the “Accounting Standards for Business Enterprises” and their application guidelines, the Company’s main accounting principles for granting share options to the Participants are as follows:

- (i) if the equity-settled share-based payment is exchanged for the Participants to provide services, it shall be measured by the fair value of the equity instruments granted to the Participants;
- (ii) for equity-settled share-based payment in exchange for Participants’ services after completing the services within the vesting period or meeting the prescribed performance conditions, on each balance sheet date within the vesting period, based on the best estimate of the number of the feasible equity instruments, the services obtained in the current period are included in the relevant asset costs or current expenses according to the fair value of the equity instruments on the date of grant, which are charged in the recurring profit and loss and included in the capital reserve at the same time.

Accounting treatment on the date of grant: since share options cannot be exercised on the date of grant, there is no need to carry out relevant accounting treatment;

Accounting treatment during the vesting period: on each balance sheet date during the vesting period, based on the best estimate of the number of the exercisable share options, according to the fair value of the share options on the date of grant, the services obtained in the current period are included in the relevant asset costs or current expenses, and also included in the capital reserve;

Accounting treatment after the exercise date: the confirmed cost and total owner’s equity will not be adjusted. On each balance sheet date, the option cost that should be borne in the current period will be amortized;

Accounting treatment for the exercise: share capital and share premium shall be recognized with reference to the actual exercise of the share options, and carry forward the capital reserve confirmed during the vesting period.

5. Environmental and Social Responsibility

I. Environment Information

- (I) Explanation on environmental protection of the company and its important subsidiaries classified as key pollutant discharging entities as published by environmental protection authorities

1. Pollutant Discharging

The Company is mainly engaged in the sewage treatment which is to collect and treat domestic and municipal sewage by removing the main pollutants therein to the extent that the treated sewage meets the discharge standards stipulated by the national or local government, and then discharge the treated sewage to rivers via sewage outfalls as designated after assessment. 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 quantities of pollutants, mainly comprising chemical oxygen demand (COD), biochemical oxygen demand (BOD), suspended solids (SS), total nitrogen, ammonia nitrogen, total phosphorus, etc. Given that most of the sewage treatment projects have a designed capacity 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 47 sewage treatment projects, each of which has 1 or 2 effluent outfall(s) confirmed by competent industry authorities and experts upon examination and verification. According to the relevant agreements, currently the effluent water quality carried out by most sewage treatment plants is first-grade A under the Pollutant Discharge Standards for Urban Wastewater Treatment Plants (GB18918-2002), and the other sewage treatment plants implement the local standard or agreement standard. 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 indices requiring national standard first-grade A.

5. Environmental and Social Responsibility

No.	Pollutant indexes requiring basic control	National standard – first-grade A	
1	Chemical oxygen demand (COD)	50	
2	Biochemical oxygen demand (BOD)	10	
3	Suspended solids (SS)	10	
4	Animal and plant oil	1	
5	Petroleum	1	
6	Anion surfactant	0.5	
7	Total nitrogen (calculated by N)	15	
8	Ammonia nitrogen (calculated by N)	5(8)	
9	Total phosphorus (calculated by P)	Constructed before 31 December 2005	1
		Constructed after 1 January 2006	0.5
10	Chroma (dilution multiple)	30	
11	PH	6-9	
12	Fecal coliform count/(pcs/L)	1000	

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, total nitrogen, ammonia nitrogen, and total phosphorus discharged by the Company during the reporting period were approximately 12,600 tonnes, 5,809 tonnes, 434 tonnes, and 112 tonnes, respectively. In aggregate, environmental pollutants, namely, the COD, total nitrogen, ammonia nitrogen, and total phosphorus, were eliminated by approximately 234,000 tonnes, 27,000 tonnes, 25,000 tonnes, and 3,100 tonnes, respectively, representing a significant contribution to water environmental governance.

2. *Construction and Operation of Pollution Prevention Facilities*

During the reporting period, the sewage treatment projects operated by the subsidiaries of the Company strictly complied with the relevant emission standards, with all the effluent water quality meeting the standard, and odor, noise and solid waste indicators complied with the relevant standards as well. The projects' operation was also on track. The construction of the sewage treatment facilities followed the relevant construction procedures and quality standards and proceeded as scheduled.

3. *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.

4. *Emergency Plans for Sudden Environmental Incidents*

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

5. *Environmental Self-monitoring Program*

During the reporting period, all 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, analysis methods, etc. The monitoring results are publicized on the local environmental information monitoring platform. Each entity will also file the self-monitoring program and adjustments and changes with the local environmental protection bureau in a timely manner.

6. *Administrative penalties due to environmental issues during the reporting period*

Not applicable

7. *Other environmental information that should be disclosed*

Not applicable

5. Environmental and Social Responsibility

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

Not applicable

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

Not applicable

(IV) Relevant information that is conducive to protecting ecology, preventing pollution, and fulfilling environmental responsibilities

In aggregate, environmental pollutants, namely, the COD, total nitrogen, ammonia nitrogen and total phosphorus, were eliminated by approximately 234,000 tonnes, 27,000 tonnes, 25,000 tonnes, 3,100 tonnes in terms of the Company's sewage treatment business during the reporting period, respectively, representing a significant contribution to water environmental governance.

(V) Measures and effects taken to reduce carbon emissions during the reporting period

During the reporting period, the Company's new energy cooling and heating supply business and distributed photovoltaic power generation project had certain effects on and made contributions to reducing carbon emissions.

II. Consolidate and expand the results of poverty alleviation, rural revitalization and other specific work

Not applicable

6. Major Events

I. PERFORMANCE OF COMMITMENT

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

Not applicable

II. Misappropriation of the Company's funds for non-operating purposes by controlling shareholders and other related parties during the reporting period

Not applicable

III. Non-compliance guarantees

Not applicable

IV. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

Not applicable

V. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION

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

Not applicable

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

Unit: Yuan Currency: RMB

During the reporting period:

Plaintiff (or applicant)	Defendant (or respondent)	Jointly liable party	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)

6. Major Events

Note 1: From 2012 to 2016, Jiayuanxing and Qudong Company signed the “Tianjin Non-residential Building Cold Supply Contract (《天津市非居民住宅供用冷合同》)” and “Tianjin Non-residential Buildings Heat Supply Contract (《天津市非居民住宅供用热合同》)”, stipulating that Jiayuanxing would provide cold and heat supply services to the Tianjin Cultural Center Grand Theatre (天津文化中心大劇院), which was operated and managed by 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 lawful rights and interests of Jiayuanxing, on 3 November 2017, Jiayuanxing filed a civil lawsuit with the Hexi Court. On 3 April 2018, the Hexi Court made a first-instance judgment, ruling that Qudong Company paid Jiayuanxing cold and heat supply energy fees of RMB12,030,003 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 maintain 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 failed to perform any installment, the implementation based on the original legal documents would be resumed. On 11 January 2019, RMB3.1635 million repaid by Qudong Company in advance was 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 had not been completed for the fulfillment, the court made a ruling to end the implementation of (2017) Jin 0103 Minchu No. 12411 civil judgment issued by the Tianjin Hexi District People’s Court. Qudong Company repaid the first and second installments according to the settlement agreement before 31 December 2019. At present, Qudong Company has paid a total of RMB7.4013 million. It was scheduled that the third installment would be paid by 30 June 2020. However, due to the epidemic, the Company had no performance activities and no operating income in the first half of 2020, so it applied for an extension to Jiayuanxing. On 28 July 2020, Qudong Company provided a situation report, stating that it would act according to the schedule set out in the report, that is, to repay approximately RMB1.5 million by the end of 2021, approximately RMB2 million by the end of 2022, and approximately RMB1.1 million by June 2023. However, because Qudong Company has not been able to re-sign the relevant agreement with Jiayuanxing, Jiayuanxing has sent a letter to Qudong Company, asking Qudong Company to sign the relevant agreement as soon as possible. If the agreement could not be signed by 28 February 2021, Jiayuanxing would apply to the Hexi Court for resumption of enforcement. On 1 March 2021, Jiayuanxing received a reply from Qudong Company, which said that Qudong Company had filed for bankruptcy and could not sign the relevant agreement again. At present, Jiayuanxing is communicating and coordinating with the execution court and the court is handling the bankruptcy case of Qudong Company.

VI. SUSPECTED VIOLATIONS OF LAWS AND REGULATIONS OF, PUNISHMENTS TO AND RECTIFICATION OF THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, AND ULTIMATE CONTROLLERS

Not applicable

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

Not applicable

VIII. MATERIAL CONNECTED TRANSACTIONS

(I) Connected Transactions in the Ordinary Course of Business

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

On 26 April 2021, the Company signed the Sludge Disposal Contract (《污泥處置合同》) with Tianjin Investment Group, in which the Company entrusted Tianjin Investment Group to dispose of sludge at the Jinnan Sludge Treatment Plant invested and constructed by it. On the same day, Tianjin Investment Group, Caring Company and the Company signed the Entrusted Operation Agreement of Jinnan Sludge Treatment Plant (《津南污泥處理廠委托運營協議》), pursuant to which Tianjin Investment Group entrusted Caring Company to be responsible for the operation of Jinnan Sludge Treatment Plant, and entrusted the Company to supervise and manage the operation of the project. For details of the above connected transactions, please refer to the Company's announcement on the Sludge Disposal Contract and the Entrusted Operation Agreement of Jinnan Sludge Treatment Plant published on the website of the Hong Kong Stock Exchange on 26 April 2021.

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

Not applicable

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

Not applicable

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

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

6. Major Events

(V) Others

Non-public Issuance of A Shares

On 13 July 2020, the Board has approved the proposed issuance of 323,741,007 new A shares inclusive to 3 specific target investors (i.e. TMICL, Yangtze Ecological Environmental Protection Group. Co., Ltd.* (長江生態環保集團有限公司) (“Yangtze Ecology”) and Three Gorges Capital Holdings Co., Ltd.* (三峽資本控股有限責任公司) (“Three Gorges Capital”)) (“Non-public Issuance of A Shares”). The issue price of Non-public Issuance of A Shares is RMB5.56/share (“Issue Price”). It is expected that the gross proceeds to be raised from the Non-public Issuance of A Shares will not exceed RMB1.8 billion (inclusive), which will be used to repay interest-bearing liabilities and supplement the Company’s working capital after deducting the offering expenses.

As part of the Non-public Issuance of A Shares, the Company entered into the subscription agreement with TMICL on 13 July 2020, pursuant to which TMICL conditionally agreed to contribute RMB200 million in cash to subscribe for 35,971,223 A Shares to be issued based on the Non-public Issuance of A Shares according to the Issue Price, accounting for approximately 11.11% of the total number of A Shares to be issued under the Non-public Issuance of A Shares (“TMICL Subscription Agreement”). Immediately after the completion of the Non-public Issuance of A Shares (assuming that (i) a total of 323,741,007 new A Shares will be issued to TMICL, Yangtze Ecology and Three Gorges Capital under the Non-public Issuance of A Shares, respectively and (ii) there is no other change to the shareholding structure of the Company since 13 July 2020 save for the issuance of the A Shares pursuant to the Non-public issuance of A Shares), TMICL will hold approximately 42.92% of the total issued shares of the Company.

On 28 August 2020, the State-owned Assets Supervision and Administration Commission of the Tianjin Municipal People’s Government agreed with the proposal of the Non-public Issuance of A Shares of the Company in 2020 in principle. On 7 September 2020, the resolutions relating to the Non-public Issuance of A Shares were considered and approved by the 2020 first extraordinary general meeting, the 2020 first H shareholders’ class meeting and the 2020 first A shareholders’ class meeting of the Company. The Non-public Issuance of A Shares remains subject to the approval from the CSRC.

On 30 March 2021, the Board considered and approved the relevant resolutions in relation to the adjustments to the proposed Non-public Issuance of A Shares and the adjustments to the Proposed Introduction of the Strategic Investor Subscription, pursuant to which, the Three Gorges Capital will no longer subscribe for the shares to be issued under the Non-public Issuance of A Shares. Therefore, the adjusted Non-public Issuance of A Shares is intended for 2 target subscribers: Yangtze Ecology and TMICL, and the gross proceeds to be raised by this adjusted Non-public Issuance of A Shares will not exceed RMB1.2 billion (inclusive). There is no amendment or adjustment to any terms or conditions under the TMICL Subscription Agreement. Immediately after the completion of the adjusted Non-public Issuance of A Shares (assuming that (i) a total of 215,827,338 new A Shares will be issued to TMICL and Yangtze Ecology under the adjusted Non-public Issuance of A Shares, respectively and (ii) there is no other change to the shareholding structure of the Company since 30 March 2021 save for the issuance of the A Shares pursuant to the adjusted Non-public issuance of A Shares), TMICL will hold approximately 45.74% of the total issued shares of the Company.

At the 2020 Annual General Meeting of the Company held on 27 May 2021, the Shareholders considered and approved the resolution in relation to the 2020 profit distribution plan of the Company, pursuant to which the Company shall distribute a final dividend of RMB1.20 (tax inclusive) in cash for every 10 Shares (the “2020 Equity Distribution”) to all Shareholders calculated based on the total number of 1,427,228,430 shares of the Company, which amounted to RMB171,267,411.60. The 2020 Equity Distribution of the Company was conducted on 30 June 2021. As at the date of this Interim Report, the 2020 Equity Distribution of the Company has been completed. As disclosed in the circular dated 21 August 2020, the issue price and the number of Shares to be issued under the Non-public Issuance of A Shares shall be adjusted accordingly in the event of ex-rights or ex-dividends matters such as distribution of dividend, bonus issuance and conversion of capital reserve into the share capital of the Company during the period from the Price Determination Date to the date of the issuance. As the implementation of the 2020 Equity Distribution of the Company has been completed, the issue price and quantity of A Shares under the Non-public Issuance of A Shares will be adjusted as follows: the issue price of the Non-public Issuance of A Shares is adjusted from RMB5.56 per share to RMB5.44 per share; and the number of shares to be issued under the Non-public Issuance of A Shares is adjusted from not more than 215,827,338 shares to not more than 220,588,234 shares. Immediately after the completion of the aforementioned adjusted Non-public Issuance of A Shares (assuming that (i) a total of 220,588,234 new A Shares will be issued to TMICL and Yangtze Ecology under the adjusted Non-public Issuance of A Shares, respectively and (ii) there is no other change to the shareholding structure of the Company save for the issuance of the A Shares pursuant to the aforementioned adjusted Non-public Issuance of A Shares), TMICL will hold approximately 45.66% of the total issued shares of the Company.

6. Major Events

For transaction details of the Non-public Issuance of A Shares, please refer to the announcement and overseas regulatory announcement of the Company dated 13 July 2020, the circular dated 21 August 2020, the announcement on the resolutions passed at the 2020 first extraordinary general meeting, the 2020 first H shareholders' class meeting and the 2020 first A shareholders' class meeting dated 7 September 2020, the overseas regulatory announcements dated 28 August 2020, 29 September 2020, 30 October 2020, 17 November 2020 and 28 January 2021, and the related announcements dated 28 January 2021, 30 March 2021, 2 July 2021 and 3 September 2021.

IX. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

1 Custody, Contracting and Leasing

Not applicable

2 Significant guarantees performed and those performed but not yet completed during the reporting period

Unit: 0'000 Currency: RMB

Guarantees provided to external parties by the Company (excluding guarantees provided to subsidiaries)	
Total amount of guarantees provided during the reporting period (excluding guarantees provided to subsidiaries)	0
Total balance of guarantees as at the end of the reporting period (A) (excluding guarantees provided to subsidiaries)	0
Guarantees provided to subsidiaries of the Company	
Total amount of guarantees provided to subsidiaries during the reporting period	42,665.37
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	456,089.98
Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)	
Total amount of guarantees (A+B)	456,089.98
Percentage of the total amount of guarantees to the net assets of the Company (%)	59.07
Of which:	
Amount of guarantees provided to shareholders, ultimate controllers, and their connected parties (C)	0
Amount of guarantees provided directly or indirectly to guaranteed entities with a gearing ratio of over 70% (D)	84,835.30
Total amount of guarantees exceeding 50% of net assets (E)	70,060.24
Total of the above three classes of guarantees (C+D+E)	154,895.54
Explanation on contingent joint liability for undue guarantees	Not applicable
Explanation on guarantees	Nil

X. 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

Not applicable

(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 2021.

3. *Liquidity and Financial Resources*

No seasonal changes have occurred to the borrowing needs of the Group. As of 30 June 2021, 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 2021.

According to the accounting reports prepared in accordance with the PRC’s Accounting Standards for Business Enterprises, the liquidity ratio as of 30 June 2021 was 61.58%.

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).

6. Major Events

As at 30 June 2021, 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 2020: RMB3 million) in the net profit of the Group. As at 30 June 2021, 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 2020: RMB9 million) in the net profit of the Group.

The interest rate risk of the Group mainly came from interest-bearing assets such as bank deposits and long-term receivables and interest-bearing debts such as bank borrowings, long-term payables and bonds payable. The assets/liabilities at floating rates expose the Group to interest rate risk on cash flows, while the assets/liabilities at fixed rates expose the Group to interest rate risk associated with fair value. As at 30 June 2021, if the loan interest rate increases/decreases by 1%, with other factors being constant, the net profit of the Group for the current year will approximately decrease/increase by RMB30 million (30 June 2020: approximately RMB38 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 2021, the Group had 2,305 employees. During the reporting period, total remuneration paid to employees of the Group was approximately RMB238.773 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 2021.

7. *Rights of Debt*

As at 30 June 2021, 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 Tianjin City Construction Committee which started to perform from 1 January 2014, the total receivables of the Group from Tianjin Water Authority Bureau amounted to RMB2.501 billion, representing approximately 32.81% of the total market capital of the Group as at 30 June 2021.

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, save for the acquisition of the entire equity interest of Gaoyou Compro and Jiangsu Yonghui, 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.

7. Details of Changes in Shares and Shareholders

I. CHANGES IN SHARE CAPITAL

(I) Changes in Shares

1. Changes in Shares

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

II. DETAILS OF SHAREHOLDERS

(I) Total number of shareholders:

Total number of ordinary shareholders as at the end of the reporting period 65,406

Note: As of 30 June, 2021, the total number of ordinary shareholders of the Company is 65,406, among which 63 are holders of H Shares.

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

Name of shareholder (Full name)	Shareholdings of the top ten shareholders					
	Increase/decrease during the reporting period (shares)	Number of shares held at the end of the period (shares)	Percentage (%)	Number of restricted shares held (shares)	Pledged, marked or frozen number	Nature of the Shareholder
TMICL	0	715,565,186	50.14	0	None	State-owned legal person
HKSCC Nominees Limited	46,000	337,938,810	23.68	0	Unknown	Other
Central Huijin Asset Management Co., Ltd.	0	14,169,800	0.99	0	None	State-owned legal person
Hong Kong Securities Clearing Company Limited	-1,406,509	7,299,447	0.51	0	None	Other
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	208,000	6,417,800	0.45	0	None	Domestic non-state-owned legal person
Deng Tuquan(鄧圖全)	5,159,873	5,159,873	0.36	0	None	Domestic natural person
Hou Hongyan (侯紅燕)	1,350,000	3,100,000	0.22	0	None	Domestic natural person
Shenyang Railway Coal Group Co., Ltd. (瀋陽鐵道煤炭集團有限公司)	0	1,500,000	0.11	0	None	State-owned legal person
Huang Qiangsheng (黃強勝)	-225,000	1,282,100	0.09	0	None	Domestic natural person
Zhou Lunhui(周倫慧)	1,270,000	1,270,000	0.09	0	None	Domestic natural person

7. Details of Changes in Shares and Shareholders

Shareholdings of the top ten shareholders of non-restricted 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	337,938,810	H Shares	337,938,810
Central Huijin Asset Management Co., Ltd.	14,169,800	Ordinary RMB Shares	14,169,800
Hong Kong Securities Clearing Company Limited	7,299,447	Ordinary RMB Shares	7,299,447
Zhejiang Jinxin Construction Engineering Co., Ltd.	6,417,800	Ordinary RMB Shares	6,417,800
Deng Tuquan(鄧圖全)	5,159,873	Ordinary RMB Shares	5,159,873
Hou Hongyan (侯紅燕)	3,100,000	Ordinary RMB Shares	3,100,000
Shenyang Railway Coal Group Co., Ltd. (瀋陽鐵道煤炭集團有限公司)	1,500,000	Ordinary RMB Shares	1,500,000
Huang Qiangsheng (黃強勝)	1,282,100	Ordinary RMB Shares	1,282,100
Zhou Lunhui(周倫慧)	1,270,000	Ordinary RMB Shares	1,270,000
Description of the repurchase of special accounts among the top ten shareholders	Not applicable		
Explanation of the above-mentioned shareholders' entrusted voting rights, and waiver of voting rights	Not applicable		
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. As at the end of the reporting period, Ningbo BSLS Trade Co., Ltd.*(寧波百思樂斯貿易有限公司) and its concert parties Ningbo Ningdian Investment Development Co., Ltd.*(寧波寧電投資發展有限公司) and LVNENG Investment & Development Co., Ltd. (Hong Kong) held a total of 108,200,000 H shares of the Company, representing 7.58% of the total share capital of the Company, and none of the shares were pledged.

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

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

Not applicable

7. Details of Changes in Shares and Shareholders

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 2021, 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 1)	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%
Ningbo Development Investment Group Limited Company* (寧波開發投資集團有限公司) ^(Note 2)	Interest of controlled corporation	108,200,000 H Shares (L)	31.82%	7.58%
Ningbo Energy Group Co. Ltd.* (寧波能源集團股份有限公司) ^(Note 2)	Interest of controlled corporation	108,200,000 H Shares (L)	31.82%	7.58%
Ningbo Ningdian Investment Development Co., Ltd.* (寧波寧電投資發展有限公司) ^(Note 2)	Beneficial owner	63,154,000 H Shares (L)	18.57%	4.43%
Ningbo BSLs Trade Co., Ltd.* (寧波百思樂斯貿易有限公司) ^(Note 2)	Beneficial owner	44,928,000 H Shares (L)	13.21%	3.15%
ISIS Asset Management Plc	Investment manager	17,286,000 H Shares (L)	5.08%	1.21%

Note 1: The letter "L" represents the entity's long positions in the shares. The letter "S" represents the entity's short positions in the shares.

Note 2: Ningbo Ningdian Investment Development Co., Ltd.* (寧波寧電投資發展有限公司), Ningbo BSLs Trade Co., Ltd.* (寧波百思樂斯貿易有限公司) and Lvneng Investment & Development Co., Limited are the direct wholly-owned subsidiaries of Ningbo Energy Group Co., Ltd.* (寧波能源集團股份有限公司), which directly holds 63,154,000, 44,928,000 and 118,000 H shares of the Company respectively, which amount to 108,200,000 H shares of the Company in total. Ningbo Energy Group Co., Ltd.* (寧波能源集團股份有限公司) is the direct non-wholly owned subsidiary of Ningbo Development Investment Group Limited Company* (寧波開發投資集團有限公司). Therefore, Ningbo Energy Group Co., Ltd.* (寧波能源集團股份有限公司) and Ningbo Development Investment Group Limited Company* (寧波開發投資集團有限公司) are deemed to be interested in the shares held by Ningbo Ningdian Investment Development Co., Ltd.* (寧波寧電投資發展有限公司), Ningbo BSLs Trade Co., Ltd.* (寧波百思樂斯貿易有限公司) and Lvneng Investment & Development Co., by virtue of Part XV of the SFO.

Save as disclosed above, there is no person (other than the Directors, Supervisors or chief executive of the Company) who, as at 30 June 2021, 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.

V. Directors, Supervisors and Senior Management

(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 during the reporting period

Unit: Shares

Name	Position held	Number of share options held at the beginning of the period	Number of new share options granted during the reporting period	Exercisable shares during the reporting period	Share options exercised during the reporting period	Number of share options held at the end of the period
Liu Yujun(劉玉軍)	Director	0	300,000	0	0	300,000
Tang Fusheng(唐福生)	Senior Management	0	300,000	0	0	300,000
Li Yang(李楊)	Management	0	250,000	0	0	250,000
Wang Jing(王靜)	Director	0	250,000	0	0	250,000
Zhao Yi(趙毅)	Senior Management	0	250,000	0	0	250,000
Zhang Jian(張健)	Senior Management	0	250,000	0	0	250,000
Li Jinhe(李金河)	Senior Management	0	250,000	0	0	250,000
Peng Yilin(彭怡琳)	Management	0	250,000	0	0	250,000
Niu Bo(牛波)	Director	0	180,000	0	0	180,000
Total	/	0	2,280,000	0	0	2,280,000

7. Details of Changes in Shares and Shareholders

(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 2021, the interests and 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, including interests and short positions which were taken as or deemed to have pursuant to the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the 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 issued share capital of the Company/ associated corporations
Deputy General Manager 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 2021, 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.

8. Details of the Company's Bonds

I. ENTERPRISE BONDS, CORPORATE BONDS AND DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES

I. Basic details of corporate bonds

Unit: Yuan Currency: RMB

Name of Bond	Abbreviation	Code of Bond	Issue Date	Value Date	Maturity Date	Balance of Bond	Coupon (%)	Debt Service	Trading Place	Investor Suitability Arrangement (If Any)	Trading Mechanism	Risk of Delisting
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 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	Qualified investors in compliance with laws and regulations	Bidding, quotation, inquiry, transfer by agreement	No
Public Issue of Corporate Bonds of Tianjin Capital Environmental Protection Group Company Limited in 2018 (Phase I)	18 津創 01	143609.SH	26 April 2018	26 April 2018	26 April 2023	0	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	Qualified investors in compliance with laws and regulations	Bidding, quotation, inquiry, transfer by agreement	No

8. Details of the Company's Bonds

II. Trigger and execution of the issuer or investor option terms and investor protection terms

16津創 01: No issuer or investor option terms, investor protection terms or special terms such as exchangeable terms.

18津創 01: During the reporting period, both the issuer's option to adjust the coupon rate and investors' put option were triggered. Details are as follows: the issuer announced the coupon rate adjustment announcement on 12 March 2021 and exercised the option to adjust the coupon rate. The period from 12 March 2021 to 16 March 2021 is the registration period for investors to sell back the bonds, and the investors who have registered to sell back the bonds on 26 April 2021 shall sell back the bonds and exercise the investors' put option. As at the end of the Reporting Period, the investors of the bonds have sold back all the bonds, and the bonds have been delisted and cancelled. 18津創 01 has no investor protection terms, nor special terms such as exchangeable terms.

III. Adjustment of credit rating results

On 24 May 2021, United Credit Rating Co., Ltd. completed ongoing credit rating for the Company, 16津創 01 and 18津創 01, maintaining long term credit of the Company as "AA+", and the credit rating outlook as "stable"; maintaining the credit rating of the bond loans, "16津創 01" and "18津創 01" at "AA+", and relevant disclosure will be made in the SSE website ((www.sse.com.cn). United Credit Rating Co., Ltd. did not adjust the credit rating of the Company and 16津創 01 and 18津創 01.

IV. Implementation and changes of guarantees, debt repayment plans and other debt repayment supporting measures during the reporting period and their impact

16津創 01 and 18津創 01 were unguaranteed.

During the reporting period, both the repayment schedule and supporting measures 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 a 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.

V. Other information on corporate bonds

Not applicable

VI. Major accounting data and financial indicators

Unit: 0'000 Currency: RMB

Major Indicators	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 (%)	Reasons
Current ratio	1.19	1.08	10.29	Monetary funds and accounts receivable increased as compared to the end of last year.
Quick ratio	1.19	1.07	10.76	Monetary funds and accounts receivable increased as compared to the end of last year.
Gearing ratio (%)	61.58	59.68	3.19	Debts increased as compared to the end of last year.

	The current reporting period (January-June)	The same period last year	Increase/decrease in the current reporting period as compared with the same period last year (%)	Reasons
Net profit after deducting non-recurring profit or loss	26,435.2	22,655.0	16.69	Profits increased as compared to the same period last year.
Debt to EBITDA ratio	0.11	0.11	0	Basically equal.
Interest protection multiples	3.34	3.66	-8.70	Interest expenditure increased as compared to the same period last year.
Cash interest protection multiples	4.16	2.59	60.61	Operational cash flow increased as compared to the same period last year.
EBITDA interest protection multiples	5.23	5.86	-10.76	Interest expenditure increased as compared to the same period last year.
Debt service ratio (%)	100	100	-	-
Interest coverage rate (%)	100	100	-	-

VII. Convertible bonds

Not applicable

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Interim Condensed Consolidated Statement of Comprehensive Income (All amounts in RMB thousand unless otherwise stated)

	Notes	Unaudited Half-year 2021 RMB'000	2020 RMB'000
Continuing operations			
Revenue	2(a)	1,903,954	1,521,390
Cost of sales		(1,267,830)	(1,043,229)
Tax expenses and surcharge		(20,498)	(22,178)
Gross profit		615,626	455,983
Distribution costs		(12,679)	(7,922)
Administrative expenses		(82,852)	(70,253)
Impairment loss on financial assets		(2,076)	–
Other income	2(a)/3	51,167	73,977
Other losses – net		(933)	(2,585)
Operating profit	3	568,253	449,200
Finance income		10,253	12,328
Finance expenses		(171,955)	(125,315)
Finance expenses – net	4	(161,702)	(112,987)
Profit before income tax		406,551	336,213
Income tax expense	5	(69,804)	(59,172)
Profit for the half-year		336,747	277,041
Total comprehensive income for the half-year		336,747	277,041
Profit/Total comprehensive income for the half-year is attributable to:			
– Owners of the Company		304,489	256,948
– Non-controlling interests		32,258	20,093
		336,747	277,041
Earnings per share for profit attributable to the ordinary equity holders of the Company (in RMB per share)			
– Basic earnings per share		0.21	0.18
– Diluted earnings per share		0.21	0.18
Interim dividends	6	–	–

The notes on page 57 to 79 form an integral part of this condensed consolidated interim financial information

Interim Condensed Consolidated Balance Sheet
(All amounts in RMB thousand unless otherwise stated)

	Notes	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,012,759	819,354
Intangible assets	7	12,464,286	11,922,211
Deferred income tax assets	14	13,661	12,965
Right-of-use assets	7	114,509	77,607
Investments accounted for using the equity method	8	195,000	195,000
Financial asset at fair value through other comprehensive income		2,000	2,000
Long-term receivables	10	1,635,907	1,647,402
Other non-current assets		335,917	330,971
		<hr/>	<hr/>
Total non-current assets		15,774,039	15,007,510
Current assets			
Inventories		21,603	17,460
Trade receivables	9	2,181,574	1,961,739
Other current assets		140,714	102,277
Other receivables		21,208	24,117
Prepayments		94,046	26,220
Cash and cash equivalents		1,842,874	1,652,657
Restricted cash		19,989	10,989
		<hr/>	<hr/>
Total current assets		4,322,008	3,795,459
		<hr/>	<hr/>
Total assets		20,096,047	18,802,969

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

Interim Condensed Consolidated Balance Sheet (All amounts in RMB thousand unless otherwise stated)

	Notes	30 June 2021 Unaudited RMB'000	31 December 2020 Audited RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	12	6,619,496	5,574,476
Deferred revenue	13	1,974,313	1,981,434
Deferred income tax liabilities	14	104,650	100,799
Other non-current liabilities		34,000	34,000
Provisions for other liabilities and charges	15	14,373	13,737
Total non-current liabilities		<u>8,746,832</u>	<u>7,704,446</u>
Current liabilities			
Trade payables	16	359,753	294,973
Contract liabilities	16	573,057	527,410
Salaries and Wages payables		23,869	85,620
Income tax and other taxes payables	16	49,590	56,841
Dividend payable		–	142
Other payables	16	971,354	955,631
Borrowings	12	1,638,920	1,582,982
Provisions for other liabilities and charges	15	12,078	13,281
Total current liabilities		<u>3,628,621</u>	<u>3,516,880</u>
Total liabilities		<u>12,375,453</u>	<u>11,221,326</u>
Net assets		<u>7,720,594</u>	<u>7,581,643</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	1,427,228	1,427,228
Other reserves		1,050,078	1,050,078
Retained earnings		4,247,267	4,114,045
Equity attributable to owners of the Company		<u>6,724,573</u>	<u>6,591,351</u>
Non-controlling interests		<u>996,021</u>	<u>990,292</u>
Total equity		<u>7,720,594</u>	<u>7,581,643</u>

Liu Yujun

Niu Bo

The notes on page 57 to 79 form an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity
(All amounts in RMB thousand unless otherwise stated)

	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 31 December 2020	1,427,228	1,050,078	4,114,045	6,591,351	990,292	7,581,643
– Profit for the half-year	–	–	304,489	304,489	32,258	336,747
Total comprehensive income for the half-year	–	–	304,489	304,489	32,258	336,747
Transactions with owners in their capacity as owners:						
– Non-controlling interest on setting up subsidiary	–	–	–	–	490	490
– Dividends provided for or paid	–	–	(171,267)	(171,267)	(27,019)	(198,286)
	–	–	(171,267)	(171,267)	(26,529)	(197,796)
Balance at 30 June 2021	1,427,228	1,050,078	4,247,267	6,724,573	996,021	7,720,594
Balance at 31 December 2019	1,427,228	989,274	3,757,523	6,174,025	968,162	7,142,187
– Profit for the half-year	–	–	256,948	256,948	20,093	277,041
Total comprehensive income for the half-year	–	–	256,948	256,948	20,093	277,041
Transactions with owners in their capacity as owners:						
– Non-controlling interest on setting up subsidiary	–	–	–	–	12,706	12,706
– Dividends provided for or paid	–	–	(152,713)	(152,713)	(4,800)	(157,513)
	–	–	(152,713)	(152,713)	7,906	(144,807)
Balance at 30 June 2020	1,427,228	989,274	3,861,758	6,278,260	996,161	7,274,421

The notes on page 57 to 79 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 Cash Flow (All amounts in RMB thousand unless otherwise stated)

	Unaudited Half-year	
	2021	2020
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	731,981	322,717
Income tax paid	(75,928)	(83,079)
Bank deposit interest received	6,231	15,455
Net cash inflow from operating activities	662,284	255,093
Cash flows from investing activities		
Payments for property, plant and equipment, intangible assets	(535,036)	(767,970)
Payment for acquisition of subsidiary, net of cash acquired	(676,222)	–
Proceeds on disposal of property, plant and equipment	204	49
Decrease in restricted cash	–	3,899
Government grants received	27,191	6,207
Net cash outflow from investing activities	(1,183,863)	(757,815)
Cash flows from financing activities		
Repayments of bank borrowings	(2,197,693)	(1,241,626)
Dividends paid to Company's shareholders	(198,428)	(7,809)
Interest paid	(183,479)	(132,590)
Proceeds from bank borrowings	3,290,906	1,597,564
Capital contributions by non-controlling interests	490	12,706
Net cash inflow from financing activities	711,796	228,245
Net increase/(decrease) in cash and cash equivalents	190,217	(274,477)
Cash and cash equivalents at the beginning of the half-year	1,652,657	2,066,301
Cash and cash equivalents at the end of the half-year	1,842,874	1,791,824

The notes on page 57 to 79 form an integral part of this condensed consolidated interim financial information.

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, and supply of heating and cooling 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

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)

(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
Deqing	Zhejiang	1 January 2019	Deqing Qianyuan Municipal Government
Gaocheng	Hebei	2 April 2019	Hebei Gaocheng Economic Development Zone Management Committee
Jiuquan	Gansu	22 June 2019	Jiuquan Suzhou Municipal Government
Yingdong	Fuyang	26 August 2019	Fuyang Urban – rural Construction Commission
Huoqiu	Anhui	2 Jan 2020	Huoqiu Housing and Urban – rural Construction Bureau
Huize	Yunnan	24 Feb 2020	Huize Housing and Urban – rural Construction Bureau
Honghu	Hubei	18 March 2021	Honghu Housing and Urban – rural Construction Bureau
Xiqing	Tianjin	31 May 2021	Tianjin Xiqing District Water Authority Center

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) 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.

(c) 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.

(d) 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.

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

1 Company profile and principal activities (Continued)

(e) Waste treatment and disposal service

The Group's waste treatment and disposal service includes hazardous wastes and general solid waste. Currently, the Group conducts the disposal by way of incineration, landfill, and physicochemical treatment and solidify.

This condensed consolidated interim financial information was approved for issue on 25 August 2021.

This condensed consolidated financial information has not been audited.

2 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 2021 RMB'000	2020 RMB'000
Revenue from contracts with customers (Note 2(b))	1,903,954	1,521,390
Other income	51,167	73,977
	1,955,121	1,595,367

(b) Operating segment analysis

Management has determined the operating segments based on the reports reviewed by the strategy steering committee held regularly that are used to make strategic decisions for the purpose of allocating resources and assessing performance.

The strategy steering committee meeting considers the business primarily from service perspective and for the significant business segment geographical perspectives will also be considered. From a service perspective, management assesses the performance of processing of sewage water, 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 respective segments and the physical location of assets. The liabilities are allocated based on the operations of the respective segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

9. Financial Reports

I. Prepared in accordance with Hong Kong Financial Reporting Standards

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

2 Revenue and segment information (Continued)

(b) Operating segment analysis (Continued)

The strategy steering committee assesses the performance of the operating segments based on a measure of profit before income tax, which is measured in the approach consistent with that in the financial statements.

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

(i) For the half-year ended 30 June 2021 (Unaudited)

	Sewage water processing			Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	719,721	127,712	534,056	168,224	39,779	57,178	17,460	239,824	1,903,954
Timing of revenue recognition:									
At a point in time	-	-	-	-	-	-	-	-	-
Over time	719,721	127,712	534,056	168,224	39,779	57,178	17,460	239,824	1,903,954
Segment expense	(457,119)	(72,648)	(395,259)	(117,230)	(26,088)	(40,739)	(8,625)	(146,416)	(1,264,124)
Results before share of profits of an associate									406,551
Profit before income tax									406,551
Income tax expense									(69,804)
Profit for the period									336,747
Segment assets	7,098,946	792,417	7,552,287	1,416,541	642,683	636,082	57,631	1,704,460	19,901,047
Investment accounted for using the equity method									195,000
Total assets									20,096,047
Total liabilities	(6,605,959)	(151,102)	(3,665,752)	(901,621)	(305,320)	(98,202)	(22,372)	(625,125)	(12,375,453)
Other information									
- Interest income	2,739	193	1,145	1,326	422	30	189	4,209	10,253
- Interest expenses	(95,769)	(2,233)	(65,040)	(393)	(1,318)	(238)	-	(8,907)	(173,898)
- Depreciation	(590)	-	(1,273)	(12,668)	(839)	(98)	(538)	(21,910)	(37,916)
- Amortization	(84,225)	(29,316)	(148,880)	(3,087)	(12,382)	(10,585)	-	(2,445)	(290,920)
- Capital expenditures	59,106	-	256,999	572	5,062	18,415	-	37,708	377,862

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

2 Revenue and segment information (Continued)

(b) Operating segment analysis (Continued)

(ii) For the half-year ended 30 June 2020 (Unaudited)

	Sewage processing and facility construction services				Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants RMB'000	Hangzhou plant RMB'000	Other plants RMB'000	Recycled water and pipeline connection RMB'000					
Segment revenue	600,633	119,374	373,267	136,733	46,057	46,924	13,571	184,831	1,521,390
Timing of revenue recognition:									
At a point in time	-	-	-	-	-	-	-	13,916	13,916
Over time	600,633	119,374	373,267	136,733	46,057	46,924	13,571	170,915	1,507,474
Segment expense	(435,728)	(83,345)	(333,340)	(79,114)	(33,461)	(40,430)	(8,312)	(171,446)	(1,185,176)
Results before share of profits of an associate									336,213
Profit before income tax									336,213
Income tax expense									(59,172)
Profit for the period									277,041
Segment assets	6,658,384	966,138	6,907,391	1,007,088	683,714	545,339	60,874	1,298,778	18,127,706
Investment accounted for using the equity method									195,000
Total assets									18,322,706
Total liabilities	5,867,468	224,864	3,159,769	907,021	342,097	89,974	8,567	448,525	11,048,285
Other information									
- Interest income	2,307	664	1,875	2,148	256	17	201	4,860	12,328
- Interest expenses	(92,732)	(2,945)	(29,141)	-	(1,300)	(464)	-	-	(126,582)
- Depreciation	(237)	-	(688)	(15,791)	(662)	(56)	(378)	(8,140)	(25,952)
- Amortization	(87,321)	(30,480)	(108,396)	(3,116)	(12,010)	(10,095)	(1)	(1,537)	(252,956)
- Capital expenditures	1,518	-	305,179	1,070	14,104	1,479	-	46,259	369,609

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 Operating profit

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

	Unaudited Half-year	
	2021	2020
	RMB'000	RMB'000
Other income	51,167	73,977
Charging:		
Depreciation and amortisation expenses	328,836	278,908
Staff costs	195,026	155,942
Raw materials and consumables used	143,418	167,362
Repair and maintenance expenses	65,765	49,135

4 Finance expenses – net

	Unaudited Half-year	
	2021	2020
	RMB'000	RMB'000
Interest expenses of borrowings	173,898	126,582
Less: Interest income	(10,253)	(12,328)
– long-term receivables	(4,022)	3,127
– bank deposits	(6,231)	(15,455)
Others	(1,943)	(1,267)
	161,702	112,987

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

5 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 2021 (30 June 2020: 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 2021 RMB'000	2020 RMB'000
Current income tax	65,673	58,934
Deferred income tax	4,131	238
	69,804	59,172

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 2021 RMB'000	2020 RMB'000
Profit before tax	406,551	336,213
Calculated at applicable income tax rate	101,638	84,053
Effect of preferential tax rate applicable to certain subsidiaries	(25,946)	–
Income not subject to tax	(27,577)	(12,871)
Expenses not deductible for taxation purposes	16,474	85
Utilisation of previously deductible tax losses for which no deferred income tax assets was recognized	(1,571)	(168)
Current year deductible temporary differences for which no deferred income tax asset was recognised	516	4,102
Current year tax losses for which no deferred income tax asset was recognised	6,270	(16,029)
Income tax expense	69,804	59,172

6 Interim dividends

No interim dividend was proposed by the Board of Directors of the Company for the half – year ended 30 June 2021 (30 June 2020: Nil).

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 Property, plant and equipment, intangible assets, and right-of-use assets

Half-year ended 30 June 2021 (Unaudited)	Property, plant and equipment RMB'000	Intangible assets (a) RMB'000	Right-of-use assets RMB'000
Net book amount at 31 December 2020	819,354	11,922,211	77,607
Additions	273,886	832,032	38,661
Disposals	(3,618)	–	(199)
Depreciation and amortisation	(76,863)	(289,957)	(1,560)
Net book amount at 30 June 2021	<u>1,012,759</u>	<u>12,464,286</u>	<u>114,509</u>

(a) Concession rights with net book value of RMB3,393 million (31 December 2020: RMB2,508 million) have been secured against loans.

8 Investments accounted for using the equity method

Summarised financial information for Bihai Sponge City

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Net book value of investments	<u>195,000</u>	<u>195,000</u>
Attributable comprehensive income for the year:		
– Net loss i)	–	–
– Other comprehensive income i)	–	–
Total comprehensive income	<u>–</u>	<u>–</u>

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.

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

9 Trade receivables

Details of the trade receivables are as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Receivables from third parties		
– Trade receivables	2,193,489	2,059,332
– Notes receivable	2,730	2,656
Receivables from third parties	2,196,219	2,061,988
Receivables from related parties	155,960	68,280
	<u>2,352,179</u>	<u>2,130,268</u>
Less: loss allowance for impairment of trade receivables	<u>(170,605)</u>	<u>(168,529)</u>
	<u><u>2,181,574</u></u>	<u><u>1,961,739</u></u>

(a) Impaired trade receivables

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

	Unaudited 30 June 2021 RMB'000	Audited 31 31 December 2020 RMB'000
Within 1 month	355,262	347,063
1 month to 1 year	1,678,764	1,508,955
1 to 2 years	177,426	139,324
2 to 3 years	64,256	69,336
3 to 4 years	40,451	45,704
4 to 5 years	16,935	10,538
Over 5 years	19,085	9,348
	<u>2,352,179</u>	<u>2,130,268</u>
Total	<u><u>2,352,179</u></u>	<u><u>2,130,268</u></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)

10 Long-term receivables

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Receivables from Tianjin Water Authority Bureau (a)	1,431,761	1,431,761
Receivables from toll road concession (b)	226,573	236,592
Less: loss allowance for impairment of long-term receivables	<u>(902)</u>	<u>(902)</u>
	1,657,432	1,667,451
Less: non-current assets due within one year	<u>(21,525)</u>	<u>(20,049)</u>
	<u>1,635,907</u>	<u>1,647,402</u>

(a) In 2020, with the influence of Coronavirus Disease 2019 (the “COVID-19”), the actual collection of receivables from Tianjin Water Authority Bureau was significantly below expectation. Based on the historical collection experience and the expectation of future payment scheme, the Group has reclassified the present value of receivables of which collection is expected to be exceeding 12 months as long-term receivables. The expected credit loss rate for the aforesaid long-term receivables is 0.05%, which is consistent with expected credit loss rate as applied for the remaining trade receivables with Tianjin Water Authority Bureau. The balance of loss allowances is RMB1 million.

(b) 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)

11 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	Total share capital RMB'000
At 31 December 2020 (Audited) and at 30 June 2021 (Unaudited)	1,087,228	340,000	1,427,228	1,427,228

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

There is no movement in the Group's issue A-share and H-share during the half-year ended 30 June 2021 and 2020.

12 Borrowings

	Notes	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
<i>Non-current liabilities:</i>			
Long-term bank borrowings	(a), (b)	7,249,251	5,033,225
Less: Current portion	(a), (b)	(854,259)	(805,331)
		6,394,992	4,227,894
Debentures	(c)	698,803	1,798,419
Less: Current portion	(c)	(698,803)	(699,571)
		-	1,098,848
Long-term payables	(d)	269,883	282,840
Less: Current portion	(d)	(45,379)	(35,106)
		224,504	247,734
<i>Total non-current borrowings</i>		6,619,496	5,574,476
<i>Current liabilities:</i>			
Current portion of long-term bank borrowings	(a)	854,259	805,331
Current portion of debentures (Note (b))		698,803	699,571
Current portion of interest payable for the debentures		10,992	42,974
Current portion of long-term payables	(d)	45,379	35,106
Short-term bank borrowings	(e)	29,487	-
		1,638,920	1,582,982
<i>Other current liabilities</i>	(e)	-	-
<i>Total current borrowings</i>		1,638,920	1,582,982
<i>Total borrowings</i>		8,258,416	7,157,458

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 Borrowings (Continued)

(a) Long-term bank borrowings

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

	Unaudited RMB'000
Half-year ended 30 June 2021	
Net book amount at 31 December 2020	5,033,225
Proceeds of new borrowings	3,039,000
Repayments of borrowings	(822,974)
	<u>7,249,251</u>
Net book amount at 30 June 2021	<u>7,249,251</u>
Half-year ended 30 June 2020	
Net book amount at 31 December 2019	3,818,136
Proceeds of new borrowings	1,597,564
Repayments of borrowings	(1,012,026)
	<u>4,403,674</u>
Net book amount at 30 June 2020	<u>4,403,674</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
As at 30 June 2021 (Unaudited)					
Long-term bank borrowings	<u>854,259</u>	<u>1,060,517</u>	<u>2,679,286</u>	<u>2,655,189</u>	<u>7,249,251</u>
As at 31 December 2020 (Audited)					
Long-term bank borrowings	<u>805,331</u>	<u>645,730</u>	<u>1,500,982</u>	<u>2,081,182</u>	<u>5,033,225</u>

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

12 Borrowings (Continued)

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Long-term bank borrowings:		
Secured	2,063,987	1,522,559
Guaranteed	2,571,878	2,497,386
Unsecured	2,613,386	1,013,280
	<u>7,249,251</u>	<u>5,033,225</u>

(c) Debentures

	Audited 31 December 2020 RMB'000	Amortization RMB'000	Additions RMB'000	Repayments RMB'000	Due within 1 year RMB'000	Unaudited 30 June 2021 RMB'000
Debentures payable						
– par value	1,800,000	–	–	(1,100,000)	700,000	–
– transaction cost	(1,581)	384	–	–	(1,197)	–
	<u>1,798,419</u>	<u>384</u>	<u>–</u>	<u>(1,100,000)</u>	<u>698,803</u>	<u>–</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. As at end of the report, the debenture investors have all sold back, the debenture has been delisted and written-off.

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 Borrowings (Continued)

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

	Unaudited 30 June 2021 RMB'000		Audited 31 December 2020 RMB'000	
	Payable	Unrecognized financial charges	Payable	Unrecognized financial charges
Payable to Sewage Company for assets acquisition	390,999	(121,116)	415,275	(132,435)

(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	430,314	5.94%	257,483	37,779
Tianjin Chengtou Chuangzhan Leasing Co., Ltd.	3 September 2023	20,000	3.80%	12,400	7,600

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%.

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

12 Borrowings (Continued)

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

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
JPY	193,435	196,100
US dollar	64,048	70,540
CNY	12,400	16,200
	<u>269,883</u>	<u>282,840</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.

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

Movement of bank borrowings is analyzed as follows:

	Unaudited RMB'000
Half-year end 30 June 2021	
Net book amount at 31 December 2020	-
Proceeds of new borrowings	29,487
Repayments of borrowings	-
Net book amount at 30 June 2021	<u>29,487</u>

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Unsecured	<u>29,487</u>	<u>-</u>

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

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 Borrowings (Continued)

(f) As at 30 June 2021, the contractual maturities of the group's non-derivative financial liabilities were 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
As at 30 June 2021(Unaudited)						
Long-term bank borrowings	1,155,491	1,319,476	3,208,464	3,340,707	9,024,138	7,249,251
Long-term payables	51,074	34,301	95,756	209,868	390,999	269,883
Trade payables	359,753	–	–	–	359,753	359,753
Other payables	971,354	–	–	–	971,354	971,354
Debentures	709,795	–	–	–	709,795	709,795
Short-term bank borrowings	29,487	–	–	–	29,487	29,487
	<u>3,276,954</u>	<u>1,353,777</u>	<u>3,304,220</u>	<u>3,550,575</u>	<u>11,485,526</u>	<u>9,589,523</u>
As at 31 December 2020(Audited)						
Long-term bank borrowings	1,008,415	816,994	1,873,550	2,664,569	6,363,528	5,033,225
Long-term payables	39,447	39,064	108,369	228,395	415,275	282,840
Debentures	818,102	56,870	1,118,957	–	1,993,929	1,841,393
Trade payables	294,973	–	–	–	294,973	294,973
Other payables	955,631	–	–	–	955,631	955,631
Dividends payable	142	–	–	–	142	142
	<u>3,116,710</u>	<u>912,928</u>	<u>3,100,876</u>	<u>2,892,964</u>	<u>10,023,478</u>	<u>8,408,204</u>

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

13 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 2020 RMB'000	Additions RMB'000	Recognised in Other income – net RMB'000	Unaudited 30 June 2021 RMB'000	Relating to assets/costs
Sewage water processing plants:					
– Jingu	1,155,975	–	(25,643)	1,130,332	assets
– Jingu upgrading project	149,960	–	(3,260)	146,700	assets
– Beichen upgrading project	82,800	–	(1,800)	81,000	assets
– Xianyanglu-upgrading project	54,353	–	(1,182)	53,171	assets
– Dongjiao-upgrading project	38,140	–	(829)	37,311	assets
– Ningxiang project	16,417	6,849	(465)	22,801	assets
–Beishiqiao-upgrading project	8,916	–	(358)	8,558	assets
– Linxia project	9,066	–	(160)	8,906	assets
– Chibi project	7,750	–	–	7,750	assets
– Shijiazhuang Gaocheng upgrading project	–	20,154	–	20,154	assets
Water recycling plants:					
– Jingu	193,934	–	–	193,934	assets
– Dongjiao	19,731	–	(337)	19,394	assets
– Beichen	17,062	–	(262)	16,800	assets
– Xianyanglu	11,903	–	–	11,903	assets
Heating and cooling supply service project	207,419	188	–	207,607	assets
Others	8,008	–	(16)	7,992	costs
Total	1,981,434	27,191	(34,312)	1,974,313	

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)

14 Deferred income tax

Unoffset deferred income tax assets

	Unaudited Half-year	
	2021	2020
	RMB'000	RMB'000
Opening balance	61,374	22,232
Charged to profit or loss	1,096	–
Closing balance	<u>62,470</u>	<u>22,232</u>

Unoffset deferred income tax liabilities

	Unaudited Half-year	
	2021	2020
	RMB'000	RMB'000
Opening balance	149,208	143,610
Charged to profit or loss	4,251	238
Closing balance	<u>153,459</u>	<u>143,848</u>

15 Provisions for other liabilities and charges

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Major overhauls for the assets of concession right	22,905	23,472
Others	3,546	3,546
	<u>26,451</u>	<u>27,018</u>

Analysis of total provisions:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Non-current	14,373	13,737
Current	12,078	13,281
	<u>26,451</u>	<u>27,018</u>

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

16 Trade payables, contract liabilities, other payables and income tax and other taxes payables

	Notes	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trade payables	(a)	359,753	294,973
Contract liabilities	(b)	573,057	527,410
Other payables	(c)	971,354	955,631
Income tax and other taxes payables		49,590	56,841
		1,953,754	1,834,855

(a) As at 30 June 2021, the trade payable with aging more than 1 year are mainly source water charges payable by Qujing Company of RMB53 million (31 December 2020: RMB43 million), and the subcontract costs payable by Tianjin Water Recycling Co., Ltd of RMB47 million (31 December 2020: RMB30 million). As the Group has not yet recovered the relevant sewage treatment charges and the related projects have not yet been completed, the Group has not settled the related payable balances.

(b) Contract liabilities

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
For recycled water and pipeline connection services	495,892	509,271
For toll road fee	43,995	-
For hazardous wastes	22,614	3,145
For Hangu project	4,876	4,876
For heating and cooling supply service	3,357	7,190
For equipment sales	373	2,028
Others	1,950	900
	573,057	527,410

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)

16 Trade payables, contract liabilities, other payables and income tax and other taxes payables (Continued)

(c) Other payables comprise:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Construction costs payable	671,835	838,871
Interest payable for borrowings	1,515	2,097
Payable for purchases of property, plant and equipment and concession right	17,569	18,930
Others	280,435	95,733
	<u>971,354</u>	<u>955,631</u>

As at 30 June 2021, other payables of RMB564 million (31 December 2020: RMB642 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.

17 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 2021 RMB' million	Audited 31 December 2020 RMB' million	Unaudited 30 June 2021 RMB' million	Audited 31 December 2020 RMB' million
Property, plant and equipment	106	–	–	–
Intangible assets	–	503	–	220
	<u>106</u>	<u>503</u>	<u>–</u>	<u>220</u>

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

18 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	
		2021 RMB'000	2020 RMB'000
City Infrastructure Construction and Investment	Commission income from contract operation	38,847	41,312
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	13,012	11,054
City Infrastructure Construction and Investment	Commission income from construction agent service	5,930	7,471
		57,789	59,837

(ii) Key management compensation for the half-year ended 30 June 2021 is summarized as follows:

	Unaudited Half -year	
	2021 RMB'000	2020 RMB'000
Key management compensation	8,032	8,452

(iii) Receivables from to related parties:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
– City Infrastructure Construction and Investment	151,660	46,537
– Tianjin Lecheng Properties Limited	3,899	21,342
– Tianjin City Resource Operation Co., Ltd.	401	401
	155,960	68,280

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)

18 Related party transactions (Continued)

- (iv) 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 2021, majority of the Group’s cash and cash equivalents and borrowings are dealt with state controlled banks.

19 Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the group in determining the fair values of the financial instruments since the last annual financial report.

Financial instruments are carried at fair value as at 30 June 2021 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked 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.

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

20 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2021 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 2020 and any public announcements made by the Group during the interim reporting period.

Amended standards adopted by the Group

The Group has adopted the following amended standards for the accounting period beginning on or after 1 January 2021, which do not have a material impact on the Group:

- Covid-19-related Rent Concessions – Amendments to IFRS 16

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Consolidated and Company Balance Sheet

As at 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

	Note	Unaudited	Audited	Unaudited	Audited
		30 June 2021 Consolidated	31 December 2020 Consolidated	30 June 2021 Company	31 December 2020 Company
ASSETS					
Current assets					
Cash at bank and on hand	4(1)	1,862,863	1,663,646	807,054	623,111
Notes receivable	4(2)	2,730	2,656	—	—
Trade receivables	4(3)/13(1)	2,178,844	1,959,083	1,200,302	1,126,477
Advances to suppliers	4(4)	94,046	26,220	67,894	—
Other receivables	4(5)/13(2)	21,208	24,117	43,697	25,883
Inventories	4(6)	21,603	17,460	6,368	5,995
Current portion of non-current assets	4(8)	21,525	20,049	21,525	20,049
Other current assets	4(7)	119,189	82,228	277,432	375,011
Total current assets		4,322,008	3,795,459	2,424,272	2,176,526
Non-current assets					
Long-term receivables	4(8)	1,635,907	1,647,402	1,635,907	1,647,402
Long-term equity investments	4(9)/13(3)	195,000	195,000	5,149,173	4,223,545
Other equity instruments investment	4(10)	2,000	2,000	2,000	2,000
Fixed assets	4(11)	995,593	809,495	140,817	148,551
Construction in progress	4(11)	17,166	9,859	2,457	340
Intangible assets	4(12)	12,080,029	11,999,818	3,781,298	3,865,856
Goodwill	4(13)	498,766	—	—	—
Deferred income tax assets	4(20)	13,661	12,965	—	—
Other non-current assets	4(7)	335,917	330,971	20,832	40,832
Total non-current assets		15,774,039	15,007,510	10,732,484	9,928,526
TOTAL ASSETS		20,096,047	18,802,969	13,156,756	12,105,052

Consolidated and Company Balance Sheet
As at 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

		Unaudited 30 June 2021 Consolidated	Audited 31 December 2020 Consolidated	Unaudited 30 June 2021 Company	Audited 31 December 2020 Company
LIABILITIES AND OWNERS' EQUITY	Note				
Current liabilities					
Short-term borrowings	4(17)	29,487	—	29,487	—
Trade payables	4(15)	359,753	294,973	78,922	43,558
Contract liabilities	4(15)	573,057	527,410	48,945	4,950
Taxes payable	4(15)	49,590	56,841	10,121	4,688
Other payables	4(15)	971,354	955,773	201,459	230,454
Accrued payroll	4(16)	23,869	85,620	10,557	43,202
Current portion of non-current liabilities	4(17)	1,621,511	1,596,263	1,305,205	1,536,886
Other current liabilities		—	—	80,000	70,000
Total current liabilities		3,628,621	3,516,880	1,764,696	1,933,738
Non-current liabilities					
Long-term borrowings	4(17)	6,394,992	4,227,894	3,270,832	1,396,472
Debentures payable	4(17)	—	1,098,848	—	1,098,848
Long-term payables	4(17)	224,504	247,734	219,704	239,134
Provisions	4(18)	14,373	13,737	11,665	11,665
Deferred income	4(19)	1,974,313	1,981,434	1,491,017	1,524,402
Deferred tax liabilities	4(20)	104,650	100,799	38,551	36,085
Other non-current liabilities	4(17)	34,000	34,000	600,000	380,000
Total non-current liabilities		8,746,832	7,704,446	5,631,769	4,686,606
Total liabilities		12,375,453	11,221,326	7,396,465	6,620,344
Shareholder's equity					
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)	619,054	619,054	619,054	619,054
Undistributed profits	4(22)(c)	4,247,267	4,114,045	3,333,221	3,057,638
Total equity attributable to equity owners of the parent		6,724,573	6,591,351	5,760,291	5,484,708
Minority interests		996,021	990,292	—	—
Total owners' equity		7,720,594	7,581,643	5,760,291	5,484,708
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		20,096,047	18,802,969	13,156,756	12,105,052

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 six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Unaudited	Unaudited	Unaudited	Unaudited
		Six Months Ended 30 June 2021 Consolidated	Six Months Ended 30 June 2020 Consolidated	Six Months Ended 30 June 2021 Company	Six Months Ended 30 June 2020 Company
1. Revenue	4(23)/13(4)	1,903,954	1,521,390	806,985	707,200
Less: Cost of sales	4(23)/13(4)	(1,264,124)	(1,040,712)	(452,013)	(430,781)
Taxes and surcharges	4(24)	(20,498)	(22,178)	(9,077)	(10,174)
Selling and distribution expenses	4(25)	(12,679)	(7,922)	—	—
General and administrative expenses	4(25)	(82,852)	(70,253)	(37,670)	(39,146)
Research and development expenses	4(26)	(3,706)	(2,517)	(5)	—
Financial expenses	4(27)	(161,702)	(112,987)	(99,223)	(98,767)
Including: interest expense		(173,898)	(126,582)	(109,043)	(106,711)
interest income		10,253	12,328	7,650	6,606
Add: Other income	4(28)	51,167	73,977	33,455	63,054
Investment gains	13(5)	—	—	242,767	89,219
Including: Share of profit of associates		—	—	—	—
Credit impairment losses	4(29)	(2,076)	—	—	—
2. Operating profit		407,484	338,798	485,219	280,605
Add: Non-operating income		311	232	2	115
Less: Non-operating expenses	4(30)	(1,244)	(2,817)	(1,112)	(2,198)
3. Total profit		406,551	336,213	484,109	278,522
Less: Income tax expenses	4(31)	(69,804)	(59,172)	(37,259)	(30,234)
4. Net profit		336,747	277,041	446,850	248,288
Classified by continuity of operations					
Net profit from continuing operations		336,747	277,041	446,850	248,288
Net profit from discontinued operations		—	—	—	—
Classified by ownership of the equity					
Minority interests		32,258	20,093	—	—
Attributable to equity owners of the Company		304,489	256,948	446,850	248,288
5. Other comprehensive income after deduction of impact of income tax		—	—	—	—
6. Total comprehensive income		336,747	277,041	446,850	248,288
Attributable to equity owners of the Company		304,489	256,948	446,850	248,288
Attributable to minority shareholders		32,258	20,093	—	—
Earnings per share (in RMB Yuan)					
Basic	4(32)	0.21	0.18	—	—
Diluted	4(32)	0.21	0.18	—	—

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

Company representative:
Liu Yujun

Person in charge of
accounting function:
Peng Yilin

Person in charge of
accounting department:
Liu Tao

Consolidated and Company Cash Flow Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Unaudited Six Months Ended 30 June 2021 Consolidated	Unaudited Six Months Ended 30 June 2020 Consolidated	Unaudited Six Months Ended 30 June 2021 Company	Unaudited Six Months Ended 30 June 2020 Company
1. Cash flows from operating activities					
Cash received from sales of goods or rendering of services		1,824,682	1,236,854	819,812	653,596
Refund of taxes and surcharges		9,390	56,759	2,380	40,530
Cash received relating to other operating activities	4(33)(c)	102,731	82,421	675,660	466,144
Sub-total of cash inflows		1,936,803	1,376,034	1,497,852	1,160,270
Cash paid for goods and services		(772,513)	(620,274)	(399,305)	(334,466)
Cash paid to and on behalf of employees		(238,773)	(198,722)	(86,628)	(84,626)
Payments of taxes and surcharges		(149,061)	(226,454)	(59,266)	(131,553)
Cash paid relating to other operating activities	4(33)(d)	(86,981)	(69,285)	(610,040)	(376,847)
Sub-total of cash outflows		(1,247,328)	(1,114,735)	(1,155,239)	(927,492)
Net cash flows from operating activities	4(33)(a)	689,475	261,299	342,613	232,778
2. Cash flows from investing activities					
Cash received from returns on investments		—	—	216,901	76,960
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		204	49	—	—
Cash received relating to other investing activities		—	3,900	—	—
Sub-total of cash inflows		204	3,949	216,901	76,960
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(535,036)	(767,970)	(68,771)	(66,188)
Cash paid to acquire investments		(676,222)	—	(915,488)	(76,193)
Sub-total of cash outflows		(1,211,258)	(767,970)	(984,259)	(142,381)
Net cash flows from investing activities		(1,211,054)	(764,021)	(767,358)	(65,421)

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Consolidated and Company Cash Flow Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Unaudited	Unaudited	Unaudited	Unaudited
		Six Months Ended 30 June 2021 Consolidated	Six Months Ended 30 June 2020 Consolidated	Six Months Ended 30 June 2021 Company	Six Months Ended 30 June 2020 Company
3. Cash flows from financing activities					
Cash received from borrowings		3,290,906	1,597,564	2,737,947	755,140
Cash received from capital contributions		490	12,706	—	—
Including: Cash received from capital contributions by minority shareholders of subsidiaries		490	12,706	—	—
Sub-total of cash inflows		3,291,396	1,610,270	2,737,947	755,140
Cash repayments of borrowings		(2,197,693)	(1,241,626)	(1,852,101)	(1,070,500)
Cash payments for distribution of interest expenses		(183,479)	(132,590)	(105,749)	(89,115)
Payments for distribution of dividends or profits		(198,428)	(7,809)	(171,409)	(2,617)
Including: Dividends and profits paid to minority shareholders by subsidiaries		(27,019)	(5,192)	—	—
Sub-total of cash outflows		(2,579,600)	(1,382,025)	(2,129,259)	(1,162,232)
Net cash flows from financing activities		711,796	228,245	608,688	(407,092)
4. Effect of foreign exchange rate changes on cash		—	—	—	—
5. Net (decrease)/increase in cash		190,217	(274,477)	183,943	(239,735)
Add: Cash at beginning of period		1,652,657	2,066,301	617,960	736,182
6. Cash at end of period	4(33)(b)	1,842,874	1,791,824	801,903	496,447

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 2021

(All amounts in RMB thousand unless otherwise stated)

Item	Note	Attributable to owners of the parent					Total shareholders' equity
		Share capital	Capital surplus	Surplus reserve	Undistributed profits	Minority interests	
Balance at 1 January 2020 (Audited)		1,427,228	431,024	558,250	3,757,523	968,162	7,142,187
Movements for the period ended 30 June 2020							
Total comprehensive income							
Net profit		—	—	—	256,948	20,093	277,041
Total comprehensive income for the year		—	—	—	256,948	20,093	277,041
Capital contribution by shareholders		—	—	—	—	12,706	12,706
Profit distribution							
Dividend distribution to shareholders		—	—	—	(152,713)	(4,800)	(157,513)
Balance at 30 June 2020 (Unaudited)		1,427,228	431,024	558,250	3,861,758	996,161	7,274,421
Balance at 1 January 2021 (Audited)		1,427,228	431,024	619,054	4,114,045	990,292	7,581,643
Movements for the period ended 30 June 2021							
Total comprehensive income							
Net profit		—	—	—	304,489	32,258	336,747
Total comprehensive income for the year		—	—	—	304,489	32,258	336,747
Capital contribution by shareholders		—	—	—	—	490	490
Profit distribution							
Dividend distribution to shareholders	4(22)(c)	—	—	—	(171,267)	(27,019)	(198,286)
Balance at 30 June 2021 (Unaudited)		1,427,228	431,024	619,054	4,247,267	996,021	7,720,594

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 2021

(All amounts in RMB thousand unless otherwise stated)

Item	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2020 (Audited)	1,427,228	380,788	558,250	2,663,106	5,029,372
Movements for the period ended 30 June 2020					
Total comprehensive income					
Net profit	—	—	—	248,288	248,288
Total comprehensive income for the year	—	—	—	248,288	248,288
Profit distribution					
Dividend distribution to shareholders	—	—	—	(152,713)	(152,713)
Balance at 30 June 2020 (Unaudited)	1,427,228	380,788	558,250	2,758,681	5,124,947
Balance at 1 January 2021 (Audited)	1,427,228	380,788	619,054	3,057,638	5,484,708
Movements for the period ended 30 June 2021					
Total comprehensive income					
Net profit	—	—	—	446,850	446,850
Total comprehensive income for the year	—	—	—	446,850	446,850
Profit distribution					
Dividend distribution to shareholders	—	—	—	(171,267)	(171,267)
Balance at 30 June 2021 (Unaudited)	1,427,228	380,788	619,054	3,333,221	5,760,291

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 2021

(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 2021, 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, supply of tap water and recycled water, supply of heating and cooling, hazardous waste treatment 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 New Technology Industrial Park Tianyu Science park Management Committee
Wendeng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an, Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Xianning, Hubei	16 October 2008	Xianning Construction Committee
Yingdong, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Ninghe, Tianjin	21 September 2010	Management Committee of Modern Industrial Zone of Ninghe
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

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(a) Processing of sewage water (Continued)

Location	Agreement date	Authorized by
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
Deqing, Zhejiang	1 January 2019	Deqing Qianyuan Municipal Government
Jieshou, Anhui	2 March 2019	Jieshou Urban and Rural Construction Committee
Gaocheng, Hebei	2 April 2019	Hebei Gaocheng Economic and Technological Development Zone Management Committee
Jiuquan, Gansu	22 June 2019	Jiuquan Suzhou Municipal Government
Yingdong, Fuyang	26 August 2019	Fuyang Urban-rural Construction Commission
Huoqiu, Anhui	2 January 2020	Huoqiu Housing and Urban Construction Bureau
Huize, Yunnan	24 February 2020	Huize Housing and Urban Construction Bureau
Honghu, Hubei	18 March 2021	Honghu Housing and Urban Construction Bureau
Xiqing, Tianjin	31 May 2021	Tianjin Xiqing District Water Affairs Center

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) 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.

(c) 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.

(d) 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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

1 GENERAL INFORMATION (Continued)

(e) Hazardous waste treatment

Hazardous treatment include hazardous and solid waste treatment. Currently, the Group conducts the disposal by way of incineration, landfill, physicochemical and curing treatment. Adoption of treatment method tailored to the local help to realize the aim of harmless, resource and reduction.

(f) Subsidiaries included in the scope of consolidation for the year and newly consolidated subsidiaries are set out in Note 5 and Note 6.

(g) These financial statements were approved by the Company's Board of Directors on 25 August 2021.

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(11) and (14)), 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 2021 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 2021 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 2021
(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 2021 to 30 June 2021.

(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 2021

(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 2021
(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 2021

(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 or 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:

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(i) Classification and measurement (Continued)

Debt instruments (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, and long-term receivables 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.

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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

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. For lease receivables, the Group makes the loss provision according to the lifetime ECL as well.

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, lease receivables that are classified into above groupings and notes receivables arising from sale of goods or rendering of services, 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. Other types of notes receivables and 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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(iii) 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 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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

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

(c) *Basis for determining net realizable 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 realizable value. Net realizable 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 2021

(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.

For the long-term equity investment obtained by means other than business combination, the long-term equity investment obtained by paying cash shall be regarded as the initial investment cost according to the purchase price actually paid; for the long-term equity investment obtained by issuing equity securities, it shall be recognized as the initial investment cost according to the fair value of issuing equity securities.

(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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

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 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.

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)).

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) 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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) 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.

(12) 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)).

(13) 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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Borrowing costs (Continued)

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

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

(14) 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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets (Continued)

(b) *Concession rights*

As described in Note 1(a) to (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 20 to 30 years.

(c) *Technical know-how and software*

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

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

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

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets (Continued)

(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.

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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets (Continued)

(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)).

(15) Non-monetary asset exchange

Non-monetary asset exchange refers to the exchange of non-monetary assets, such as fixed assets, intangible assets, investment properties, and long-term equity investments. The exchange does not involve or only involves a small amount of monetary assets (i.e. premiums). The exchange of non-monetary assets without commercial substance shall be measured on the basis of book value. For the assets to be swapped in, the enterprise shall use the book value of the assets to be swapped out and the relevant taxes and fees payable as the initial measurement amount of the assets to be swapped in; for the swapped out assets, no profit or loss is recognized when the assets are derecognized. For non-monetary asset exchanges that are measured on the basis of book value, and multiple assets are exchanged in or out at the same time, for multiple assets that are exchanged at the same time, the assets will be exchanged in accordance with the relative proportion of the fair value of each asset being exchanged. The total book value (involving the premium, plus the book value of the premium paid or the fair value of the premium received) is apportioned to the assets transferred, plus the relevant taxes and fees payable, as the initial measurement amount of the asset swapped in. If the fair value of the assets to be exchanged cannot be measured reliably, the book value of the assets to be exchanged may be apportioned according to the relative proportion of the original book value of the assets to be exchanged or other reasonable proportions. For multiple assets that are swapped out at the same time, no profit or loss is recognized when the swapped out assets are derecognized.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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 other 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. Sewage treatment service income and cooling and heating income are a series of single obligations with the same substance and transfer mode, which can be clearly distinguished. The group issues bills to customers according to the fixed unit price, sewage treatment capacity and cooling and heating area, and the income is recognized according to the amount of bills issued.

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

Revenues from sales of tap water and recycled water are recognised when services are rendered. Sales of tap water and recycled water are a series of single obligations with the same substance and transfer mode, which can be clearly distinguished. The group issues bills to customers according to the fixed unit price and water supply quantity, and the income is confirmed according to the amount of bill.

(c) *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.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Revenue (Continued)

(c) Sales of pipeline connection for recycled water (Continued)

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.

(d) 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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Revenue (Continued)

(e) *Hazardous waste processing income*

The Group provides hazardous and general solid waste treatment, of which the residence time of incineration treatment in the waste kiln is 30-120 minutes, and the disposal cycle of landfill treatment waste is within one week. The Group recognises the income when service is provided according to the actual processing amount of waste and the price agreed on the contract.

(f) *Contract operation income*

Revenue from contract operation is based on the service agreement. The revenue of a fixed total amount contract is recognized during the service period evenly. For contracts with agreed unit price of services, revenue shall be recognized during the period of service provision according to the quantity of services provided

(g) *Technical services income*

Technical service revenue shall be recognized within the service provision period specified in the contract according to the service unit price and the actual service quantity provided in the contract.

(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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

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 favorable interest rates, the Group records the loans at the actual amounts and calculates the interests by loan principals and the favorable 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

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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 a lessor

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

(a) Operating leases

While the Group leases buildings and structures out, rental income under an operating lease is recognised on a straight-line basis over the period of the lease. Variable rental income 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) Judgment of non-monetary assets exchange not having commercial essence

The exchange of non-monetary assets that meets one of the following conditions has commercial essence: (1) the future cash flow of the assets received is significantly different from that of the assets exchanged out in terms of risk, time distribution or amount; (2) the present value of the expected future cash flow generated by the use of the assets received is different from that of the assets exchanged out, and the difference is significant compared with the fair value of the assets received and the assets exchanged out.

The relocation and non-monetary assets exchange arrangements of Xianyang Road sewage treatment plant and Dongjiao sewage treatment plant of the group are carried out in accordance with the instructions of Tianjin municipal government. The assets exchanged in and out are the same kind of assets, and the group's risks and rewards did not change significantly, so the exchange of non-monetary assets has no commercial essence.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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 Group recognises the loss provision based on expected credit losses (“ECL”) and default exposure. ECL is determined by probability of default and loss rate of default. In determining the ECL, the Group uses internal historical credit loss experience, and adjusts the historical data in combination with the current situation and forward-looking information.

In considering forward-looking information, the Group regularly monitors and reviews important macroeconomic assumptions and parameters relevant to the calculation of expected credit losses, including the risk of economic downturn, changes in gross domestic product, external market conditions and customer conditions. The Group regularly monitors and reviews assumptions relating to the calculation of expected credit losses. The key macroeconomic parameters used in each scenario are listed below. The above estimation techniques and key assumptions have not changed significantly for the six months ended 30 June 2021.

(ii) Impairments of Goodwill

The Group determines at each balance sheet date whether there is any indication that goodwill may be impaired. The recoverable amount of the asset group and the asset group combination including goodwill is the higher of the fair value of the asset group and the asset group combination minus the net amount of disposal expenses and the present value of the expected future cash flow. The calculation requires the use of accounting estimates (Note 4(13)).

If the management revises the growth rate used in the calculation of the future cash flow of the asset group and the asset group combination, and the revised growth rate is lower than the currently adopted growth rate, the Group needs to increase the provision for impairment of goodwill.

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) Critical accounting estimates and judgements (Continued)

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

(ii) Impairments of Goodwill (Continued)

If the management revises the gross margin used in the calculation of the future cash flow of the asset group and the asset group combination, and the revised growth rate is lower than the gross margin, the Group needs to increase the provision for impairment of goodwill.

If the management revises the pre-tax discount rate used for discounting cash flows, and the revised pre-tax discount rate is higher than the currently adopted discount rate, the Group needs to increase the provision for impairment of goodwill.

If the actual growth rate and gross profit margin are higher or the actual pre-tax discount rate is lower than management's estimation, the Group cannot reverse the impairment loss of goodwill that has been accrued.

(iii) Income tax and Deferred 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.

As mentioned in Note 3(2), some subsidiaries of the Group are high-tech enterprises. The qualification of high-tech enterprises are for an initial term of three years. After the termination of the qualification, it is necessary to submit a new application to the relevant government departments for the high-tech enterprises status renewal. According to historical status renewal experience and the actual situation of each subsidiaries in the past, the Group believes the subsidiaries can continue to obtain the approval for the renewal of the status of being high-tech enterprises. Hence, the Group calculates subsidiaries' corresponding deferred income tax at the preferential rate of 15%. If some of the subsidiaries' renewal application has not been approved after the expiry of the high-tech enterprises status, the income tax shall be calculated at the statutory tax rate of 25%. Deferred income tax assets, deferred income tax liabilities will be affected.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(25) **Critical accounting estimates and judgements** (Continued)

(b) *Critical accounting estimates and key assumptions* (Continued)

(iii) Income tax and Deferred income tax (Continued)

The Group recognizes the corresponding deferred income tax asset to the extent that it is likely to obtain the taxable income amount to offset the deductible loss in the future period. The taxable income obtained in future periods shall include the taxable income that can be realized by the Group through normal production and business activities, and the taxable income that will be increased when the taxable temporary differences arising from previous periods are reversed in future periods. The Group needs to use estimation and judgment when determining the time and amount of taxable income to be generated in the future period. Any discrepancy between the actual situation and the estimate may result in an adjustment to the carrying value of the deferred income tax assets.

(iv) Impairment of long-term assets

The Group determines at each balance sheet date whether there is any indication that assets may be impaired. When the current market price of assets decreases significantly compared with the expected significant decline due to the passage of time or normal use and the economic, technological, or legal environment in which the Group operates has undergone major adverse changes recently; market interest rates or other market investment returns increase which affects the discount rate of the present value of future cash flows and the assets are obsolete or has been damaged or has become idle, the Group considers that there are signs of asset impairment. At each balance sheet date, the Group will evaluate the recoverable amount of the long-term assets that have shown signs of impairment. The assessment of the recoverable amount requires the Group to estimate the future cash flow and other conditions. When accounting estimates change, the book value of long-term assets and the amount included in asset impairment losses will also change. Once the impairment provision is accrued, it cannot be reversed.

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Significant changes in accounting policies

The Ministry of Finance promulgated the *Notice on printing and Distributing the Interpretation of Accounting Standards for Enterprises No.14* in February 2021.

The Interpretation of Accounting Standards for Enterprises No.14 stipulates “on the accounting treatment of the government and social capital cooperation (PPP) project contracts by the social capital party”. Changes in the accounting treatment of the company include the following aspects: 1. If the social capital party provides construction services (including construction and reconstruction and expansion) or subcontracts to other parties, the identity of principal or agent is determined by the Accounting Standards for Enterprises No.14. 2. If the social capital party provides multiple services according to the PPP project contract (such as asset construction service of PPP project as well as operation and maintenance service after completion), it shall identify individual performance obligations in the contract according to the accounting Standards for Enterprises No. 14, identify individual performance obligations in the contract. Apportion the transaction price to each performance obligation in proportion to the individual selling price of each performance obligation. 3. According to the PPP project contract, if the social capital party meets the conditions for receiving cash (or other financial assets) of an identifiable amount during the operation of the project, it shall be recognized as a financial asset when the social capital party has the right to receive such consideration (the right only depends on the factor of time passing). And in accordance with the accounting standards for Enterprises No. 22 – Recognition and measurement of financial instruments for accounting treatment.

Management has assessed the impact of the application of the new accounting policy on the Company’s financial statements and has determined that it will have the following effects: 1. The Company shall make reliable measurement and confirmation of the operating income and operating cost during the construction period of PPP projects this year. 2. In PPP projects, feasibility service fees that are entitled to collect a certain amount should be recognized as long-term receivables and should be recognized as interest income in the current period of collection, and feasibility service fees should no longer be recognized as operating income. 3. If a PPP project is measured by financial asset model in the future, the interest expense during construction cannot be capitalized.

As for now, the impact of financial data is still under evaluation.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

3 TAXATION

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

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	0%-25%
Value added tax ("VAT") (Note(a) 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%-13%
City maintenance and construction tax	The payment amount of VAT	5%-7%
Educational surcharge	The payment amount of VAT	3%

- (a) Pursuant to the '2019 Circular on Deeply Reform of Adjustment of Tax Rate of Value Added Tax' (The General Administration of Customs of the State Administration of Taxation [2019] 39) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, the applicable tax rate of revenue arising from VAT-taxable sales is 13% from 1 April 2019, while it was 16% before then. The applicable tax rate of the Group's VAT taxable income is adjusted accordingly.
- (b) According to the announcement of the State Administration of taxation on clarifying the collection and management of VAT on second hand car distribution and other issues, if the goods are not produced after professional treatment by means of landfill, incineration, etc., and the trustee belongs to the "professional and technical services" in the "modern services" provided in the "sales services, intangible assets, real estate notes" (Cai Shui [2016] 36), and the treatment fee charged by the trustee is subject to the VAT rate of 6%.

(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		Reason for the preferential tax policy
	30 June 2021		
The Company	15%		According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Fuyang Capital Water Co., Ltd.	15%		According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Gui Zhou Capital Water Co., Ltd.	15%		From 1 January 2021 to 31 December 2030, in accordance with the Announcement of the State Development and Reform Commission of the Taxation Administration of the Ministry of Finance on the Extension of the Enterprise Income Tax Policy for the Development of the Western Region (Announcement Of the State Development and Reform Commission of the Water Administration of the Ministry of Finance No. 23, 2020), the enterprise income tax of the encouraged industrial enterprises set up in the western region is levied at a reduced rate of 15%.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

3 TAXATION (Continued)

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

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

Name of subsidiaries	Enterprise income tax rate for 30 June 2021	Reason for the preferential tax policy
Xi'an Capital Water Co., Ltd.	15 %	From 1 January 2021 to 31 December 2030, in accordance with the Announcement of the State Development and Reform Commission of the Taxation Administration of the Ministry of Finance on the Extension of the Enterprise Income Tax Policy for the Development of the Western Region (Announcement Of the State Development and Reform Commission of the Water Administration of the Ministry of Finance No. 23, 2020), the enterprise income tax of the encouraged industrial enterprises set up in the western region is levied at a reduced rate of 15%.
Hangzhou Tianchuang Capital Water Co., Ltd.	15%	According to The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Tianjin Caring Technology Development Co., Ltd.	15 %	In 2020, Caring Company has obtained the High-tech Enterprise Certificate (Certificate No. GR201812000566) issued by Tianjin Science and Technology Bureau, Tianjin Finance Bureau and Tianjin Taxation Bureau of the State Administration of Taxation. The certificate is valid for 3 years. According to relevant provisions of Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the enterprise income tax rate applicable for the six months ended 30 June 2021 is 15% (2020: 15%).
Tianjin Water Recycling Co., Ltd.	The taxable income is 90% of revenue	According to Cai Shui [2008] No. 47, since 1 January 2008, for revenues generated from products which were in line with national or industry standards, the taxable income amount is 90% of the total revenue.
Karamay Tianchuang Capital Water Co., Ltd.	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 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 2019 for the first 3 years and reduction half for the next 3 years.
Bayannur Capital Water Co., Ltd.	Sewage water: 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 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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

3 TAXATION (Continued)

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

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

Name of subsidiaries	Enterprise income tax rate for 30 June 2021	Reason for the preferential tax policy
Yingshang 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 2018 for the first 3 years and reduction half for the next 3 years.
Dalian Oriental Chunliuhe Water Quality Purification 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 2018 for the first 3 years and reduction half for the next 3 years.
Shandong Capital Environmental Protection Technology Consultant Co., Ltd.	0%	According to Cai Shui [2009] No. 166, income from engagement in qualified industrial solid waste treatment projects and hazardous waste treatment projects is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Hanshou Tianchuang Capital Water Co., Ltd.	0%	According to Cai Shui [2019] No. 67, income from rural drinking water safety projects is subject to exemption from enterprise income tax commence from 2019 for the first 3 years and reduction half for the next 3 years.
Jiuquan 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 2019 for the first 3 years and reduction half for the next 3 years.
Huize Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Huoqiu Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Wuhan Tianchuang Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

3 TAXATION (Continued)

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

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

Name of subsidiaries	Enterprise income tax rate for 30 June 2021	Reason for the preferential tax policy
Honghu Tianchuang 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 2018 for the first 3 years and reduction half for the next 3 years.
Jiangsu Yonghui Resources Utilization 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 2019 for the first 3 years and reduction half for the next 3 years.
Gaoyou Compro Environmental Resources 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 2017 for the first 3 years and reduction half for the next 3 years.
Changsha Tianchuang Capital Environmental Protection 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 2018 for the first 3 years and reduction half for the next 3 years.
Changsha 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 2019 for the first 3 years and reduction half for the next 3 years.
Wendeng Capital Water Co., Ltd.	15%	According to <i>The Corporate Income Tax Policy of Third-party Enterprises Engaged in Pollution Prevention and Control</i> issued on April 13, 2019 (Announcement No.60, 2019, issued by the Ministry of finance, the Taxation Administration, the National Development and Reform Commission and the Ministry of Ecology and Environment), corporate income tax shall be levied at a reduced rate of 15% from 1 January 2019 to 31 December 2021.
Deqing 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 2019 for the first 3 years and reduction half for the next 3 years.
Hebei Guojin 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 2020 for the first 3 years and reduction half for the next 3 years.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

3 TAXATION (Continued)

(3) Preferential tax policies for value-added tax

On 12 June 2015, the Ministry of Finance and the State Administration of Taxation issued the preferential value-added tax catalogue of products and services which comprehensively 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. On April 15, 2019, the Ministry of Finance and the State Administration of Taxation issued the “Announcement on Continued Implementation of Tax Preferential Policies for Rural Drinking Water Safety Projects” Caishui [2019] No. 67, stipulating that from January 1, 2019 to December 31, 2020, in the tap water supply business of the Group, the tap water sales income obtained by providing rural residents with domestic water is exempt from value-added tax.

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	Unaudited 30 June 2021	Audited 31 December 2020
Cash on hand	38	14
Cash at bank	1,842,836	1,652,643
Other cash balances	19,989	10,989
	<u>1,862,863</u>	<u>1,663,646</u>
Including: Bank deposits overseas	<u>8,475</u>	<u>7,987</u>

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

	Unaudited 30 June 2021	Audited 31 December 2020
Cash at bank and on hand	1,862,863	1,663,646
Less: Restricted bank deposits (i)	<u>(19,989)</u>	<u>(10,989)</u>
Cash listed in cash flow statement (Note 4(38))	<u>1,842,874</u>	<u>1,652,657</u>

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

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

Notes to the Financial Statements
 For the six months ended 30 June 2021
 (All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Notes receivable

	Unaudited 30 June 2021	Audited 31 December 2020
Bank acceptance notes	2,730	2,656
Less: Provision for bad debts	—	—
	<u>2,730</u>	<u>2,656</u>

(a) As at 30 June 2021, the Group has no pledged notes receivable.

(b) As at 30 June 2021, the Group had no endorsements or discounted notes receivable that were not yet due.

(c) Provision for bad debts:

As at 30 June 2021, the notes receivable of the group are generated from daily business activities such as selling goods and providing services, regardless of whether there is a significant financing component. 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.

(3) Trade receivables

	Unaudited 30 June 2021	Audited 31 December 2020
Trade receivables	2,349,449	2,127,612
Less: Provision for bad debts	(170,605)	(168,529)
	<u>2,178,844</u>	<u>1,959,083</u>

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

	Unaudited 30 June 2021	Audited 31 December 2020
Within 1 year	2,031,296	1,853,362
1 to 2 years	177,426	139,324
2 to 3 years	64,256	69,336
3 to 4 years	40,451	45,704
4 to 5 years	16,935	10,538
Over 5 years	19,085	9,348
	<u>2,349,449</u>	<u>2,127,612</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(b) As at 30 June 2021 (unaudited), 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	1,449,924	(42,296)	62%

(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.

(i) As at 30 June 2021 (unaudited), provision for bad debts by individual is analyzed as below:

	Carrying amount	ECL rate	Provision	Reasons
Tianjin Water Authority Bureau	1,069,232	0.05%	(554)	1)
Qijing Sewage Company	205,443	20.26%	(41,630)	2)
Xi'an Infrastructure Investment Group	68,039	0.05%	(20)	1)
Guiyang Water Authority Bureau	67,551	0.05%	(33)	1)
Hangzhou City Facilities Development Center	39,658	0.15%	(59)	1)
Tianjin City Appearance Sanitation Construction Development Co. Ltd.	31,753	50.20%	(15,941)	3)
Jinghai Development Area Management Committee	28,329	49.75%	(14,093)	4)
Urad Rear Banner Finance Bureau	21,247	48.91%	(10,392)	5)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd.	16,797	100.00%	(16,797)	6)
Tianjin Shuangkou Municipal Solid Waste Landfill	14,208	100.00%	(14,208)	3)
Urad Front Banner Finance Bureau	10,928	100.00%	(10,928)	5)
Zhejiang Xinsanyin Dyeing Co.Ltd.	5,734	65.01%	(3,727)	7)
Tianjin Goldin International Club Co. Ltd.	1,548	100.00%	(1,548)	8)
Tianjin City Investment Urban Resources Management Co., Ltd.	1,200	100.00%	(1,200)	9)
Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd.	1,020	100.00%	(1,020)	10)
Tianjin Tianbao Municipal Administration Co.Ltd.	152	100.00%	(152)	6)
Total	1,582,839		(132,302)	

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(i) As at 30 June 2021 (unaudited), provision for bad debts by individual is analyzed as below: (Continued)

- 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 Group from Tianjin Water Authority Bureau, from Guiyang Water Authority Bureau, Xi'an Infrastructure Investment Group and Hanzhou City Facility Development Center, have a lower credit risk. Based on the historical experience of operation, the Group maintains continuous receipts and there is no actual bad debt loss. Therefore, the Group estimates that the lifetime ECL rate of the receivables are respectively 0.05% and 0.15%.
- 2) Receivables of Qujing Capital Water Co., Ltd. from Qujing Sewage Company comprise regular sewage treatment fee, tap water fee. 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 20.26%.
- 3) Receivables of the Company from Tianjin City Appearance Sanitation Construction Development Co. Ltd. And Tianjin Shuangkou Municipal Solid Waste Landfill comprise technical services fees. The repayment period of Tianjin City Appearance Sanitation Construction Development Co. Ltd. is longer than that of general government customers. There were no transactions between the Company and Tianjin Shuangkou Municipal Solid Waste Landfill during the last year. The receivables from them are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate are respectively 50.20% and 100.00%.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(i) As at 30 June 2021 (unaudited), provision for bad debts by individual is analyzed as below: (Continued)

- 4) Receivables of Tianjin Jinghai Capital Water Co., Ltd. from Jinghai Development Area Management Committee comprise conventional sewage treatment fees, whose repayment period is longer than that of general government customers, and are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that it has defaulted and estimates that the lifetime ECL rate is 49.75%.
- 5) Receivables from Urad Front Banner Finance Bureau and Urad Rear Banner Finance Bureau comprise conventional sewage treatment fees, whose repayment period is longer than that of general government customers, and are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that it has defaulted and estimates that the lifetime ECL rate of them are respectively 100.00% and 48.91%.
- 6) Receivables of the Company from Tianjin Ziya Environmental Protection Industrial Park Co. Ltd. and Tianjin Tianbao Municipal Administration Co. Ltd. comprise contract operation fees. They had no transactions with the Company, and are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them are 100%.
- 7) Receivables of Tianjin Caring Technology Development Co., Ltd. from Zhejiang Xinsanyin Dyeing Co. Ltd. comprise construction of related facility and contract operation fees, whose repayment period is longer than that of general customers, and are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that it has defaulted and estimates that the lifetime ECL rate is 65.01%.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(i) As at 30 June 2021 (unaudited), provision for bad debts by individual is analyzed as below: (Continued)

- 8) Receivables of the Company from Tianjin Goldin International Club Co. Ltd. comprise contract operation fees. Tianjin Goldin International Club Co. Ltd. had no transactions with Tianjin Water Recycling Co., Ltd., whose receivables are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them is 100%.
- 9) Receivables of the Company from Tianjin City Investment Urban Resources Management Co., Ltd. comprise rental fees. Tianjin City Investment Urban Resources Management Co., Ltd. had no transactions with the Company, whose receivables are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them is 100%.
- 10) Receivables of the Company from Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd., comprise sales income of Environment protection equipments. Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd., had no transactions with the Company, whose receivables are under high credit risk. Taking into account factors such as the debtor's actual performance ability, historical repayment experience, and aging, the Group presumes that they have defaulted and estimates that the lifetime ECL rate of them is 100%.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(ii) provision for bad debts by group is analyzed as below:

Group – Government clients except those in provincial capitals and municipalities

	Unaudited 30 June 2021			Audited 31 December 2020		
	Carrying amount Amount	Provision		Carrying amount Amount	Provision	
		ECL rate	Amount		ECL rate	Amount
Undue	93,810	0.05%	(50)	145,974	0.05%	(80)
1-180 days overdue	295,971	3.00%	(8,886)	164,318	5.41%	(8,886)
>180 days overdue	154,280	4.26%	(6,566)	76,037	8.64%	(6,565)
	<u>544,061</u>		<u>(15,502)</u>	<u>386,329</u>		<u>(15,531)</u>

Group – other clients

	Unaudited 30 June 2021			Audited 31 December 2020		
	Carrying amount Amount	Provision		Carrying amount Amount	Provision	
		ECL rate	Amount		ECL rate	Amount
Undue	61,328	5.92%	(3,633)	67,571	6.85%	(4,631)
1-90 days overdue	43,155	6.02%	(2,599)	64,180	6.85%	(4,399)
>90 days overdue	118,066	14.03%	(16,569)	82,809	14.09%	(11,666)
	<u>222,549</u>		<u>(22,801)</u>	<u>214,560</u>		<u>(20,696)</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 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Advances to suppliers

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

	Unaudited 30 June 2021		Audited 31 December 2020	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	87,684	93%	25,199	96%
1 to 2 years	5,586	6%	262	1%
Over 2 years	776	1%	759	3%
	<u>94,046</u>	<u>100%</u>	<u>26,220</u>	<u>100%</u>

As at 30 June 2021, advances to suppliers of RMB6.4 million (31 December 2020: RMB1.0 million) with aging over one year were mainly for prepaid electricity deposit.

(b) As at 31 June 2021 (unaudited), 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>71,510</u>	<u>76.04%</u>

(5) Other receivables

	Unaudited 30 June 2021	Audited 31 December 2020
Project deposits	7,159	6,846
VAT refund	4,688	5,007
Others	9,377	12,280
	<u>21,224</u>	<u>24,133</u>
Less: Provision for bad debts	(16)	(16)
	<u>21,208</u>	<u>24,117</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

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

	Unaudited 30 June 2021	Audited 31 December 2020
Within 1 year	10,855	15,344
1 to 2 years	5,036	4,353
2 to 3 years	2,545	1,599
Over 3 years	2,788	2,837
Total	<u>21,224</u>	<u>24,133</u>

(b) As at 30 June 2021 and 31 December 2020, other receivables provisioned bad debts by group were all belong to stage 1. The analysis is as below:

	Unaudited 30 June 2021			Audited 31 December 2020		
	Carrying amount Amount	Provision Amount	%	Carrying amount Amount	Provision Amount	%
Project deposit Group:						
Within 1 year	2,709	(1)	0.05%	3,631	(2)	0.05%
1-2 years	1,256	(1)	0.05%	879	(0)	0.05%
2 to 3 years	917	(0)	0.05%	61	(0)	0.05%
Over 3 years	2,277	(1)	0.05%	2,275	(1)	0.05%
subtotal	<u>7,159</u>	<u>(3)</u>		<u>6,846</u>	<u>(3)</u>	
Other Group:						
Within 1 year	3,458	(7)	0.10%	6,706	(7)	0.10%
1-2 years	3,780	(3)	0.10%	3,474	(3)	0.10%
2 to 3 years	1,628	(2)	0.10%	1,538	(2)	0.10%
Over 3 years	511	(1)	0.10%	562	(1)	0.10%
subtotal	<u>9,377</u>	<u>(13)</u>		<u>12,280</u>	<u>(13)</u>	
total	<u>16,536</u>	<u>(16)</u>		<u>19,126</u>	<u>(16)</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 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

- (c) For the six months ended 30 June 2021, the changes of other receivables' provision of the Group is not significant.
- (d) As of 30 June 2021, the Group had no other receivables that were past due but not impaired (31 December 2020: Nil).
- (e) As at 30 June 2021 (unaudited), other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Nature	Amount	Aging	% of total balance	Provision for bad debts
Tianjin Installation Engineering Co., Ltd.	Deposits of migrant workers' wages	3,128	1 to 2 years	14.74%	(1)
Tianjin State Taxation Bureau	VAT receivable	1,718	Within 1 year	8.09%	(0)
State Grid Tianjin electric power company	Project deposits	1,000	Over 3 years	4.71%	(1)
Ningxiang Economic and Technological Development Zone Management Committee	Deposits of migrant workers' wages	800	2 to 3 years	3.77%	(0)
Inner Mongolia Dunan Photovoltaic Technology Co., Ltd.	Advance payment of taxation of water resources	415	1 to 2 years	1.96%	(0)
Inner Mongolia Dunan Photovoltaic Technology Co., Ltd.	Advance payment of taxation of water resources	328	2 to 3 years	1.55%	(0)
		<u>7,389</u>		<u>34.82%</u>	<u>(2)</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Other receivables (Continued)

(f) As at 30 June 2021 (unaudited), the Group's analysis of government grants confirmed by the amount receivables is as follows:

	Government grants program	Amount	Aging
The Company	VAT refund	1,718	Within 1 year
Wuhan Tianchuang Capital Water Co.,Ltd.	VAT refund	1,075	Within 1 year
Baoying Capital Water Co., Ltd.	VAT refund	713	Within 1 year
Qijing Capital Water Co., Ltd.	VAT refund	506	Within 1 year
Hangzhou Tianchuang Capital Water Co., Ltd.	VAT refund	274	Within 1 year
Fuyang Capital Water Co., Ltd.	VAT refund	142	Within 1 year
Wendeng Capital Water Co., Ltd.	VAT refund	112	Within 1 year
Guizhou Capital Water Co., Ltd.	VAT refund	98	Within 1 year
Deqing Capital Environmental Protection Water Co.,Ltd.	VAT refund	37	Within 1 year
Anguo Capital Water Co., Ltd.	VAT refund	13	Within 1 year
		4,688	
		4,688	

Based on the previous year's collection situation, the VAT refund is expected to be fully collected by June 2022.

(6) Inventories

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

	Unaudited 30 June 2021			Audited 31 December 2020		
	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	13,877	—	13,877	11,868	—	11,868
Finished goods	4,239	—	4,239	5,118	—	5,118
Spare parts and low cost consumables	3,487	—	3,487	474	—	474
	21,603	—	21,603	17,460	—	17,460
	21,603	—	21,603	17,460	—	17,460

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Other current and non-current assets

	Unaudited 30 June 2021	Audited 31 December 2020
Other current assets:		
Input VAT to be deducted	115,605	76,774
Input VAT to be verified	3,584	2,970
Income tax prepaid	—	2,484
	<u>119,189</u>	<u>82,228</u>
	Unaudited 30 June 2021	Audited 31 December 2020
Other non-current assets:		
Input VAT to be deducted	187,085	193,783
Prepayments of construction	117,069	108,316
Prepayment for land use rights	21,907	20,454
Others	9,856	8,418
	<u>335,917</u>	<u>330,971</u>

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

	Unaudited 30 June 2021	Audited 31 December 2020
Receivables from Tianjin Water Authority Bureau (a)	1,431,761	1,431,761
Toll road concession (b)	226,573	236,592
Less: Bad debt provision	(902)	(902)
	<u>1,657,432</u>	<u>1,667,451</u>
Less: Listed in non-current assets due within one year	(21,525)	(20,049)
	<u>1,635,907</u>	<u>1,647,402</u>

- (a) As of the six months ended 30 June 2021, with the influence of Coronavirus Disease 2019 (the “COVID-19”), the actual collection of receivables from Tianjin Water Authority Bureau was significantly below expectation. Based on the historical collection experience and the expectation of future payment scheme, the Group has reclassified the present value of receivables of which collection is expected to be exceeding 12 months as long-term receivables. The expected credit loss rate for the aforesaid long-term receivables is 0.05%, which is consistent with expected credit loss rate as applied for the remaining trade receivables with Tianjin Water Authority Bureau. The balance of loss allowances is RMB1 million.
- (b) 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%.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments

	Unaudited 30 June 2021	Audited 31 December 2020
Investment in an associate (a)	217,358	217,358
Less: Impairment of Long-term equity investments (b)	<u>(22,358)</u>	<u>(22,358)</u>
	<u>195,000</u>	<u>195,000</u>

(a) Investment in associate

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

- (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 2020 (Audited)	New investment	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	30 June 2021 (Unaudited)	Provision for impairment at the end of the period
International Machinery	<u>33,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,358</u>

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

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

Notes to the Financial Statements
 For the six months ended 30 June 2021
 (All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Long-term equity investments (Continued)

(a) Investment in associate (Continued)

- (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 2020 (Audited)	New investment	Share of net loss under equity method	Cash dividends or profit declared	Provision for impairment accrued	30 June 2021 (Unaudited)	Provision for impairment at the end of the period
Bihai Sponge City	195,000	195,000	—	—	—	—	195,000	—

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

	Audited 31 December 2020	Additions	Disposals	Unaudited 30 June 2021
International Machinery	22,358	—	—	22,358

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Other equity instruments investment

	Unaudited 30 June 2021	Audited 31 December 2020
Equity of unlisted company		
– Tianjin Beifang Rencaigang Company Ltd.	2,000	2,000
	2,000	2,000
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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Fixed assets and construction in progress

(a) Fixed assets

	Buildings and structures (note (i)) Self-use	Machinery and equipment Self-use	Motor vehicles & others Self-use	Total
Cost –				
31 December 2020 (Audited)	635,156	528,136	110,459	1,273,751
Other additions in the current period	124,850	136,246	5,483	266,579
Disposals in the current period	—	—	(3,618)	(3,618)
30 June 2021 (Unaudited)	<u>760,006</u>	<u>664,382</u>	<u>112,324</u>	<u>1,536,712</u>
Accumulated depreciation –				
31 December 2020 (Audited)	(161,631)	(243,836)	(58,789)	(464,256)
Other additions in the current period (note (i))	(23,568)	(51,638)	(5,077)	(80,283)
Disposals in the current period	—	—	3,420	3,420
30 June 2021 (Unaudited)	<u>(185,199)</u>	<u>(295,474)</u>	<u>(60,446)</u>	<u>(541,119)</u>
Carrying Amount –				
30 June 2021 (Unaudited)	<u>574,807</u>	<u>368,908</u>	<u>51,878</u>	<u>995,593</u>
31 December 2020 (Audited)	<u>473,525</u>	<u>284,300</u>	<u>51,670</u>	<u>809,495</u>

- (i) The Group's depreciation expenses of RMB33 million (For the six months ended 30 June 2020: RMB21 million) have been included in cost of sales and RMB5 million (For the six months ended 30 June 2020: RMB5 million) in general and administrative expenses.
- (ii) As at 30 June 2021, the certificate of title to outsourced assets included in fixed assets, land use rights with cost of RMB172 million and carrying amount of RMB105 million (31 December 2020: cost of RMB172 million and carrying amount of RMB109 million) and non-monetary exchange assets with cost of RMB12 million and carrying amount of RMB9 million (31 December 2020: cost of RMB12 million and carrying amount of RMB9 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, the management of the Company believes that the titles will be received in due course without any legal barrier or additional significant cost.
- (iii) As at 30 June 2021, fixed assets with cost of RMB398 million (31 December 2020: RMB190 million) and a carrying amount of approximately RMB386 million (31 December 2020: RMB185 million) were used as collateral for long-term borrowings of RMB309 million (Note 4(17)(a)).

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Construction in progress

Name	Budgeted amount	31		Transfer to fixed assets	Transfer to intangible assets	30 June 2021 (Unaudited)	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
		December 2020 (Audited)	Increase in the current period									
Fuyang – yindong sewage water processing Plant project	175,421	—	813	—	(813)	—	90%	90%	2,557	2,079	5%	Special loan and Self-raised fund
Tianjin – Jiayuan Tianchuang Heiniucheng Roads energy station project	209,975	—	2,214	—	(2,214)	—	89%	100%	855	688	4%	Special loan and Self-raised fund
Hefei – Hefei Taochong sewage water processing plant PPP project	585,895	—	2,671	—	(2,671)	—	38%	38%	11,583	3,417	4%	Special loan and Self-raised fund
Jiuquan Suzhou Sewage Treatment Plant PPP Project	512,505	—	1,499	—	(1,499)	—	56%	56%	781	—	5%	Special loan and Self-raised fund
Baoying – xianhe sewage water processing plant project	99,806	—	27,322	—	(27,322)	—	96%	96%	4,010	2,871	5%	Special loan and Self-raised fund
Fuyang-Jinzhai business park BOT Project	60,999	—	—	—	—	—	100%	100%	8,429	8,141	5%	Special loan and Self-raised fund
Changsha-Ningxiang sewage water processing and recycling project	95,720	—	—	—	—	—	100%	100%	1,050	—	4%	Special loan and Self-raised fund
Xinjiang – Karamay PPP Project of sewage operation	269,980	—	3,328	—	(3,328)	—	89%	100%	4,712	742	5%	Special loan and Self-raised fund
Chibi sewage water processing plant upgrading project	214,680	—	1,456	—	(1,456)	—	86%	86%	6,459	4,219	5%	Special loan and Self-raised fund
Guizhou-Shibing PPP Project	99,500	—	3,723	—	(3,723)	—	89%	89%	1,062	331	4%	Special loan and Self-raised fund
Guojin-Gaocheng district water environment upgrading PPP project	724,990	—	—	—	—	—	6%	6%	998	998	4%	Special loan and Self-raised fund
Hanshou – Hanshou Yuanquan water plant concession project	150,000	—	18,415	—	(18,415)	—	33%	33%	2,626	515	4%	Special loan and Self-raised fund
Huoqiu PPP project	206,415	—	72,511	—	(72,511)	—	58%	58%	438	438	4%	Special loan and Self-raised fund
Huize-Huize urban sewage water processing facilities construction project	141,231	—	181	—	(181)	—	34%	34%	755	755	4%	Special loan and Self-raised fund
Xi'an-Xi'an Beishiqiao Dengjiacun upgrading and deodorant projects	473,910	—	96,364	—	(96,364)	—	29%	29%	1,615	1,615	5%	Special loan and Self-raised fund
Shandong – Yishui&Tancheng City Solid Waste Treatment project	572,986	3,964	412	—	—	4,376	71%	71%	19,610	10,654	5%	Special loan and Self-raised fund
Changsha – Ningxiang Economic and Technological Development Zone sewage water emergency processing project	16,473	—	—	—	—	—	79%	79%	90	90	5%	Special loan and Self-raised fund
Other project		5,895	12,504	—	(5,609)	12,790			35,068	2,155		Special loan and Self-raised fund
		<u>9,859</u>	<u>243,413</u>	<u>—</u>	<u>(236,106)</u>	<u>17,166</u>			<u>102,698</u>	<u>39,708</u>		

As at 30 June 2021, the Group has no provision for construction in progress (31 December 2020: Nil).

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets

	Unaudited 30 June 2021	Audited 31 December 2020
Concession rights (a)	11,961,541	11,918,617
Land use rights (b)	114,509	77,607
Technical know-how and computer software (c)	3,979	3,594
	<u>12,080,029</u>	<u>11,999,818</u>

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

Cost	
31 December 2020 (Note (i)) (Audited)	15,054,895
Transfers from construction in progress	236,106
Other decrease	96,388
	<u>15,387,389</u>
30 June 2021 (Note (i)) (Unaudited)	15,387,389
Accumulated amortisation	
31 December 2020 (Note (i)) (Audited)	(3,055,644)
Charge for the period	(289,570)
	<u>(3,345,214)</u>
30 June 2021 (Note (i)) (Unaudited)	(3,345,214)
Provision for impairment	
31 December 2020 (Note (i)) (Audited) and 30 June 2021 (Note (i)) (Unaudited)	(80,634)
	<u>(80,634)</u>
Net Book Value	
30 June 2021 (Note (i)) (Unaudited)	<u>11,961,541</u>
31 December 2020 (Note (i)) (Audited)	<u>11,918,617</u>

(i) As at 30 June 2021, certain concession rights with carrying amounts of RMB3,393 million (cost of RMB4,272 million) (31 December 2020: carrying amounts of RMB2,508 million (cost of RMB3,241 million)) have been pledged as securities for bank borrowing of RMB1,321 million (31 December 2020: RMB1,211 million) (Note 4(17)(a)).

(ii) The amortisation period of concession rights ranges from 9 to 30 years.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets (Continued)

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

Cost	
31 December 2020 (Audited)	86,994
Increase of the Business Combination	38,661
Decrease	(199)
	125,456
30 June 2021 (Unaudited)	125,456
Accumulated amortisation	
31 December 2020 (Audited)	(9,387)
Charge for the period	(1,085)
Increase of the Business Combination	(635)
Charge for the period	160
	(10,947)
Decrease	
30 June 2021 (Unaudited)	(10,947)
Net Book Value	
30 June 2021 (Unaudited)	114,509
31 December 2020 (Audited)	77,607

- (i) As at 30 June 2021, bank borrowing of RMB309 million (31 December 2020: RMB311 million) is secured by land use right with carrying amount of RMB58 million and original cost of RMB62 million (31 December 2020: carrying amount of RMB58 million and original cost of RMB62 million) (Note 4(17)(a)).
- (ii) As at 30 June 2021, the land use right includes assets exchanged for non-monetary assets with an original cost of RMB5 million and a carrying amount of approximately RMB3 million (31 December 2020: original cost of RMB5 million and a carrying amount of approximately RMB4 million). Whose certificate of title to outsourced assets included 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, the management of the Company believes that the titles will be received in due course without any legal barrier or additional significant cost.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Intangible assets (Continued)

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

Cost	
31 December 2020 (Audited)	12,367
Increase of the Business Combination	490
Other Increase	282
	<hr/>
30 June 2021 (Unaudited)	13,139
	<hr/>
Accumulated amortisation	
31 December 2020 (Audited)	(8,773)
Charge for the period	(265)
Increase of the Business Combination	(122)
	<hr/>
30 June 2021 (Unaudited)	(9,160)
	<hr/>
Net Book Value	
30 June 2021 (Unaudited)	3,979
	<hr/> <hr/>
31 December 2020 (Audited)	3,594
	<hr/> <hr/>

- (d) For the six months ended 30 June 2021, the amounts of amortization charged to cost of sales and general and administrative expenses were RMB290 million (For the six months ended 30 June 2020: RMB252 million) and RMB0.6 million (For the six months ended 30 June 2020: RMB1 million), respectively.
- (e) The Research and development expenses of the Group for the six months ended 30 June 2021 are all related to the Research and development of the production process of environmental protection equipment, which are all included in profit or loss when incurred.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Goodwill

	Unaudited 30 June 2021	Audited 31 December 2020
Jiangsu Yonghui Resources Utilization Co., Ltd.	267,816	—
Gaoyou Compro Environmental Resources Co., Ltd.	230,950	—
	267,816	—
	267,816	—

The Group proposed acquisition of 100% equity interest in Jiangsu Yonghui Resources Utilization Company Limited (“Jiangsu Yonghui”) and Gaoyou Compro Environmental Resources Company Limited (“Gaoyou Compro”) on 26 January 2021. (“the acquisition date”) The costs of combination are RMB353 million and RMB386 million respectively. The fair value of identifiable net assets are RMB85 million and RMB155 million respectively. Therefore, the Group confirmed that the amount of goodwill was RMB268 million and RMB231 million respectively.

The Group will stay tuned the risk of goodwill impairment.

(14) Provision for asset impairment and loss

	31 December 2020 (Audited)	Reclassification	Increase in the current period	Decrease in the current period Reversal	Write-off	30 June 2021 (Unaudited)
Provision for trade receivables (Notes(i))	168,529	—	2,076	—	—	170,605
Including: Individual provision for bad debts	132,302	—	—	—	—	132,302
Combined provision for bad debts	36,227	—	2,076	—	—	38,303
Provision for other receivables	16	—	—	—	—	16
Provision for long-term receivables (including other non-current assets due with one year)	902	—	—	—	—	902
Subtotal	169,447	—	2,076	—	—	171,523
Provision for intangible assets	80,634	—	—	—	—	80,634
Provision for other current assets	33,065	—	—	—	—	33,065
Provision for Long-term equity investments	22,358	—	—	—	—	22,358
Subtotal	136,057	—	—	—	—	136,057

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Unaudited 30 June 2021	Audited 31 December 2020
Trade payables (a)	359,753	294,973
Other payables (b)	971,354	955,773
Taxes payable (c)	49,590	56,841
Contract liabilities (d)	573,057	527,410
	<u>1,953,754</u>	<u>1,834,997</u>

(a) As at 30 June 2021, trade payables are mainly for inventory purchase. Trade payables aged over one year are RMB195 million (31 December 2020: RMB89 million), mainly representing payables for source water of RMB53 million (31 December 2020: RMB43 million) from the subsidiary Qujing Capital Water Co., Ltd, and the subsidiary Tianjin Zhongshui Co., Ltd.'s project payable of RMB47 million (31 December 2020: RMB30 million). Since such amount has not been received from Qujing City Water General Company and the pipeline connection project of Zhongshui Company has not been completed, so the payment has not been finalized.

(b) Other payables comprise:

	Unaudited 30 June 2021	Audited 31 December 2020
Construction costs payable and deposits	671,835	838,871
Payable for purchase of fixed assets and concession rights	17,569	18,930
Interests payable for debentures payable	1,515	2,097
Dividends payable	—	142
Others	280,435	95,733
	<u>971,354</u>	<u>955,773</u>

As at 30 June 2021, other payables of RMB564 million (31 December 2020: RMB642 million) are aged over one year, which mainly represent construction costs payable and guarantee deposits for Dalian Oriental Chunliuhe sewage processing project, Karamay Sewage processing PPP project, Yuwan Sewage processing PPP project, Taochong Sewage processing PPP project and etc. The balance is yet to be settled as the projects have not been completed.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Balances of taxes payable

	Unaudited 30 June 2021	Audited 31 December 2020
Unpaid VAT	30,976	24,234
Enterprise income tax payable	6,329	18,092
Others	12,285	14,515
	<u>49,590</u>	<u>56,841</u>

(d) Contract Liabilities

	Unaudited 30 June 2021	Audited 31 December 2020
For pipeline connection service	495,892	509,271
For toll road fee	43,995	—
For hazard waste treatment	22,614	3,145
Received from project of Han Gu	4,876	4,876
For cooling and heating service	3,357	7,190
For sale of equipment	373	2,028
Others	1,950	900
	<u>573,057</u>	<u>527,410</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 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) Accrued payroll

	Unaudited 30 June 2021	Audited 31 December 2020
Short-term employee benefits payable (a)	23,655	85,362
Defined contribution plans payable (b)	214	258
	<u>23,869</u>	<u>85,620</u>

(a) Short-term employee benefits payable

	Audited 31 December 2020	Increase in the current period	Decrease in the current period	Unaudited 30 June 2021
Wages and salaries, bonuses, allowances and subsidies	75,956	147,000	(208,859)	14,097
Staff welfare	11	5,977	(5,988)	—
Social security contributions	112	12,650	(12,691)	71
Including: Medical insurance	112	11,879	(11,920)	71
Work injury insurance	—	414	(414)	—
Maternity insurance	—	357	(357)	—
Housing funds	112	23,201	(23,244)	69
Labor union funds and employee education funds	9,171	3,848	(3,601)	9,418
	<u>85,362</u>	<u>192,676</u>	<u>(254,383)</u>	<u>23,655</u>

(b) Defined contribution plans payable

	Audited 31 December 2020	Increase in the current period	Decrease in the current period	Unaudited 30 June 2021
Basic pensions	128	17,639	(17,556)	211
Annuity	126	5,363	(5,489)	—
Unemployment	4	540	(541)	3
	<u>258</u>	<u>23,542</u>	<u>(23,586)</u>	<u>214</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Note	Unaudited 30 June 2021	Audited 31 December 2020
Non-current:			
Long-term borrowings	(a)	7,249,251	5,033,225
Less: Current portion due within one year	(a)	(854,259)	(805,331)
		6,394,992	4,227,894
Debentures payable	(b)	709,795	1,798,419
Less: Current portion due within one year	(b)	(709,795)	(699,571)
		—	1,098,848
Long-term payables	(c)	269,883	282,840
Less: Current portion due within one year	(c)	(45,379)	(35,106)
		224,504	247,734
Other non-current liabilities	(e)	34,000	34,000
Current:			
Current portion of long-term borrowings	(a)	854,259	805,331
Current portion of debentures payable	(b)	698,803	699,571
Current portion of debentures payable interests	(b)	10,992	42,974
Current portion of long-term payables	(c)	45,379	35,106
Current portion of provision(Note 4(18))		12,078	13,281
		1,621,511	1,596,263
Current portion of non-current liabilities		1,621,511	1,596,263
Short-term borrowings	(d)	29,487	—

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

Notes to the Financial Statements
 For the six months ended 30 June 2021
 (All amounts in RMB thousand unless otherwise stated)

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	Unaudited 30 June 2021	Audited 31 December 2020
Secured	(i)	29,775	26,641
Guaranteed	(ii)	251,396	431,700
Unsecured		466,600	251,590
Pledged	(iii)	106,488	95,400
		<u>854,259</u>	<u>805,331</u>

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

	Note	Unaudited 30 June 2021	Audited 31 December 2020
Secured	(iv)	278,923	284,395
Guaranteed	(v)	2,320,481	2,065,686
Unsecured		2,146,786	761,690
Pledged	(vi)	1,648,802	1,116,123
		<u>6,394,992</u>	<u>4,227,894</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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 2021, the current portion of bank borrowings of RMB22 million (31 December 2020: RMB22 million) is mortgaged by land use right (Note 4(12)(b)). As at 30 June 2021, the current portion of bank borrowings of RMB8 million (31 December 2020: RMB5 million) is mortgaged by land use right (Note 4(12)(b)), property and equipment under construction (Note 4(11)(b)) and fixed assets (Note 4(11)(a)) of Shandong Capital Environmental Protection Technology Development Co., Ltd..
- (ii) As at 30 June 2021, the current portion of bank borrowings of RMB35 million (31 December 2020: RMB40 million) is guaranteed by Tianjin City Infrastructure Construction and Investment for Xi'an Capital Water Co., Ltd., the subsidiary of the Company (Note 8(5)(c)). The current portion of bank borrowings of RMB216 million (31 December 2020: RMB392 million) is guaranteed by the company for its subsidiaries.
- (iii) As at 30 June 2021, the current portion of bank borrowings of RMB55 million (31 December 2020: RMB75 million) is pledged by all earnings and equity of Jingu and Beicang upgrading project under the Group's concession right (Note 4(12)(a)). The current portion of bank borrowings of RMB20 million (31 December 2020: RMB20 million) is pledged by the account receivables of "JiuQuan Suzhou the first and the second Sewage Treatment Plant PPP Project" (Note 4(12)(a)). The current portion of bank borrowings of RMB28 million (31 December 2020: Nil) is pledged by the equity of Gaoyou Compro Environmental Resources Co., Ltd. and Jiangsu Yonghui Resources Utilization Co., Ltd. The current portion of bank borrowings of RMB3 million (31 December 2020: Nil) is pledged by the contract right to charge of "Qujing Capital Water Co., Ltd. The current portion of bank borrowings of RMB1 million (31 December 2020: Nil) is pledged by the account receivables of Hebei Gaocheng Economic and Technological Development Zone Management Committee (Note 4(12)(a)).

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

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)

- (iv) As at 30 June 2021, the non-current portion of bank borrowings of RMB139 million (31 December 2020: RMB150 million) is mortgaged by land use right (Note 4(12)(b)). The non-current portion of bank borrowings of RMB140 million (31 December 2020: RMB134 million) is mortgaged by land use right (Note 4(12)(b)), the property and equipment under construction (Note 4(11)(b)) and fixed assets (Note 4(11)(a)) of Shandong Capital Environmental Protection Technology Development Co., Ltd..
- (v) As at 30 June 2021, the non-current portion of bank borrowings of RMB16 million (31 December 2020: RMB31 million) is guaranteed by City Infrastructure Construction and Investment for Xi'an Capital Water Co., Ltd, the subsidiary of the Company (Note 8(5)(c)), the non-current portion of bank borrowings of RMB2,304 million (31 December 2020: RMB2,035 million) is guaranteed by the company for its subsidiaries.
- (vi) As at 30 June 2021, the non-current portion of bank borrowing of RMB718 million (31 December 2020: RMB635 million) is pledged by all earnings and equity of Jingu and Beicang upgrading project under the Group's concession right (Note 4(12)(a)). The non-current portion of bank borrowing of RMB52 million (31 December 2020: RMB51 million) is secured by account receivables of Hebei Gaocheng Economic Development Zone Management Committee under the concession service agreement. The non-current portion of bank borrowings of RMB385 million (31 December 2020: RMB395 million) is pledged by the account receivables of "JiuQuan Suzhou the first and the second Sewage Treatment Plant PPP Project" (Note 4(12)(a)). The non-current portion of bank borrowings of RMB7 million (31 December 2020: Nil) is pledged by the contract right to charge of "Qujing Capital Water Co., Ltd. The non-current portion of bank borrowings of RMB407 million (31 December 2020: Nil) is pledged by the equity of Gaoyou Compro Environmental Resources Co., Ltd. and Jiangsu Yonghui Resources Utilization Co., Ltd. The non-current portion of bank borrowings of RMB80 million (31 December 2020: RMB35 million) is pledged by all earnings and equity of Huoqiu Capital Water Co., Ltd. under "PPP project contract for phase I of Chengbei No.2 sewage treatment plant in Huoqiu County, Lu'an City, Anhui Province" (Note 4(12)(a)).
- (vii) As at 30 June 2021, these long-term borrowings bear interest rates between 3.330% and 5.150% (December 2020: between 3.330% and 5.150%).

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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

	Audited 31 December 2020	Issue	Payment	Amortization	Unaudited 30 June 2021
Debentures payable					
– Par value	1,800,000	—	(1,100,000)	—	700,000
– Transaction cost	(1,581)	—	—	384	(1,197)
	<u>1,798,419</u>	<u>—</u>	<u>(1,100,000)</u>	<u>384</u>	<u>698,803</u>
Less: Current portion of debentures payable	(699,571)	—	—	768	(698,803)
	<u><u>1,098,848</u></u>	<u><u>—</u></u>	<u><u>(1,100,000)</u></u>	<u><u>1,152</u></u>	<u><u>—</u></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	2018-04-26	5 years	1,100,000

Interests payable of debentures are analyzed as follows:

	Audited 31 December 2020	Interest Accrued		Unaudited 30 June 2021
		Interest accrued in the current period	Interest paid in the current period	
Corporate Debenture (note (i))	4,022	6,970	—	10,992
Corporate Debenture (note (ii))	38,952	17,918	(56,870)	—
	<u><u>42,974</u></u>	<u><u>24,888</u></u>	<u><u>(56,870)</u></u>	<u><u>10,992</u></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 2021
(All amounts in RMB thousand unless otherwise stated)

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 (Continued)

- (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 debenture has a maturity of five years and the fixed interest rate of 3.13% has been accrued and settled per annum. The principal will be repaid on maturity. As at 30 June 2021, the interest accrued on debentures payable to be paid within one year is RMB11 million, which is listed in Current portion of non-current liabilities.
- (ii) On 26 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. During the reporting period, the issuer was triggered to adjust the coupon rate option and the investor's option to sell back. As of the end of the reporting period, investors in this period of bonds have all sold back, and the bonds have been delisted and cancelled.

(c) Long-term payables

	Unaudited 30 June 2021			Audited 31 December 2020		
	Payables	Unrecognised financial charges	Total	Payables	Unrecognised financial charges	Total
Payable for assets acquisition	<u>390,999</u>	<u>(121,116)</u>	<u>269,883</u>	<u>415,275</u>	<u>(132,435)</u>	<u>282,840</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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)

(i) Information of long-term payables is as follows:

	Maturity date	Effective interest rate	Total	Current portion	Ending balance
Tianjin Sewage Company ("Sewage Company")	20 March 2041	5.94%	257,483	(37,779)	219,704
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	3 September 2023	3.80%	12,400	(7,600)	4,800
			269,883	(45,379)	224,504

As at 30 June 2021, 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 is RMB430 million, which was calculated based on discounted future cash payments and discount rate of 5.94%.

The balance of the long-term payables to Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd. is the amount of sale-leaseback assets of Shandong Capital Environmental Protection Technology Consultant Co., Ltd..

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

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:

	Unaudited 30 June 2021	Audited 31 December 2020
JPY	193,435	196,100
USD	64,048	70,540
CNY	12,400	16,200
	<u>269,883</u>	<u>282,840</u>

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

	Unaudited 30 June 2021	Audited 31 December 2020
JPY	304,587	321,972
USD	74,012	77,103
CNY	12,400	16,200
	<u>390,999</u>	<u>415,275</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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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)

(iv) The long-term payables mature as follows. As at 30 June 2021, the current portion of long-term payables of RMB45 million (31 December 2020: RMB35 million) was classified as current liabilities.

	Unaudited 30 June 2021	Audited 31 December 2020
Within 1 year	45,379	35,106
1-2 years	29,344	29,188
2-5 years	64,449	76,901
Over 5 years	130,711	141,645
	<u>269,883</u>	<u>282,840</u>

(d) Short-term borrowings

	Unaudited 30 June 2021	Audited 31 December 2020
China Merchants Bank Tianjin Pilot Free Trade Zone Branch	<u>29,487</u>	<u>—</u>

Summary of short-term borrowings by terms

	Unaudited 30 June 2021	Audited 31 December 2020
Unsecured	<u>29,487</u>	<u>—</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 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(e) Other liabilities

	Unaudited 30 June 2021	Audited 31 December 2020
Non-current:		
– Cooling service fee	<u>34,000</u>	<u>34,000</u>

(18) Provisions

	Audited 31 December 2020	Increase in the current period	Decrease in the current period	Unaudited 30 June 2021
Maintenance cost of sewage water processing plants	23,472	—	(567)	22,905
Others	3,546	—	—	3,546
Less: Provisions expected to be paid within one year (Note 4(17))	<u>(13,281)</u>	<u>(4,116)</u>	<u>5,319</u>	<u>(12,078)</u>
	<u>13,737</u>	<u>(4,116)</u>	<u>4,752</u>	<u>14,373</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

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:

	Audited		Recognised in other income	Unaudited	Relating to assets/costs
	31 December 2020	Additions		30 June 2021	
Sewage water processing project:					
– Jingu	1,155,975	—	25,643	1,130,332	assets
– Jingu upgrading project	149,960	—	3,260	146,700	assets
– Beichen upgrading project	82,800	—	1,800	81,000	assets
– Xianyang Road-upgrading project	54,353	—	1,182	53,171	assets
– Dongjiao upgrading project	38,140	—	829	37,311	assets
– Ningxiang upgrading project	16,417	6,849	465	22,801	assets
– Linxia reconstruction and extension project	9,066	—	160	8,906	assets
– Beishiqiao upgrading project	8,916	—	358	8,558	assets
– Chibi upgrading project	7,750	—	—	7,750	assets
– Shijiazhuang Gaocheng Zhenxing plant upgrading project	—	20,154	—	20,154	assets
Water recycling project:					
– Jingu	193,934	—	—	193,934	assets
– Dongjiao	19,731	—	337	19,394	assets
– Beichen	17,062	—	262	16,800	assets
– Xianyanglu	11,903	—	—	11,903	assets
Heating and cooling supply service project	207,419	188	—	207,607	assets
Others	8,008	—	16	7,992	costs
Total	1,981,434	27,191	34,312	1,974,313	

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

Notes to the Financial Statements
 For the six months ended 30 June 2021
 (All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Deferred tax assets and deferred tax liabilities

(a) *Deferred income tax assets before offsetting*

	Unaudited 30 June 2021		Audited 31 December 2020	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Provision for assets	145,668	36,417	145,668	36,417
Unrecognised financing income	61,224	15,306	61,224	15,306
Accrued expenses	31,252	7,813	26,870	6,717
Accrued liabilities	19,557	2,934	19,557	2,934
	<u>257,701</u>	<u>62,470</u>	<u>253,319</u>	<u>61,374</u>
Including:				
Expected to be recovered within one year (inclusive)		9,237		9,237
Expected to be recovered after one year		<u>53,233</u>		<u>52,137</u>
		<u>62,470</u>		<u>61,374</u>

(b) *Unrecognised deferred income tax assets*

- (i) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analyzed as follows:

	Unaudited 30 June 2021	Audited 31 December 2020
Deductible temporary difference – provision for assets	167,999	167,999
Deductible losses	99,471	77,775
Accrued liabilities	<u>7,461</u>	<u>7,461</u>
	<u>274,931</u>	<u>253,235</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Deferred tax assets and deferred tax liabilities (Continued)

(b) Unrecognised deferred income tax assets (Continued)

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

	Unaudited 30 June 2021	Audited 31 December 2020
2021	—	5,124
2022	3,466	3,466
2023	11,061	11,061
2024	32,774	32,774
2025	25,350	25,350
2026	26,820	—
	<u>99,471</u>	<u>77,775</u>

(c) Deferred income tax liabilities before offsetting

	Unaudited 30 June 2021		Audited 31 December 2020	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Amortization of intangible assets	563,632	140,908	545,687	136,422
Business combination	50,204	12,551	51,146	12,786
	<u>613,836</u>	<u>153,459</u>	<u>596,833</u>	<u>149,208</u>
Including:				
Expected to be recovered within one year (inclusive)		5,123		5,123
Expected to be recovered after one year		148,336		144,085
		<u>153,459</u>		<u>149,208</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 2021
 (All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Deferred tax assets and deferred tax liabilities (Continued)

(d) The net balances of deferred income tax assets and deferred income tax liabilities after offsetting are shown below:

	Unaudited 30 June 2021		Audited 31 December 2020	
	Set-off amount	After offsetting the balance	Set-off amount	After offsetting the balance
Deferred income tax assets	(48,409)	13,661	(48,409)	12,965
Deferred income tax liabilities	(48,409)	104,650	(48,409)	100,799

(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 2021 (Unaudited), 31 December 2020 (Audited) and 31 December 2019 (Audited)	1,087,228	340,000	1,427,228

All the A-shares and H-shares rank pari passu in all respects.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Capital surplus, surplus reserve and undistributed profits

(a) Capital surplus

	30 June 2021 (Unaudited), 31 December 2020 (Audited) & 31 December 2019 (Audited)
Share premium	382,311
A subsidiary reformed as a stock limited company	16,804
Capital Increase by minority shareholders	31,909
	431,024
	431,024

(b) Surplus reserve

	Audited		Increase in the current period		Decrease in the current period		Unaudited
	31 December 2020						30 June 2021
Statutory surplus reserve	619,054	—	—	—	—	—	619,054
	Audited		Increase in the current year		Decrease in the current year		Audited
	31 December 2019						31 December 2020
Statutory surplus reserve	558,250	60,804	—	—	—	—	619,054

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.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Undistributed profits

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Undistributed profits at the beginning of the period (audited)	4,114,045	3,757,523
Add: Net profit attributable to owners of the parent for the current period	304,489	256,948
Less: Appropriation for statutory surplus reserve	—	—
Ordinary share dividends payable (i)	(171,267)	(152,713)
	<u>4,247,267</u>	<u>3,861,758</u>
Undistributed profits at the end of the period (unaudited)	<u>4,247,267</u>	<u>3,861,758</u>

- (i) As at 27 May 2021, the board of shareholders proposed a cash of RMB1.20 (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 RMB171 million.

(23) Revenue and cost of sales

	Unaudited For the six months ended 30 June 2021		Unaudited For the six months ended 30 June 2020	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	1,805,527	1,202,378	1,417,026	956,061
Other operations	98,427	61,746	104,364	84,651
	<u>1,903,954</u>	<u>1,264,124</u>	<u>1,521,390</u>	<u>1,040,712</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Revenue and cost of sales (Continued)

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	Unaudited For the six months ended 30 June 2021		Unaudited For the six months ended 30 June 2020	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water	1,381,489	925,026	1,093,275	766,741
Water recycling and connection project	168,224	117,230	136,733	94,261
Tap water supplying	57,178	40,739	46,924	38,238
Hazardous waste treatment	109,958	80,739	33,029	13,911
Heating and cooling supply services	39,779	26,088	46,057	31,041
Sale of environmental protection equipment	17,460	8,625	13,571	6,655
Others	31,439	3,931	47,437	5,134
	<u>1,805,527</u>	<u>1,202,378</u>	<u>1,417,026</u>	<u>956,061</u>

Analysis by locations is as follows:

	Unaudited For the six months ended 30 June 2021		Unaudited For the six months ended 30 June 2020	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Tianjin	968,989	552,008	824,591	497,657
Hangzhou	127,712	72,648	119,374	75,953
Xi'an	64,868	40,496	79,521	39,728
Qijing	58,299	42,911	53,515	39,312
Others	585,659	494,315	340,025	303,411
	<u>1,805,527</u>	<u>1,202,378</u>	<u>1,417,026</u>	<u>956,061</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 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Revenue and cost of sales (Continued)

(b) Revenue from other operations and cost of sales

	Unaudited For the six months ended 30 June 2021		Unaudited For the six months ended 30 June 2020	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	81,051	58,166	77,041	55,822
Technical service fee	12,992	2,298	23,901	23,630
Rental income (i)	286	—	392	3,903
Others	4,098	1,282	3,030	1,296
	<u>98,427</u>	<u>61,746</u>	<u>104,364</u>	<u>84,651</u>

(i) The Group's rental income comes from the rental of its own buildings and structures. For the six months ended 30 June 2021, there's no variable rental income based on a certain percentage of the lessee's sales.

(c) The Group's operating income listed as follows:

	For the six months ended 30 June 2021 (Unaudited)								
	Processing of sewage			Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of environmental protection equipment	Others	Group
	Tianjin	Hangzhou	Others						
Revenue	719,721	127,712	534,056	168,224	39,779	57,178	17,460	141,397	1,805,527
Of which: confirm at a point in time	—	—	—	—	—	—	—	—	—
Confirm over time	719,721	127,712	534,056	168,224	39,779	57,178	17,460	141,397	1,805,527
Other operating income	—	—	—	—	—	—	—	98,427	98,427
	<u>719,721</u>	<u>127,712</u>	<u>534,056</u>	<u>168,224</u>	<u>39,779</u>	<u>57,178</u>	<u>17,460</u>	<u>239,824</u>	<u>1,903,954</u>

	For the six months ended 30 June 2020 (Unaudited)								
	Processing of sewage			Recycled water and pipeline connection	Heating and cooling supply	Tap water	Sale of environmental protection equipment	Others	Group
	Tianjin	Hangzhou	Others						
Revenue	600,633	119,374	373,268	136,733	46,057	46,924	13,571	80,466	1,417,026
Of which: confirm at a point in time	—	—	—	—	—	—	—	13,916	13,916
Confirm over time	600,633	119,374	373,268	136,733	46,057	46,924	13,571	66,550	1,403,110
Other operating income	—	—	—	—	—	—	—	104,364	104,364
	<u>600,633</u>	<u>119,374</u>	<u>373,268</u>	<u>136,733</u>	<u>46,057</u>	<u>46,924</u>	<u>13,571</u>	<u>184,830</u>	<u>1,521,390</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Revenue and cost of sales (Continued)

(c) *The Group's operating income listed as follows: (Continued)*

As at 30 June 2021, based on the pre-determined agreement price, and actual processing and supplying amount, the Group issues bills to customers at fixed period for its sewage operation services, supplies of recycled water and tap water. The bill can represent the value that the Group has transferred to customers. All consideration is included in the bills amount thus the Group did not disclose the transaction price allocated to the remaining performance obligations.

(24) Taxes and surcharges

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020	Tax base
Land use tax	8,033	6,974	RMB1.5-30 per square meter Self-use: 1.2% (deducted 30% of the original value of the property)
Property tax	7,976	4,283	Rental: 12% of the rental income
City maintenance and construction tax	1,699	5,694	7%/5% of the VAT paid
Educational surcharge	757	2,575	2%/3% of the VAT paid
Local educational surcharge	665	1,647	2% of the VAT paid
Others	1,368	1,005	
	<u>20,498</u>	<u>22,178</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 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) Selling expenses and general and administrative expenses

	Unaudited For the six months ended 30 June 2021		Unaudited For the six months ended 30 June 2020	
	General and administrative expenses	Selling expenses	General and administrative expenses	Selling expenses
Employee benefits	56,483	3,110	48,910	2,071
Consulting service fees	7,017	8,149	4,190	2,710
Depreciation of fixed assets	5,340	20	4,711	9
General office expenses	2,369	49	2,025	29
Travelling, meeting and business entertainment expenses	1,976	537	1,348	121
Expenses of secretary of the board	1,974	—	149	—
Audit fees	1,872	—	2,430	—
Repair and maintenance expenses	1,745	—	1,525	—
Amortisation of intangible assets	604	—	1,464	—
Utilities expenses	603	—	576	—
Other taxes	133	—	130	—
Others	2,736	814	2,795	2,982
	<u>82,852</u>	<u>12,679</u>	<u>70,253</u>	<u>7,922</u>

(26) Research and development expenses

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
	Employee benefits	3,379
Travelling, meeting and business entertainment expenses	2	1
Others	325	147
	<u>3,706</u>	<u>2,517</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Financial expenses

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Loan Interest expenses	213,606	154,131
Less: Amount capitalized on qualifying assets	<u>(39,708)</u>	<u>(27,549)</u>
Interest expenses	173,898	126,582
Less: Interest income	(10,253)	(12,328)
Including: From long-term receivables	(4,022)	(4,315)
From bank deposits	(6,231)	(8,013)
Exchange gains	(2,822)	(1,368)
Others	<u>879</u>	<u>101</u>
	<u>161,702</u>	<u>112,987</u>

For the six months ended 30 June 2021, the exchange gains on the long-term payables denominated in JPY and US dollar were RMB2.82 million (For the six months ended 30 June 2020: the exchange gains were RMB1.37 million).

(28) Other Income

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020	Related to assets/incomes
Government Grants (a)	46,784	38,029	Assets/Incomes
VAT refund	4,210	35,948	Incomes
Withholding and paying individual income tax refund	<u>173</u>	<u>—</u>	
	<u>51,167</u>	<u>73,977</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 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) Other Income (Continued)

(a) Details of government grants

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020	Related to assets/incomes
Compensation for construction of Jingu sewage processing plant	25,643	25,643	Assets
Allowance for Hanshou Yuanquan water plant concession project	9,200	—	Incomes
Allowance for Jingu-upgrading energy conservation	3,260	3,260	Assets
Allowance for Beichen-upgrading energy conservation	1,800	1,800	Assets
Special funds for Research and development center projects	—	—	Incomes
Special construction fund of Xianyanglu upgrading project	1,182	1,182	Assets
Special construction fund of Dongjiao sewage water processing plant	829	829	Assets
Others-Related to assets	4,870	5,315	Assets/Incomes
	<u>46,784</u>	<u>38,029</u>	

(29) Credit impairment losses

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Trade receivables losses	<u>2,076</u>	<u>—</u>

(30) Non-operating expenses

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020	Unaudited Amount recognised in non-recurring profit or loss for the six months ended 30 June 2021
Losses on disposal of fixed assets	3	—	3
Donation	—	2,188	—
Others	1,241	629	1,241
	<u>1,244</u>	<u>2,817</u>	<u>1,244</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Income tax expenses

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Current income tax calculated based on tax law and related regulations	65,673	58,934
Deferred income tax	4,131	238
	<u>69,804</u>	<u>59,172</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:

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Total profit	406,551	336,213
Calculated at applicable income tax rates (25%)	101,638	84,053
Effect of favorable tax rates	(25,946)	(16,029)
Income not subject to tax	(27,577)	(12,871)
Costs, expenses and losses not deductible for tax purposes	16,474	85
Utilization of previously tax temporary deductible losses or which no deferred income tax asset was recognised	(1,571)	(168)
Utilization of deductible tax losses for which no deferred income tax assets was recognised	6,270	—
Tax temporary differences for which no deferred income tax asset was recognised	516	4,102
Income tax expenses	<u>69,804</u>	<u>59,172</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 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the parent of RMB304 million (For the six months ended 30 June 2020: RMB257 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 2021: 1,427 million shares).

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Consolidated net profit attributable to ordinary shareholders of the Company	304,489	256,948
Weighted average number of ordinary shares in issue (thousand shares)	1,427,228	1,427,228
Basic earnings per share (RMB Yuan)	<u>0.21</u>	<u>0.18</u>
Including:		
– Basic earnings per share for operations on a going concern	0.21	0.18
– Basic earnings per share for discontinued operations	—	—

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares for the six months ended 30 June 2021 (For the six months ended 30 June 2020: Nil), diluted earnings per share equal to basic earnings per share.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Net profit	336,747	277,041
Add:		
Provision for asset impairments	—	—
Credit impairment losses	(2,076)	—
Depreciation of fixed assets and investment properties	37,916	25,952
Amortisation of intangible assets	290,920	252,956
Net gains from disposal of fixed assets	3	—
Net financial expenses	171,076	126,582
Increase in deferred tax liabilities	3,155	238
Decrease/(increase) in inventories	(4,143)	594
Increase in operating receivables	(551,976)	(343,123)
Increase/(decrease) in operating payables	407,853	(78,941)
Net cash flows from operating activities	689,475	261,299
Net movement in cash		
Cash at the end of the period	1,842,874	1,791,824
Less: Cash at the beginning of the period	(1,652,657)	(2,066,301)
Net increase/(decrease) in cash	190,217	(274,477)

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

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Cash		
Including: Cash on hand	38	21
Cash at bank	1,842,836	1,791,803
Cash listed in cash flow statement	1,842,874	1,791,824

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Cash received relating to other operating activities

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Government grants received	39,663	11,521
Interest income from bank deposits	6,231	15,455
Deposit on project bids received	4,807	22,318
Others	52,030	33,127
	<u>102,731</u>	<u>82,421</u>

(d) Cash paid relating to other operating activities

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Deposit on project bids paid	4,301	1,794
Consulting service fees	13,110	10,970
Travelling, meeting and business entertainment expenses	1,283	789
Repair and maintenance expenses	65,765	50,117
Expenses of secretary of the board	1,972	147
Others	550	5,468
	<u>86,981</u>	<u>69,285</u>

5 CHANGE IN CONSOLIDATION SCOPE

For the six months ended 30 June 2021, the Company contributed RMB386 million to set up Gaoyou Compro Environmental Resources Co., Ltd.; RMB353 million to set up Jiangsu Yonghui Resources Utilization Co., Ltd., RMB53 million to set up Honghu Tianchuang Environmental Protection Co., Ltd. and RMB62 million to set up Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd.. The shareholding ratio is 100%.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES

(a) Subsidiaries

Name of subsidiaries	Type of subsidiary	Major business location	Place of registration	Nature of business and business activity	Shareholding (%)		Establishment
					Direct	Indirect	
Qijing Capital Water Co., Ltd.	A	Qijing	Qijing	Processing of sewage water, tap water supply	87	—	Capital contribution
Guizhou Capital Water Co., Ltd.	A	Guizhou	Guizhou	Processing of sewage water	95	—	Capital contribution
Baoying Capital Water Co., Ltd.	A	Baoying	Baoying	Processing of sewage water	70	—	Capital contribution
Hangzhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Hangzhou	Processing of sewage water	70	—	Capital contribution
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Tianjin	Manufacturing and sale of new building materials	71	—	Capital contribution
Fuyang Capital Water Co., Ltd.	B	Fuyang	Fuyang	Processing of sewage water	100	—	Capital contribution
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Hong Kong	Processing of sewage water	100	—	Capital contribution
Wendeng Capital Water Co., Ltd.	B	Wendeng	Wendeng	Processing of sewage water	100	—	Capital contribution
Tianjin Jing Hai Capital Water Co., Ltd.	B	Tianjin	Tianjin	Processing of sewage water	100	—	Capital contribution
Tianjin Water Recycling Co., Ltd.	B	Tianjin	Tianjin	Production and sales of recycled water, development and construction of water recycling facilities, and technical consulting for water recycling business	100	—	Capital contribution
Xi'an Capital Water Co., Ltd.	B	Xi'an	Xi'an	Processing of sewage water	100	—	Capital contribution
Tianjin Caring Technology Development Co., Ltd.	A	Tianjin	Tianjin	Environment governance, technical consulting, etc.	48	12	Capital contribution
Anguo Capital Water Co., Ltd.	B	Anguo	Anguo	Processing of sewage water	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	Collection, storage and transfer of hazardous waste	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 sailing 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
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd.	A	Gaocheng	Gaocheng	Processing of sewage water, producing and sailing of recycled water	59	—	Capital contribution
Hanshou Tianchuang Capital Water Co., Ltd.	A	Hanshou	Hanshou	Supplying tap water	75	—	Capital contribution
Jiuquan Capital Water Co., Ltd.	A	Jiuquan	Jiuquan	Processing of sewage water and reusing of reclaimed water	89	—	Capital contribution
Huize Capital Water Co., Ltd.	A	Huize	Huize	Centralized water supply, Processing of sewage water	79	—	Capital contribution
Huoqiu Capital Water Co., Ltd.	A	Huoqiu	Huoqiu	Processing of sewage water	90	—	Capital contribution
Dongying Tianshi Environmental Protection Technology Consultant Co., Ltd.	A	Dongying	Dongying	Solid waste treatment	51	—	Capital contribution
Honghu Tianchuang Environmental Protection Co., Ltd.	A	Honghu	Honghu	Processing of sewage water	89	—	Capital contribution
Tianjin Xiqing Tianchuang Environmental Protection Co., Ltd.	B	Tianjin	Tianjin	Processing of sewage water	100	—	Capital contribution
Jiangsu Yonghui Resources Utilization Co., Ltd.	B	Gaoyou	Gaoyou	Collection, storage and transfer of hazardous waste	100	—	Business combination
Gaoyou Compro Environmental Resources Co., Ltd.	B	Gaoyou	Gaoyou	Collection, storage and transfer of hazardous waste	100	—	Business combination

A: Holding subsidiary

B: Wholly-owned subsidiary

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests

Name	Minority interests ratio	Minority interests for the six months ended 30 June 2021	Declared distribution of cash dividends for the six months ended 30 June 2021	Minority interests as at 30 June 2021 (Unaudited)
Hangzhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")	30.00%	13,083	24,262	201,009
Bayannur Capital Water Co., Ltd. ("Bayannur Company")	30.00%	2,186	—	335,393
Tianjin Caring Technology Development Co., Ltd. ("Caring Company")	40.00%	3,854	2,133	51,319
Shandong Capital Environmental Protection Technology Development Co., Ltd. ("Shandong Company")	45.00%	1,675	—	86,015
Hebei Guojin Tianchuang Sewage Water Processing Co., Ltd. ("Guojin Company")	41.00%	6,689	—	98,140

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

	30 June 2021 (Unaudited)					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	205,065	546,703	751,768	50,833	87,295	138,128
Bayannur Company	135,739	1,004,143	1,139,882	16,330	5,576	21,906
Caring Company	155,408	6,416	161,824	33,241	229	33,470
Shandong Company	56,079	509,440	565,519	88,536	284,107	372,643
Guojin Company	50,781	267,030	317,811	5,037	73,409	78,446
	<u>603,072</u>	<u>2,333,732</u>	<u>2,936,804</u>	<u>193,977</u>	<u>450,616</u>	<u>644,593</u>

	31 December 2020 (Audited)					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hangzhou Company	257,033	634,735	891,768	83,606	100,870	184,476
Bayannur Company	111,109	1,023,152	1,134,261	17,762	5,811	23,573
Caring Company	154,949	6,522	161,471	37,246	229	37,475
Shandong Company	59,411	504,874	564,285	81,836	293,825	375,661
Guojin Company	27,572	270,892	298,464	24,072	51,343	75,415
	<u>610,074</u>	<u>2,440,175</u>	<u>3,050,249</u>	<u>244,522</u>	<u>452,078</u>	<u>696,600</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(b) Subsidiaries with significant minority interests (Continued)

	For the six month ended 30 June 2021 (Unaudited)			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Company	127,712	33,469	33,469	123,160
Bayannur Company	41,228	7,288	7,288	6,215
Caring Company	51,666	9,635	9,635	7,480
Shandong Company	68,358	3,762	3,762	2,937
Guojin Company	31,583	16,316	16,316	18,236
	<u>320,547</u>	<u>70,470</u>	<u>70,470</u>	<u>158,028</u>
	For the six month ended 30 June 2020 (Unaudited)			
	Revenue	Net profit	Total comprehensive income	Net cash flows from operating activities
Hangzhou Company	119,480	40,376	40,376	(4,731)
Bayannur Company	40,989	1,739	1,739	5,731
Caring Company	42,569	7,236	7,236	9,463
Shandong Company	33,029	7,512	7,512	1,946
Guojin Company	—	(8)	(8)	—
	<u>236,067</u>	<u>40,368</u>	<u>47,604</u>	<u>4,732</u>

The information above is the amount before offsetting between the companies in the Group.

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

6 EQUITY IN OTHER ENTITIES (Continued)

(c) Non-essential information of associates

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Joint ventures:		
Total book value of investment	195,000	195,000
The total of the following items calculated according to the shareholding ratio	—	—
Net profit (i)	—	—
Other comprehensive income (i)	—	—
Total comprehensive income	—	—

- (i) Both net profit and other comprehensive income have considered the fair value of identifiable assets and liabilities at the time of investment and the adjustment effect of the unified accounting policies.

7 SEGMENT INFORMATION

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

The Group considers the business from both service and geographical perspective. From a service perspective, management assesses the performance of processing of sewage water, recycled water, pipeline connection, heating and cooling service, sales of tap water and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment sold by the Group is mainly the result of scientific research transformation of the technical know-how in the environment protection area. Other services include contract operation services, rental income and technical services etc. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT INFORMATION (Continued)

(a) Segment information as at and for the six months ended 30 June 2021 (unaudited) is as follows:

	Processing of sewage			Recycled water and pipeline connection	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))	719,721	127,712	534,056	168,224	39,779	57,178	17,460	239,824	1,903,954
Cost for operations	(457,119)	(72,648)	(395,259)	(117,230)	(26,088)	(40,739)	(8,625)	(146,416)	(1,264,124)
Interest income (Note 4(27))	2,739	193	1,145	1,326	422	30	189	4,209	10,253
Interest expenses (Note 4(27))	(95,769)	(2,233)	(65,040)	(393)	(1,318)	(238)	—	(8,907)	(173,898)
Results before share of profits of an associate	154,497	45,631	62,103	65,062	10,756	22,483	6,207	39,812	406,551
Segment total profit	154,497	45,631	62,103	65,062	10,756	22,483	6,207	39,812	406,551
Income tax expenses	(23,485)	(12,801)	(5,211)	(17,177)	(2,900)	(3,315)	(931)	(3,984)	(69,804)
Segment net profit	131,013	32,830	56,892	47,884	7,856	19,168	5,276	35,828	336,747
Net profit									336,747
Depreciation expenses	(590)	—	(1,273)	(12,668)	(839)	(98)	(538)	(21,910)	(37,916)
Amortization	(84,225)	(29,316)	(148,880)	(3,087)	(12,382)	(10,585)	—	(2,445)	(290,920)
Segment assets	7,098,946	792,417	7,552,287	1,416,541	642,683	636,082	57,631	1,704,460	19,901,047
Long-term equity investment in associate									195,000
Total assets									20,096,047
Total liabilities	6,605,959	151,102	3,665,752	901,621	305,320	98,202	22,372	625,125	12,375,453
Non-current assets addition (i)	59,106	—	256,999	572	5,062	18,415	—	37,708	377,862

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT INFORMATION (Continued)

(b) Segment information as at and for the six months ended 30 June 2020 (unaudited) is as follows:

	Processing of sewage			Recycled water and pipeline connection	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))	600,633	119,374	373,268	136,733	46,057	46,924	13,571	184,830	1,521,390
Cost for operations	(400,382)	(75,268)	(291,091)	(94,261)	(31,041)	(38,238)	(6,655)	(103,776)	(1,040,712)
Interest income (Note 4(27))	2,307	664	1,875	2,148	256	17	201	4,860	12,328
Interest expenses (Note 4(27))	(92,732)	(2,945)	(29,141)	—	(1,300)	(464)	—	—	(126,582)
Results before share of profits of an associate	131,359	36,029	76,775	57,619	12,596	6,494	5,259	10,082	336,213
Segment total profit	131,359	36,029	76,775	57,619	12,596	6,494	5,259	10,082	336,213
Income tax expenses	(19,909)	(5,404)	(9,062)	(15,875)	(3,737)	(1,910)	(789)	(2,486)	(59,172)
Segment net profit	111,451	30,625	67,713	41,744	8,858	4,584	4,470	7,596	277,041
Net profit									277,041
Depreciation expenses	(237)	—	(688)	(15,791)	(662)	(56)	(378)	(8,140)	(25,952)
Amortization	(87,321)	(30,480)	(108,396)	(3,116)	(12,010)	(10,095)	(1)	(1,537)	(252,956)
Segment assets	6,661,746	966,138	6,907,391	1,009,588	683,714	545,339	60,874	1,292,916	18,127,706
Long-term equity investment in associate									195,000
Total assets									18,322,706
Total liabilities	5,867,468	224,864	3,159,769	907,021	342,097	89,974	8,567	448,525	11,048,285
Non-current assets addition (i)	1,518	—	305,179	1,070	14,104	1,479	—	46,259	369,609

(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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Information of the parent of the Company

(a) General information of the parent company

	Type	Place of registration	Legal representative	Nature of business and principal activities
Municipal Investment	Limited company	Tianjin, China	Gu Wenhui	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

	Audited 31 December 2020	Increase in the period	Decrease in the period	Unaudited 30 June 2021
Municipal Investment	1,820,000	—	—	1,820,000

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

	Unaudited 30 June 2021		Audited 31 December 2020	
	Share holding (%)	Voting Rights (%)	Share holding (%)	Voting Rights (%)
Municipal Investment	50.14%	50.14%	50.14%	50.14%

(2) Information of subsidiaries

The general information and other related information of the subsidiaries is set out in Note 6.

(3) Information of associates

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

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

Notes to the Financial Statements
 For the six months ended 30 June 2021
 (All amounts in RMB thousand unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(4) Information of other related parties

	Relationship with the Group
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	Controlled by the same ultimate holding company

(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	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
City Infrastructure Construction and Investment	Contracted operating expenses	18,549	—

Rendering of services

Related party name	Nature of transaction	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
City Infrastructure Construction and Investment	Commission income from contract operation	38,847	41,312
Tianjin Lecheng Properties Co., Ltd.	Income from heating and cooling supply	13,012	11,054
City Infrastructure Construction and Investment	Commission income from technical services	5,930	7,471
		57,789	59,837

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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(b) *Sale-leaseback*

Rent payment

Funders	Type of leased assets	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	Fixed assets	<u>3,800</u>	<u>—</u>

(c) *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.	51,000	28 September 2008	27 September 2022	No

(d) *Key management compensation*

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Key management compensation	<u>8,032</u>	<u>8,452</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 2021
(All amounts in RMB thousand unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Receivables from and payables to related parties

Receivables from related parties

	Related party name	Unaudited 30 June 2021		Audited 31 December 2020	
		Carrying amount	Provision	Carrying amount	Provision
Trade receivable	City Infrastructure Construction and Investment	87,660	2,495	46,537	2,495
	Tianjin Lecheng Properties Co., Ltd.	3,899	146	21,342	146
	Tianjin City Resource Operation Co., Ltd.	401	401	401	401
		<u>91,960</u>	<u>3,042</u>	<u>68,280</u>	<u>3,042</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. RMB3 million provisions are held against receivables from related parties.

Advance payment to related parties

	Related party name	Unaudited 30 June 2021	Audited 31 December 2020
Advances to suppliers	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	<u>64,000</u>	<u>—</u>

Payables to related parties

	Related party name	Unaudited 30 June 2021	Audited 31 December 2020
Non-current liabilities due within one year	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	<u>7,600</u>	<u>7,600</u>
Long-term payables	Tianjin City Infrastructure Construction and Investment Chuangzhan Leasing Co., Ltd.	<u>4,800</u>	<u>4,800</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

8 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

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

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as “state-owned entities”). The company is also a state-owned entity.

During the period, 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.

9 COMMITMENTS

(1) Capital commitments

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

	Contracted but not provided for		Authorised but not contracted for	
	Unaudited 30 June 2021 RMB million	Audited 31 December 2020 RMB million	Unaudited 30 June 2021 RMB million	Audited 31 December 2020 RMB million
Intangible assets – Concession right				
– Sewage processing project	—	469	—	220
– Tap water project	—	31	—	—
– Heating and cooling supply project	—	3	—	—
Property, plant and Equipment				
– Solid waste treatment project	106	—	—	—
	<u>106</u>	<u>503</u>	<u>—</u>	<u>220</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 2021
(All amounts in RMB thousand unless otherwise stated)

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 program 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)(ii)).

As at 30 June 2021, 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 2020: 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 2020: RMB9 million) higher/lower.

Notes to the Financial Statements

For the six months ended 30 June 2021

(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 2021 and 2020, 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 2021 (Unaudited)			
Short-term borrowings	29,487	—	29,487
Non-current liabilities due within one period:			
Current portion of long-term borrowings	—	854,259	854,259
Current portion of Debentures payable and interest	709,795	—	709,795
Current portion of long-term payables	26,332	19,047	45,379
Long-term borrowings	—	6,394,992	6,394,992
Long-term payables	167,104	57,400	224,504
Total	<u>932,718</u>	<u>7,325,698</u>	<u>8,258,416</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 2021
 (All amounts in RMB thousand unless otherwise stated)

10 FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

(1) Market risk: (Continued)

(b) Interest rate risk: (Continued)

	Fixed	Floating	Total
At 31 December 2020 (Audited)			
Non-current liabilities due within one year:			
Current portion of long-term borrowings	—	805,331	805,331
Current portion of long-term payables	15,756	19,350	35,106
Current portion of Debentures payable and interest	742,545	—	742,545
Long-term borrowings	—	4,227,894	4,227,894
Long-term payables	180,344	67,390	247,734
Debentures payable	1,098,848	—	1,098,848
	<u>2,037,493</u>	<u>5,119,965</u>	<u>7,157,458</u>
Total			

As at 30 June 2021, 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 RMB30 million (At 30 June 2020: RMB38 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 2021, 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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

10 FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

(2) **Credit risk:** (Continued)

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 2021, the Group has no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2020: Nil).

(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.

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

Notes to the Financial Statements
 For the six months ended 30 June 2021
 (All amounts in RMB thousand unless otherwise stated)

10 FINANCIAL INSTRUMENTS AND THEIR RISKS (Continued)

(3) Liquidity risk: (Continued)

The Group's financial liabilities are analyzed at the balance sheet date to the contractual maturity date, using the contracted undiscounted cash flows, as follows:

	30 June 2021 (Unaudited)				Total	Carrying amount
	Within 1 year	1-2 years	2-5 years	Over 5 years		
Long-term borrowings	1,155,491	1,319,476	3,208,464	3,340,707	9,024,138	7,249,251
Long-term payables	51,074	34,301	95,756	209,868	390,999	269,883
Trade payables	359,753	—	—	—	359,753	359,753
Other payables	971,354	—	—	—	971,354	971,354
Current portion of debentures payable	709,795	—	—	—	709,795	709,795
Short-term borrowings	29,487	—	—	—	29,487	29,487
	<u>3,276,954</u>	<u>1,353,777</u>	<u>3,304,220</u>	<u>3,550,575</u>	<u>11,485,526</u>	<u>9,589,523</u>

	31 December 2020 (Audited)				Total	Carrying amount
	Within 1 year	1-2 years	2-5 years	Over 5 years		
Long-term borrowings	1,008,415	816,994	1,873,550	2,664,569	6,363,528	5,033,225
Long-term payables	39,447	39,064	108,369	228,395	415,275	282,840
Trade payables	294,973	—	—	—	294,973	294,973
Other payables	955,773	—	—	—	955,773	955,773
Debentures payable	818,102	56,870	1,118,957	—	1,993,929	1,841,393
	<u>3,116,710</u>	<u>912,928</u>	<u>3,100,876</u>	<u>2,892,964</u>	<u>10,023,478</u>	<u>8,408,204</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

11 FAIR VALUE ESTIMATION

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

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

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

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

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

As at 30 June 2021 (unaudited), 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 2020 (audited), 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

9. Financial Reports

II. Prepared in accordance with the PRC Accounting Standards

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

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.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

12 CAPITAL MANAGEMENT (Continued)

The Group's strategy is to maintain a gearing ratio below 50%. The gearing ratio of the Group is as follows:

	Unaudited 30 June 2021	Audited 31 December 2020
Total borrowings	8,258,416	7,157,458
Short-term borrowings	29,487	—
Other current liabilities	—	—
Long-term borrowings	7,249,251	5,033,225
Debentures payable	709,795	1,841,393
Long-term payables	269,883	282,840
Less: Cash at bank and on hand	<u>(1,842,874)</u>	<u>(1,652,657)</u>
Net debt	6,415,542	5,504,801
Total equity	<u>7,720,594</u>	<u>7,581,643</u>
Total capital	<u><u>14,136,136</u></u>	<u><u>13,086,444</u></u>
Gearing ratio	<u>45%</u>	<u>42%</u>

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS

(1) Trade receivables

	Unaudited 30 June 2021	Audited 31 December 2020
Trade receivables	1,257,344	1,183,519
Less: Provision for bad debts	<u>(57,042)</u>	<u>(57,042)</u>
	<u><u>1,200,302</u></u>	<u><u>1,126,477</u></u>

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

	Unaudited 30 June 2021	Audited 31 December 2020
Within 1 year	1,208,308	1,119,758
1 to 2 years	20,553	25,758
2 to 3 years	10,532	13,471
3 to 4 years	14,962	21,969
4 to 5 years	1,789	1,357
Over 5 years	<u>1,200</u>	<u>1,206</u>
Total	<u><u>1,257,344</u></u>	<u><u>1,183,519</u></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 2021
(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(1) Trade receivables (Continued)

(b) As at 30 June 2021 (unaudited), 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	1,219,651	47,499	97%

(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 allowance according to the expected credit loss for the entire life.

(i) As at 30 June 2021 (unaudited), provision for bad debts by individual is analyzed as below:

	Carrying amount	ECL rate	Provision	Reasons
Tianjin Water Authority Bureau	1,069,232	0.05%	554	Note 4 (3)(c)(i)
Tianjin City Appearance Sanitation Construction Development Co. Ltd.	31,753	50.20%	15,941	Note 4 (3)(c)(i)
Tianjin Ziya Environmental Protection Industrial Park Co. Ltd.	16,797	100.00%	16,797	Note 4 (3)(c)(i)
Tianjin Shuangkou Municipal Solid Waste Landfill	14,208	100.00%	14,208	Note 4 (3)(c)(i)
Tianjin Water Recycling Co., Ltd.	4,738	0.05%	2	
Tianjin City Investment Urban Resources Management Co., Ltd.	1,200	100.00%	1,200	Note 4 (3)(c)(i)
Tianjin Ziya Circular Economy Industry Investment Development Co., Ltd.	1,020	100.00%	1,020	Note 4 (3)(c)(i)
Tianjin Tianbao Municipal Administration Co. Ltd.	152	100.00%	152	Note 4 (3)(c)(i)
Total	<u>1,139,100</u>		<u>49,874</u>	

Tianjin Water Recycling Co., Ltd. is a subsidiary of the Company and has good operating conditions. The credit risk of receivables from Tianjin Water Recycling Co., Ltd. is low and the Company estimates that the lifetime ECL rate is 0.05%.

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(1) Trade receivables (Continued)

(c) Provision for bad debts: (Continued)

(ii) As at 30 June 2021, provision for bad debts by individual is analyzed as below:

Group – Government clients except those in provincial capitals and municipalities

	Unaudited 30 June 2021			Audited 31 December 2020		
	Carrying amount Amount	Provision		Carrying amount Amount	Provision	
		ECL rate	Amount		ECL rate	Amount
Undue	6,843	0.05%	(3)	7,762	0.05%	(4)
1-180 days overdue	41,665	5.41%	(2,252)	39,152	5.41%	(2,117)
>180 days overdue	39,437	5.55%	(2,191)	293	22.87%	(67)
	<u>87,945</u>		<u>(4,446)</u>	<u>47,207</u>		<u>(2,188)</u>

Group – other clients

	Unaudited 30 June 2021			Audited 31 December 2020		
	Carrying amount Amount	Provision		Carrying amount Amount	Provision	
		ECL rate	Amount		ECL rate	Amount
Undue	3,175	6.85%	(217)	5,333	6.85%	(365)
1-90 days overdue	7,504	6.85%	(514)	13,479	6.85%	(923)
>90 days overdue	19,620	10.15%	(1,991)	34,402	10.73%	(3,692)
	<u>30,299</u>		<u>(2,722)</u>	<u>53,214</u>		<u>(4,980)</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 2021
 (All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables

	Unaudited 30 June 2021	Audited 31 December 2020
Receivables from subsidiaries	19,006	20,010
Dividends receivable from subsidiaries	18,813	—
VAT refund receivable (e)	1,718	1,718
Project deposits	1,137	2,212
Others	3,039	1,959
	<u>43,713</u>	<u>25,899</u>
Less: Provision for bad debts	(16)	(16)
	<u>43,697</u>	<u>25,883</u>

As at 30 June 2021, there were no other receivables overdue but unimpaired (31 December 2020: Nil).

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

	Unaudited 30 June 2021	Audited 31 December 2020
Within 1 year	41,431	22,892
1 to 2 years	1	1,696
2 to 3 years	977	7
Over 3 years	1,304	1,304
	<u>43,713</u>	<u>25,899</u>
Total	<u>43,713</u>	<u>25,899</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(b) As at 30 June 2021 and 31 December 2020, 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:

	Unaudited 30 June 2021			Audited 31 December 2020		
	Carrying amount Amount	Provision Amount	Percentage	Carrying amount Amount	Provision Amount	Percentage
Project Deposits						
Group:						
Within 1 year	11	—	0.05%	286	—	0.05%
1-2 years	—	—	0.05%	800	—	0.05%
2-3 years	—	—	0.05%	—	—	0.05%
Over 3 years	1,126	(1)	0.05%	1,126	(1)	0.05%
Subtotal	1,137	(1)		2,212	(1)	
Others:						
Within 1 year	39,702	(14)	0.05%	20,888	(14)	0.05%
1-2 years	1	(1)	0.10%	896	(1)	0.10%
2-3 years	977	—	0.10%	7	—	0.10%
Over 3 years	178	—	0.10%	178	—	0.10%
Subtotal	40,858	(15)		21,969	(15)	
Total	41,995	(16)		24,181	(16)	

(c) For the six months ended 30 June 2021, the changes of other receivables' provision of the Company is not significant.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(d) As at 30 June 2021 (unaudited), other receivables from the top five debtors in respect of outstanding balance are analyzed as below:

	Nature	Balance	Aging	% of total balance	Provision for bad debts
Wuhan Tianchuang Capital Water Co., Ltd.	Subsidiary dividend	18,813	Within 1 year	43.04%	0
Tianjin Water Recycling Co., Ltd.	Subsidiary transactions	17,511	Within 1 year	40.06%	0
Tianjin Capital New Materials Co., Ltd.	Subsidiary transactions	1,744	Within 1 year	3.99%	0
Tianjin State Taxation Bureau	VAT refund receivable	1,718	Within 1 year	3.93%	0
State Grid Tianjin electric power company	Project deposits	1,000	Over 3 years	2.29%	1
		<u>40,786</u>		<u>93.31%</u>	<u>1</u>

(e) As at 30 June 2021 (unaudited), government grants confirmed according to receivables are analyzed as below:

Name	Amount	Aging	Estimated time, amount and basis of collection
VAT refund	<u>1,718</u>	Within 1 year	It's expected to received fully in 2021 because the nature is VAT refund.

(3) Long-term equity investments

	Unaudited 30 June 2021	Audited 31 December 2020
Investment in subsidiaries (a)	5,107,177	4,181,549
Associate (b)	195,000	195,000
Less: Impairment of Long-term equity investments (c)	<u>(153,004)</u>	<u>(153,004)</u>
	<u>5,149,173</u>	<u>4,223,545</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(a) Subsidiaries

	Investment cost	Movement for the period				30 June 2021 (Unaudited)	Provision for impairment
		31 December 2020 (Audited)	Additions	Disposals	Provision		
Xi'an Capital Water Co., Ltd. (note(i))	424,000	424,000	52,170	—	—	476,170	—
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(ii))	390,111	390,111	19,000	—	—	409,111	—
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 Jiayuan Xingchuang 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
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 Jinghai Capital Water Co., Ltd.	37,553	17,330	—	—	—	17,330	20,223
Yingshang Capital Water Co., Ltd.	53,000	53,000	—	—	—	53,000	—
Shandong Capital Environmental Protection Technology Consultant Co., Ltd.	105,600	105,600	—	—	—	105,600	—
Subtotal	2,321,206	2,168,202	71,170	—	—	2,239,372	153,004

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(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 2020 (Audited)	Movement for the year			30 June 2021 (Unaudited)	Provision for impairment
			Additions	Disposals	Provision		
Changsha Tianchuang Capital Environmental Protection Co., Ltd.	37,469	37,469	—	—	—	37,469	—
Karamay Tianchuang Capital Water Co., Ltd.	108,000	108,000	—	—	—	108,000	—
Anhui Tianchuang Capital Water Co., Ltd.	63,670	63,670	—	—	—	63,670	—
Linxia Capital Water Co., Ltd.	45,000	45,000	—	—	—	45,000	—
Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd.	47,981	47,981	—	—	—	47,981	—
Changsha Tianchuang Capital Water Co., Ltd.	17,002	17,002	—	—	—	17,002	—
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	—
Hebei Guojin Tianchuang Capital Water Co., Ltd.	128,323	128,323	—	—	—	128,323	—
Hanshou Tianchuang Capital Water Co., Ltd.	33,750	33,750	—	—	—	33,750	—
Jiuquan Capital Water Co., Ltd.	158,238	158,238	—	—	—	158,238	—
Huize Capital Water Co., Ltd.	32,660	32,660	—	—	—	32,660	—
Huoqiu Capital Water Co., Ltd.	37,155	37,155	—	—	—	37,155	—
Dongying Tianchi Environmental Protection Technology Consultant Co., Ltd.	2,550	2,550	—	—	—	2,550	—
Jiangsu Yonghui Resources Utilization Co., Ltd. (note(iii))	352,718	—	352,718	—	—	352,718	—
Gaoyou Compro Environmental Resources Co., Ltd. (note(iv))	386,234	—	386,234	—	—	386,234	—
Honghu Tianchuang Capital Environmental Protection Co., Ltd. (note(v))	53,400	—	53,400	—	—	53,400	—
Tianjin Xiqing Tianchuang Capital Environmental Protection Co., Ltd. (note(vi))	62,106	—	62,106	—	—	62,106	—
Subtotal	2,714,801	1,860,343	854,458	—	—	2,714,801	—
Total	5,036,007	4,028,545	925,628	—	—	4,954,173	153,004

Notes to the Financial Statements

For the six months ended 30 June 2021

(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) For the six months ended 30 June 2021, the Company increased capital of RMB52 million to its subsidiary Xi'an Capital Water Co., Ltd., for two sewage water processing plants upgrading project and deodorization project.
- (ii) For the six months ended 30 June 2021, the Company increased capital of RMB19 million to Fuyang Capital Water Co., Ltd., to invest Jieshou Capital Water Co., Ltd., the wholly-owned subsidiary of Fuyang Capital Water Co., Ltd..
- (iii) For the six months ended 30 June 2021, the Company acquired Jiangsu Yonghui Resources Utilization Co., Ltd.. The shareholding ratio is 100%.
- (iv) For the six months ended 30 June 2021, the Company acquired Gaoyou Compro Environmental Resources Co., Ltd.. The shareholding ratio is 100%.
- (v) For the six months ended 30 June 2021, the Company contributed RMB53 million set up Honghu Tianchuang Capital Environmental Protection Co., Ltd.. The shareholding ratio is 89%.
- (vi) For the six months ended 30 June 2021, the Company contributed RMB62 million set up Tianjin Xiqing Tianchuang Capital Environmental Protection Co., Ltd.. The shareholding ratio is 100%.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investments (Continued)

(b) Associate

In 2018, the consortium formed by Bishuiyuan Technology Co., Ltd., Jiu'an Investment Group Co., Ltd. and the Company won the bidding for the PPP project of sponge city construction in the Jiefang Nan road of Tianjin. After winning the bid, the parties jointly set up the project company Tianjin Bi Hai Sponge City Co., Ltd. The Company invested 195 million yuan, and the shareholding ratio is 30% (Note 4(9)(a)).

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

	Audited 31 December 2020	Additions	Disposals	Unaudited 30 June 2021
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	50,281	—	—	50,281
Anguo Capital Water Co., Ltd.	41,000	—	—	41,000
Tianjin Capital New Materials Co., Ltd.	26,500	—	—	26,500
Tianjin Jinning Capital Water Co., Ltd.	15,000	—	—	15,000
Tianjin Jing Hai Capital Water Co., Ltd. (i)	20,223	—	—	20,223
	<u>153,004</u>	<u>—</u>	<u>—</u>	<u>153,004</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

13 NOTES TO THE COMPANY FINANCIAL STATEMENTS (Continued)

(4) Revenue and cost of sales

	Unaudited For the six months ended 30 June 2021		Unaudited For the six months ended 30 June 2020	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operations	744,416	402,087	625,988	369,739
Other operations	62,569	49,926	81,212	61,042
	<u>806,985</u>	<u>452,013</u>	<u>707,200</u>	<u>430,781</u>

(a) Revenue from principal operations and cost of sales

Analysis by the nature of services is as below:

	Unaudited For the six months ended 30 June 2021		Unaudited For the six months ended 30 June 2020	
	Revenue from principal operations	Cost of sales	Revenue from principal operations	Cost of sales
Processing of sewage water	713,167	398,527	594,686	366,179
Road tolls	31,249	3,560	31,302	3,560
	<u>744,416</u>	<u>402,087</u>	<u>625,988</u>	<u>369,739</u>

(b) Revenue from other operations and cost of sales

	Unaudited For the six months ended 30 June 2021		Unaudited For the six months ended 30 June 2020	
	Revenue from other operations	Cost of sales	Revenue from other operations	Cost of sales
Contract operation income	53,920	44,292	59,277	46,954
Technical service	7,491	498	17,861	6,740
Rental (i)	1,135	4,796	3,131	7,020
Others	23	340	943	328
	<u>62,569</u>	<u>49,926</u>	<u>81,212</u>	<u>61,042</u>

- (i) The company gets its rental income from renting its buildings and structures. As of 30 June 2021, there's no rental income recognized based on a certain portion of the lessee's sales revenue.

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

Notes to the Financial Statements
For the six months ended 30 June 2021
(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 is analyzed as follows:

	Processing of sewage water Tianjin	Road tolls	Contract operation income	Rental	Technical service	Others	Total
Revenue	713,167	31,249	—	—	—	—	744,416
Of which: confirm at a point in time	—	—	—	—	—	—	—
Confirm over time	713,167	31,249	—	—	—	—	744,416
Other operating income	—	—	53,920	1,135	7,491	23	62,569
	<u>713,167</u>	<u>31,249</u>	<u>53,920</u>	<u>1,135</u>	<u>7,491</u>	<u>23</u>	<u>806,985</u>
	Processing of sewage water Tianjin	Road tolls	Contract operation income	Rental	Technical service	Others	Total
Revenue	594,686	31,302	—	—	—	—	625,988
Of which: confirm at a point in time	—	—	—	—	—	—	—
Confirm over time	594,686	31,302	—	—	—	—	625,988
Other operating income	—	—	59,277	3,131	17,861	943	81,212
	<u>594,686</u>	<u>31,302</u>	<u>59,277</u>	<u>3,131</u>	<u>17,861</u>	<u>943</u>	<u>707,200</u>

As at 30 June 2021, 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

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Dividend income from other equity instruments investment	235,714	76,960
Interest income from entrusted loans	7,053	12,259
	<u>242,767</u>	<u>89,219</u>

Notes to the Financial Statements

For the six months ended 30 June 2021

(All amounts in RMB thousand unless otherwise stated)

1 STATEMENT OF NON-RECURRING PROFIT OR LOSS

	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Government Grants	46,784	38,029
Losses on disposal of non-current assets	(3)	—
Other non-operating income and expenses – net	(757)	(2,585)
	<u>46,024</u>	<u>35,444</u>
Effect of income tax	(8,196)	(5,401)
Effect of minority interests (after tax)	2,309	355
	<u>40,137</u>	<u>30,398</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	
	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020	Unaudited For the six months ended 30 June 2021	Unaudited For the six months ended 30 June 2020
Net profit attributable to ordinary shareholders of the Company	4.57	4.13	0.21	0.18
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	3.97	3.64	0.19	0.16

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 during the reporting period.
3. The interim report released on other stock markets.

Tianjin Capital Environmental Protection Group Company Limited

Chairman: Liu Yujun