Tianjin Capital Environmental Protection Group Company Limited
天 津 創 業 環 保 集 團 股 份 有 限 公 司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1065)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

§1 IMPORTANT

1.1 The board of directors (the "**Board**"), supervisory committee (the "**Supervisory Committee**"), directors (the "**Directors**"), supervisors (the "**Supervisors**") and senior management of Tianjin Capital Environmental Protection Group Company Limited (the "**Company**") confirm that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of its contents.

This results announcement is the summary of the 2017 annual report of the Company and its subsidiaries (the "**Group**"). For detailed information, please read the 2017 annual report of the Group carefully.

1.2 PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the 2017 financial reports of the Group and have issued standard unqualified audit reports.

1.3 Mr. Liu Yujun, the Company's chairman, Ms. Peng Yilin, the officer in charge of the accounting function, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2017 annual report.

§ 2 COMPANY PROFILE

2.1 Basic information

Short name of the A shares	創業環保
Stock code of the A shares	600874
Stock exchange for listing of the A shares	Shanghai Stock Exchange
Short name of the H shares	Tianjin Capital
Stock code of the H shares	1065
Stock exchange for listing of the H shares	The Stock Exchange of Hong Kong Limited

2.2 Contact person and method

	Company Secretary to the Board	Company Secretary in Hong Kong	Securities Affairs Representative
Name	Niu Bo	Mona Y. Y. Cho	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
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§3 ACCOUNTING DATA AND FINANCIAL INDICATORS

(For each of the three years ended 31 December 2017 as prepared in accordance with the PRC Accounting Standards For Business Enterprises)

3.1 Major accounting data

Unit: 0'000 Currency: RMB

Major accounting data	2017	2016	Increase/decrease for the period as compared to the same period last year (%)	2015
Operating income	**214,834.1**	195,866.6	9.68	193,420.6
Net profit attributable to the shareholders of the Company	**50,825.1**	44,316.8	14.69	33,053.7
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	**46,887.7**	40,683.3	15.25	29,723.7
Net cash flow from operating activities	**91,205.2**	40,367.0	125.94	231,067.9

	As at the end of 2017	As at the end of 2016	Increase/decrease as at the end of the period as compared to the end of the same period last year (%)	As at the end of 2015
Net assets attributable to the shareholders of the Company	**511,704.0**	474,437.7	7.85	440,111.5
Total assets	**1,245,289.0**	1,064,089.7	17.03	1,004,930.2

3.2 Major financial indicators

Currency: RMB

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

3.3 Extraordinary items

Unit: 0'000 Currency: RMB

Extraordinary items	Amount in 2017	Notes (if applicable)	Amount in 2016	Amount in 2015
Profit/loss from disposal of non-current assets	**-8.2**		-68.1	0.4
Government grants recognized in current profit and loss, except for those closely related to normal business operation, in compliance with requirements of national policy and settled in certain amount which are constantly granted by government	**5,343.3**		4,336.0	4,113.7
Other non-operating income and expenses except for the above items	**-72.6**		773.6	407.4
Effect on non-controlling interests	**-9.5**		-147.6	-61.1
Income tax effect	**-1,315.6**		-1,260.4	-1,130.4
Total	**3,937.4**		3,633.5	3,330.0

§ 4 DIRECTORS' REPORT

I. OPERATION DISCUSSION AND ANALYSIS

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

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

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

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

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

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

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

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

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

Tianjin Caring Technology Development Co., Ltd. ("**Caring Technology**"), one of the Company's subsidiaries, has successfully listed on the National Equities Exchange and Quotations System and successfully introduced strategic investors to provide support and space for the future development of Caring Technology.

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

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

II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

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

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

2. **Analysis of the principal business**

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

3. Analysis of Other business

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

(I) ANALYSIS OF PRINCIPAL BUSINESSES

Analysis on changes in income statement and cash flow statement

Unit: 0,000 Currency: RMB

Item	Amount for the current period	Amount for the same period last year	Percentage change (%)
Operating revenue	214,834.1	195,866.6	9.68
Operating costs	129,117.1	115,001.2	12.27
Sales expenses	646.7	996.4	-35.10
Administrative expenses	13,974.9	11,648.1	19.98
Financial expenses	10,033.9	15,166.6	-33.84
Asset impairment losses	2,192.8	5,205.7	-57.88
Other income	18,527.0	0.00	100.00
Investment income	40.0	-364.0	110.99
Non-operating income	387.0	19,429.5	-98.01
Non-operating expenses	197.5	126.0	56.75
Non-controlling interests	1,094.4	2,473.8	-55.76
Net cash flow from operating activities	91,205.2	40,367.0	125.94
Net cash flow from investing activities	-50,715.1	-14,248.0	-255.95
Net cash flow from financing activities	30,766.8	-40,864.5	175.29
Research and development expenses	425.5	314.1	35.47

1. Reasons for the change in operating income: The main reason is that the revenue from the sewage treatment and recycled water pipeline connection projects achieved a YoY increase.

2. Reasons for the changes in operating costs: The main reason is the increase in business volume and costs.

3. Reasons for the changes in sales expenses: The main reason is the reduction in personnel expenses.

4. Reasons for the changes in administrative expenses: The main reason is the increase in business volume and personnel expenses.

5. Reasons for the changes in financial expenses: The main reason is that the exchange gains has increased during the current period. At the same time, measures such as the adjustment of stock loan interest rates have been taken, resulting in a YoY decrease in interest expenses.

6. Reasons for the changes in asset impairment losses: The main reason is that the provision for bad debt losses and asset impairment was decreased.

7. Reasons for the changes in other income: According to the most updated Accounting Standards for Business Enterprises of the PRC, government grants that are related to ordinary activities in the current period is classified from non-operating income to other income.

8. Reasons for the change in investment income: The main reason is that at the end of 2016, after making provision for the impairment of Tianjin International Machinery Co., Ltd., the investment losses of this company will no longer be calculated during the current period. The amount incurred in the current period was a dividend of RMB 400,000 received from Tianjin Beifang Rencaigang Company Limited.

9. Reasons for the changes in non-operating income: According to the the most updated Accounting Standards for Business Enterprises of the PRC, government grants that are related to ordinary activities in the current period is classified from non-operating income to other income.

10. Reasons for changes in non-operating expenses: The main reason is the overdue fine of land use tax.

11. Reasons of the changes in non-controlling interests: The main reason is the decrease in net profit of non-wholly-owned subsidiaries during the current period.

12. Reasons for the changes in net cash flow generated from operating activities: The net amount in the current period is higher than that of the same period of last year mainly because of the receipt of more sewage treatment fee in the current period as compared to that of same period last year.

13. Reasons for the changes in net cash flow generated from investment activities: The main reason is that the investment expenditures of various types of projects of the Company during the current period increased YoY.

14. Reasons for the change in net cash flow generated from financing activities: The main reason is that the loan proceed and repayment amount during the current period increased and decreased respectively YoY.

15. Reasons for the changes in research and devlelopment expenses: The main reason is that expenditures have increased according to the R&D plans in the current year.

1. Analysis of income and costs

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

During the reporting period, in addition to expanding the market, the principal businesses of the Company put effort in strengthening project operation including cost control and agreement maintenance, so to minimize operating costs, timely adjust the unit price of sewage treatment service fees, and secure an income from projects.

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

Unit: 0,000 Currency: RMB

Major business by industry

Industry	Operating revenue	Operating costs	Gross profit margin (%)	Increase/ decrease in operating revenue as compared to last year (%)	Increase/ decrease in operating costs as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)
Sewage treatment and construction of sewage treatment plants business	141,249	86,080	39.06	3.64	8.48	Decreased by 2.72 percentage points
Recycled water business	30,090	18,188	39.55	59.53	36.34	Increased by 10.27 percentage points
Toll collection business	6,266	712	88.64	-1.91	0.00	Decreased by 0.21 percentage points
Tap water supply business	6,740	4,900	27.3	0.82	-0.26	Increased by 0.79 percentage points
Cooling and heating supply business	7,125	4,886	31.42	-0.64	9.67	Decreased by 6.45 percentage points
Transformation of technology research achievements (Note 1)	1,620	1,920	-18.52	1.57	59.20	Decreased by 42.91 percentage points
Others (Note 2)	103	83	19.42	-73.72	-79.51	Increased by 22.74 percentage points

Major business by region

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

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

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

Note 3: Northern China region includes Tianjin region, Anguo Capital Water Company Limited ("**Anguo Company**"), Wendeng Capital Water Company Limited ("**Wendeng Company**") and Shandong Capital Environmental Protection Technology Consultant Company Limited ("**Shandong Company**");

Note 4: Southwest region includes Qujing Capital Water Company Limited ("**Qujing Company**") and Guizhou Capital Water Company Limited ("**Guizhou Company**"). If discounting the influence of the price adjustment, the income is basically flat;

Note 5: Eastern China region includes Hangzhou Tianchuang Capital Water Company Limited ("**Hangzhou Company**") and Baoying Capital Water Company Limited ("**Baoying Company**"). Revenue increased because of the rise in unit price of sewage treatment service fees after the completion of upgrading and reconstruction works of Hangzhou Company's sewage treatment plant, while the operation costs increased due to the improvement of discharge standard;

Note 6: The Northwest region includes to Xi'an Capital Water Co., Ltd. ("**Xi'an Company**"), Karamay Tianchuang Water Co., Ltd. ("**Karamay Co., Ltd.**") and Linxia Capital Water Co., Ltd. ("**Linxia Co., Ltd.**") The newly-added revenue from the new Karamay Project operation and slight increase of Xi'an Company's water volume resulted in the increase in revenue and operating costs.

Description of major business by industry, product and region

Not applicable

(2). Analysis of production and sales volume

Not applicable

(3). Cost analysis

Unit: 0,000 Currency: RMB

By industry

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Sewage treatment and construction of sewage treatment plants	Labor	11,725	10.04	11,301	10.83	3.75	Nil.
	Energy consumption (electricity)	19,767	16.93	19,786	18.96	-0.10	Nil.
	Materials consumption	7,664	6.56	5,032	4.82	52.31	On one hand, due to the Hangzhou Company's standard upgrade, the water quality has been improved. On the other hand, due to the increase in the volume of sewage treatment, the material consumption has increased.
	Depreciation and amortization	27,093	23.20	25,296	24.23	7.10	Nil.
	Other manufacturing costs	19,831	16.98	17,933	17.18	10.58	Nil.
	Subtotal	86,080	73.72	79,348	76.02	8.48	Nil.

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Tap water	Labor	776	0.66	715	0.69	8.53	Nil.
	Energy consumption (electricity)	392	0.34	421	0.40	-6.89	Nil.
	Materials consumption	2,673	2.29	2,653	2.54	0.75	Nil.
	Depreciation and amortization	982	0.84	989	0.95	-0.71	Nil.
	Other manufacturing costs	77	0.07	135	0.13	-42.96	It is mainly due to the reduction of maintenance cost from the tap water plant.
	Subtotal	4,900	4.20	4,913	4.71	-0.26	Nil. Nil.
Recycled water supply	Labor	1,548	1.33	1,390	1.33	11.37	Nil.
	Energy consumption (electricity)	817	0.70	764	0.73	6.94	Nil.
	Materials consumption	595	0.51	578	0.55	2.94	Nil.
	Depreciation and amortization	3,742	3.20	3,610	3.46	3.66	Nil.
	Other manufacturing costs	1,745	1.49	1,426	1.37	22.37	It is mainly due to the increase in maintenance cost of pipe network.
	Subtotal	8,447	7.23	7,768	7.44	8.74	Nil.
Recycled water pipeline connection	Construction cost	9,741	8.34	5,572	5.34	74.82	Settlement of pipe network business increased, and the cost increased.
	Subtotal	9,741	8.34	5,572	5.34	74.82	Nil.
Cooling and heating supply	Labor	827	0.71	643	0.62	28.62	Nil.
	Energy consumption (electricity)	1,909	1.63	1,712	1.64	11.51	Nil.
	Materials consumption	59	0.05	50	0.05	18.00	Nil.
	Depreciation and amortization	1,502	1.29	1,443	1.38	4.09	Nil.
	Other manufacturing costs	589	0.50	607	0.58	-2.97	Nil.
	Subtotal	4,886	4.18	4,455	4.27	9.67	Nil.

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Toll collection	Collection management fees	712	0.61	712	0.68	0	Nil.
	Subtotal	712	0.61	712	0.68	0	Nil.
Transformation of achievements in technology research	Labor	784	0.67	580	0.56	35.17	It is mainly due to the increase in employees.
	Expenditure for materials and facilities	1,049	0.90	467	0.45	124.63	It is mainly due to the increase in the sales of environmental protection equipment.
	Other manufacturing costs	87	0.08	159	0.15	-45.28	It is mainly due to the decrease in labor costs.
	Subtotal	1,920	1.65	1,206	1.16	59.20	Nil.
Others	Product sale	0	0	338	0.32	-100	There was no sales of pipes in this year and no costs incurred.
	Other manufacturing costs	83	0.07	67	0.06	23.88	Nil.
	Subtotal	83	0.07	405	0.38	-79.51	Nil.
Total		116,769	100	104,379	100.00	11.81	

Cost analysis and other explanation

Not applicable

(4). Major customers and major suppliers

Sales from the top five customers amounted to RMB1,261.211 million, accounting for 58.71% of total sales for the year; among which, sales from related parties was nil, accounting for 0% of total sales for the year.

Procurement from the top five suppliers amounted to RMB332.9593 million, accounting for 27.93% of total procurement for the year; among which, procurement from related parties was nil, accounting for 0% of total procurement for the year.

2. Expenses

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

3. Research and development investment

Research and development investment

Unit: 0,000 Currency: RMB

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

Explanation

Not applicable

4. Cash flow

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

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

Not applicable

(III) Analysis of assets and liabilities

1. Assets and liabilities

Unit: 0,000 Currency: RMB

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

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

(IV) INDUSTRY ANALYSIS

With the revision of Water Pollution Prevention and Control Law of the PRC, which results in increasingly stringent environmental protection standards, the existing sewage treatment plants have gradually begun to upgrade in order to meet the higher discharge standards. The rising discharge quality standards will further increase the operating costs of the sewage treatment plants.

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

"Several Opinions on the Promotion of the Price Mechanism Reform" issued by the State Council of the PRC requires that in accordance with the principle of "payment for pollution, fair burdens, compensation of costs and reasonable profit", the sewage treatment fees shall be reasonably raised and the urban sewage treatment fees should not be lower than the costs of sewage treatment and sludge treatment and disposal.

The above industry policies give the enterprises in the water utilities industry a lot of room for development, but they also put forward a great challenge. As one of the enterprises with many years of experience in water utilities investment and operation, the Company will make every effort to make use of strengths and avoid weaknesses, and to seize the opportunity to grow and develop.

Water Utilities Industry Analysis

1. Capacity and operation situation during the reporting period

Section	Capacity	Utilization rate of capacity (%)
Supply of tap water	200,000 tons/day	57.7
Sewage treatment	3,130,000 tons/day	97.4
Recycled water	240,000 tons/day	47.9

District	Capacity	Scale of new production during the reporting period	Planned capacity of projects under construction	Estimated production time
Northern China	184	0	35	2018 to 2019
Central China	37	0	19	2018
Eastern China	65	0	0	2018
Southwest	39	0	0	
Northwest	27	5	19	2019
Northeast	0	0	12	2018

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

2. Sales information

Unit: 0,000 Currency: RMB

Section	Sales revenue	Cost	Gross margin (%)	YoY Change (%)
Supply of tap water	6,740	4,900	27.3	0.79
Sewage treatment	141,249	86,080	39.06	-2.81
Recycled water	6,121	8,447	-38.00	18.30

(1). Section of supply of tap water

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

Unit: Yuan Currency: RMB

District	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Qujing	1.688	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment during the reporting period	Price adjustment by the cost factor adjustment method

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

Unit: Yuan Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.688	The price of water supply services is calculated with the principle of covering the operation and maintenance costs of tap water supply projects with reasonable investment return.	No price adjustment during the reporting period	Price adjustment by the cost factor adjustment method

(2). Section of sewage treatment

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

Unit: Yuan Currency: RMB

Distric	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Northern China	1.26	The price of project supply services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method

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

Distric	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Northwest	1.24	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method
Northeast	0.82	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	Nil	Price adjustment by the cost factor adjustment method

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

Unit: Yuan Currency: RMB

Type of client	Average water price	Pricing principle	Adjustment during the reporting period	Adjustment mechanism (if any)
Government	1.11	The price of project services is calculated with the principle of covering the operation and maintenance costs of sewage treatment projects with reasonable investment return.	No	Price adjustment by the cost factor adjustment method

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

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

4. Supply of tap water

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

5. Significant capital expenditure

Unit: 0,000 Currency: RMB

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

Among which: Project status

Unit: 0,000 Currency: RMB

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

(V) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

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

(1) Major equity investment

(1) The Company invested RMB 63.67 million to establish a wholly-owned subsidiary, Anhui Tianchuang Capital Water Co., Ltd. ("**Anhui Company**"), which was designed to operate the PPP project of Yuwan Sewage Treatment Plant in Hefei. The total investment of this project is RMB176 million, and it is expected that the project will start production in 2018. Currently, Anhui company has been established.

(2) The Company invested RMB 45 million to establish Linxia Company, a wholly-owned subsidiary of the Company, which was designed to operate the expansion PPP project of Sewage Treatment Plant in Linxia. The total investment of this project is RMB 150 million and it is expected that the project will be put into production in 2018. Currently, Linxia Company has been established.

(3) On July 17, 2017, the Board of Directors of the Company agreed to fund the reorganization of Dalian Oriental Chunliuhe Water Quality Purification Co., Ltd. ("**Chunliuhe Company**"). The Company's cash contribution was RMB 47.98087 million, accounting for 51% registered capital of Chunliuhe Company; Dalian Tongyang Municipal Engineering Group Co., Ltd. invested RMB 25.25089 million, accounting for 26.84% registered capital of Chunliuhe Company; Dalian Drainage Business Corporation invested the land use rights of RMB18.966 million, accounting for 20.16% registered capital of Chunliuhe Company; Dalian Municipal Engineering Co., Ltd. invested RMB 940,790, accounting for 1% registered capital of Chunliuhe Company; and Tianjin Municipal Engineering Design and Research Institute invested RMB 940,790, accounting for 1% registered capital of Chunliuhe Company. After the reorganization was completed, the registered capital of Chunliuhe Company was RMB 94.07934 million, which was used for its franchise Sewage Treatment Plant's phase 1 upgrade and expansion PPP project. At present, the project is under construction and the reorganization of Chunliuhe Company has been completed.

(4) On December 7, 2017, the Board of Directors of the Company agreed to establish, Changsha Tianchuang Water Co., Ltd., Tianjin MOTIMO Membrane Technology Co., Ltd. ("**MOTIMO**"), Changsha Shuntai Investment Management Co., Ltd. ("**Shuntai Investment**") and Tianjin No.2 Municipal Highway Engineering Co., Ltd. ("**Tianjin No.2 Municipal Highway Engineering**"). The Company subscribes RMB 15.3181 million, holding 80% equity of the project company, MOTIMO subscribes RMB 574,400, holding 3% equity of the project company, and Shuntai Investment subscribes RMB 1.9148 million, holding 10% equity of the project company, and Tianjin No. 2 Municipal Highway Engineering subscribes RMB 1.3403 million, holding 7% equity of the project company. Changsha Tianchuang Water Co., Ltd. has a registered capital of RMB 19,147.6 million for its franchise PPP project of sewage treatment and reuse in Ningxiang Economic and Technological Development Zone. During the reporting period, Changsha Tianchuang Water Co., Ltd. has been established.

(5) In August 2017, the Company won the bid of the integrated PPP project of sewage treatment and reuse and water supply (hereinafter referred to as "**the Project**") in Bayannur, Inner Mongolia. The contract object of the Project is 70% state-owned equity of Bayannur Jinshengyuan Water Supply and Drainage Co., Ltd. ("**Jinshengyuan Company**"), and the total assets value of the corresponding cooperation projects was RMB 1.2198 billion, including: the value of the stock assets was RMB 1.0676 billion (including the finance lease was RMB 267.81 million), and the value of the assets to be built was RMB 152.2 million. The bid was based on the 70% equity transfer of the stock asset value of RMB1.0676 billion, and the assets of projects to be built will be increased in capital according to the audited fair value after completion of the projects. The Company won the bid at RMB 776.9 million. After the acquisition of equity, the registered capital of Jinshengyuan Company was RMB 1,067.6 million (the Company purchased 70% equity of Jinshengyuan Company in cash of RMB 776.9 million (of which the premium was RMB 29.6 million). Bayannur Hetao Water Company invested the investment in kind of RMB 320.3 million, holding 30% equity) to operate the franchise integrated PPP project of sewage treatment, recycled water reuse and water supply in Bayannur, Inner Mongolia. During the reporting period, the Company settled the first payment of RMB380 million for the acquisition of equity. At present, the equity acquisition has been completed and the project is expected to be into operation from 2018 onwards.

(6) The Board of Directors of the Company agreed to invest RMB 110 million in the capital increase of a wholly-owned subsidiary, Shandong Company, for its investment in the construction of the Tancheng integrated hazardous waste disposal centre project. The estimated total investment of this project is approximately RMB 350.6481 million, and the investment in the first phase is approximately RMB 316.978 million and it is currently under construction. After the capital increase, the registered capital of the Shandong Company increased to RMB 192 million.

(7) The Board of Directors of the Company agreed to invest RMB 7.56 million in the capital increase of a wholly-owned subsidiary, Tianjin Jinning Capital Water Co., Ltd. for its investment in the upgrade of the sewage treatment plant in Ninghe Modern Industrial Zone. The estimated total investment is approximately RMB 25.6485 million, and it is currently under construction. After the capital increase, the registered capital of Tianjin Jinning Capital Water Co., Ltd. will increase to RMB 22.56 million.

(8) The Board of Directors of the Company agreed to invest RMB 25.553 million in the capital increase of a wholly-owned subsidiary, Tianjin Jinghai Capital Water Co., Ltd. ("**Jinghai Company**"), for its investment in the upgrade and reconstruction of the sewage treatment plant in Tianyu Science and Technology Park. The estimated total investment is approximately RMB 85.5857 million and is currently under construction. After the capital increase, the registered capital of Jinghai Company will increase to RMB 37.553 million.

(9) The Board of Directors of the Company agreed to invest RMB 21.7289 million in the capital increase of a wholly-owned subsidiary of the Company, Wuhan Tianchuang Environmental Protection Co., Ltd. ("**Wuhan Company**"), for its capital increase in Honghu Capital Water Co., Ltd. ("**Honghu Company**"), and Honghu Company would invest in the upgrade and reconstruction of the PPP project of the sewage treatment plant in Honghu. The estimated total investment is approximately RMB 80.3664 and it is currently under construction. After the capital increase, the registered capital of Wuhan Company will increase to RMB 124.9689 million.

(10) The Board of Directors of the Company agreed to invest RMB 15 million in the capital increase of a wholly-owned subsidiary of the Company, Wuhan Company, for transforming its Xianning Branch into an independent legal person and using this branch to invest in the upgrade and reconstruction of the PPP project of Xining Yongan sewage treatment plant. The estimated total investment is approximately RMB 48.8421 million and it is currently under construction. After the capital increase, the registered capital of Wuhan Company will increase to RMB 139.9689 million.

(2) Major non-equity investment

According to Tianjin's latest "Urban Sewage Treatment Plant Pollutant Discharge Standards", beginning from 2016, the Company conducted the "expansion, upgrading and reconstruction" project to Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant. The total investment of the project is approximately RMB1,298 million, the investment during the reporting period is RMB53.84 million, and accumulated investment up until the end of the reporting period is RMB61.81 million. According to the plan, the project investment capital source is from the equity financing intended to be carried out by the Company through the issue of non public A shares. At present, the equity financing scheme has been approved by the regulatory authorities and is in the process of issuing, and the Company will first invest the construction with its own capital and bank loans. When the issue of non public A shares is completed, the capital raised will be used to replace the input capital.

At present, the "upgrading and reconstruction" project is in progress. During the "upgrading and reconstruction" period, effective measures will be taken to ensure that the daily operation of the original Jingu Sewage Treatment Plant and Beicang Sewage Treatment Plant will not be affected. Moreover, in accordance with the "Supplementary Agreement of the Licensed Operation Agreement", during the "upgrading and reconstruction" period, sewage treatment service fees will be charged in accordance with "Licensed Operation Agreement". Therefore, during the reporting period no significant impact has been caused on the operating results of the Company.

(3) Financial assets measured by fair value

Not applicable

(VI) DISPOSAL OF MAJOR ASSETS AND EQUITY INTERESTS

Not applicable

(VII) ANALYSIS OF MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS INVESTED

Unit: 0,000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products or Services	Registered Capital	Type of Legal Person	Percentage of interest	Asset Size	Net Assets	Net Profits
Tianjin Water Recycling Co., Ltd.	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; manufacturing, installation, debugging and operation of water recycling facilities etc.	10,000	Limited Company	100%	160,492	28,376	9,855
Hangzhou Company	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training. And its technical services, technical training and other supporting services.	37,745	Limited Company	70%	116,215	62,244	3,788
Xi'an Company	Xi'an, Shaanxi	Development, construction, operation and management of municipal sewage treatment plants and tap water and its supporting facilities; research and promotion of environment protection technology.	33,400	Limited Company	100%	64,476	37,501	3,034
Tianjin Capital Alternative Energy Technology Co., Ltd.	Tianjin	Development, consulting, service and transfer of energy conservation and energy technology; property management services.	19,160	Limited Company	100%	59,463	27,576	755
Caring Company	Tianjin	Environmental engineering management and technical advice etc.	2,000	Stock Limited Company	100%	6,331	4,652	576

Tianjin Water Recycling Co., Ltd. generated a revenue of RMB300.9 million and an operating profit of RMB127.25 million.

(VIII) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

Not applicable

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

(I) Status and trends of the industry

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

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

(II) Development strategies of the Company

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

(III) Operating plans

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

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

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

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

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

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

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

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

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

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

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

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

Party-building works will be further strengthened, and we will rigorously uphold the integrity of the Party, tighten discipline inspections and strictly perform supervisions against corruption. It will also strengthen internal audit of the Company through internal controls and risks assessments, and strengthen the management of the Company's legal matters to ensure the proper legal and compliance reviews of various works.

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

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

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

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

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

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

(IV) Possible risks

(1) Risk of government credit

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

(2) Risk of change in policy

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

(3) Risk of operation and management

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

2. Risk control measures

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

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

(2) Strengthen comprehensive risk management

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

(3) Continue to raise the standards of operating management

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

(v) Others

Not applicable

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

Not applicable

V. THE BOARD'S PROPOSAL ON THE PROFIT APPROPRIATION OR TRANSFER OF CAPITAL RESERVE FUND TO SHARE CAPITAL

As audited by Pricewaterhouse Coopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2017 amounted to RMB50,825.1 million. After deduction of the statutory common reserve of RMB3,498.2 million drawn in accordance with the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the retained profit of RMB247,310.9 million at the beginning of the year, and less the distribution in 2017 of the 2016 cash dividend of RMB13,558.8 million, the actual profit distributable to the shareholders for this year amounted to RMB281,079.0 million. A dividend in respect of the year ended 31 December 2017 will be determined after the completion of non-public issuance of A shares.

§ 5 FINANCIAL ACCOUNTING REPORT

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in Rmb thousand unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Continuing operations			
Revenue	2(a)	1,931,928	1,773,814
Tax expense and surcharge		(57,464)	(45,670)
Cost of sales	3	(1,167,688)	(1,060,624)
Gross profit		706,776	667,520
Selling expenses	3	(6,467)	(9,964)
Administrative expenses	3	(151,447)	(129,343)
Other income	2(b)	278,600	78,627
Other (losses)/gains - net	4	(8,335)	170,694
Operating profit		819,127	777,534
Finance income		34,195	23,457
Finance expenses		(134,534)	(175,123)
Finance expenses - net	5	(100,339)	(151,666)
Share of net loss of associates and joint ventures accounted for using the equity method		—	(3,640)
Profit before income tax		718,788	622,228
Income tax expense	6	(199,593)	(154,322)
Profit from continuing operations		519,195	467,906
Profit from discontinued operation		—	—
Profit for the year		519,195	467,906
Profit and total comprehensive income for the year are attributable to:			
Owners of the Company		508,251	443,168
Non-controlling interests		10,944	24,738
		519,195	467,906

	Note	Year ended 31 December 2017	2016
Earnings per share for profit from continuing operations attributable to the owners of the Company (in RMB Yuan)			
Basic earnings per share		0.36	0.31
Diluted earnings per share		0.36	0.31
Earnings per share for profit attributable to the owners of the Company (in RMB Yuan)			
Basic earnings per share	7	0.36	0.31
Diluted earnings per share	7	0.36	0.31

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017
(All amounts in Rmb thousand unless otherwise stated)

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

	Note	As at 31 December 2017	2016
EQUITY			
Equity attributable to owners of the Company			
Share capital		1,427,228	1,427,228
Other reserves		879,022	844,040
Retained earnings		2,810,790	2,473,109
		5,117,040	4,744,377
Non-controlling interests		296,736	259,440
Total equity		5,413,776	5,003,817
LIABILITIES			
Non-current liabilities			
Borrowings		1,543,388	2,191,313
Deferred revenue		2,129,064	1,446,971
Deferred income tax liabilities		120,259	126,108
Other non-current liabilities		40,000	42,000
Provisions for other liabilities and charges		32,930	32,930
		3,865,641	3,839,322
Current liabilities			
Trade payables	10	128,254	107,239
Advances from customers		930,888	955,507
Employee benefit obligations		44,550	34,411
Income tax and other taxes payables		63,741	69,080
Dividend payable		1,912	1,438
Other payables and others		633,672	414,574
Borrowings		1,370,456	215,509
		3,173,473	1,797,758
Total liabilities		7,039,114	5,637,080
Total equity and liabilities		12,452,890	10,640,897

Notes to the condensed consolidated financial statement
(All amounts in thousand unless otherwise stated)

1 Basis of preparation

(a) Compliance with HKFRS and HKCO

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

(b) Historical cost convention

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

(c) New and amended standards adopted by the Group

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

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

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

(d) New standards and interpretations not yet adopted

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

HKFRS 9, 'Financial instruments'

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and does not expect the adoption of new standard on 1 January 2018 to affect the classification and measurement of these financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. There is no significant impact on the Group's accounting for financial assets.

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

Date of adoption by group

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

HKFRS 15, 'Revenue from contracts with customers'

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

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

- Revenue from sales of pipeline connection for recycled water - the application of HKFRS 15 requires that the revenue are recognized by reference to the percentage of completion of the contract activity at the balance sheet date. The percentage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs of each contract. This will result in an earlier recognition of portion of the revenue than the current standard, which stipulates to recognise revenue when the connection is finished. As a consequence, the management estimates that advance from customers and prepayments will decrease by RMB342 million and RMB91 millions, trade payables and retained earnings will increase by RMB9 million and RMB171 million on 1 January 2018 due to the adoption of HKFRS 15.

Date of adoption by group

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

HKFRS 16, 'Leases'

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

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

Date of adoption by group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

2 Segment information

An analysis of revenue and contributions to operating profit for the year by principal activities is as follows:

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

	2017	**2016**
Revenue	1,931,928	1,773,814
Other income - net	278,600	78,627
Total	2,210,528	1,852,441

(b) Analysis of other income - net

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

(c) Operating segment analysis

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

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

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

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

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

(i) For the year ended 31 December 2017

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

(ii) For the year ended 31 December 2016

	Sewage processing and facility construction services			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						
Segment revenue	772,110	222,473	368,299	188,616	71,707	66,851	15,946	146,439	1,852,441
Segment expense	(503,955)	(134,035)	(276,804)	(134,293)	(47,108)	(56,408)	(19,280)	(54,690)	(1,226,573)
Results before share of profits of an associate	268,155	88,438	91,495	54,323	24,599	10,443	(3,334)	91,749	625,868
Share of investment accounted for using the equity method									(3,640)
Profit before tax									622,228
Income tax expense									(154,322)
Profit for the year									467,906
Segment assets	4,852,703	1,044,587	2,131,136	1,523,983	599,954	222,883	19,043	246,608	10,640,897
Investment accounted for using the equity method	—	—	—	—	—	—	—	—	—
Total assets	4,852,703	1,044,587	2,131,136	1,523,983	599,954	222,883	19,043	246,608	10,640,897
Total liabilities	3,412,214	329,363	538,854	1,022,578	215,836	39,250	6,153	72,832	5,637,080
Other information									
– Interest income (Note 5)	16,685	529	2,047	3,953	60	18	—	165	23,457
– Interest expenses (Note 5)	(88,693)	(13,605)	(33,723)	(104)	(3,574)	(4,665)	—	(1,860)	(146,224)
– Depreciation	(123)	—	(99)	(36,994)	(214)	—	(814)	(5,851)	(44,095)
– Amortization	(125,344)	(47,190)	(80,942)	(213)	(14,273)	(9,886)	—	(1,174)	(279,022)
– Capital expenditures	(8,251)	(209,355)	(18,832)	(1,134)	(35,187)	—	—	(1,490)	(274,249)

3 Expenses by nature

Expenses included in cost of sales, selling expenses and administrative expenses are analysed as follows:

	2017	2016
Amortisation of intangible assets and land use rights	296,413	279,022
Employee benefit expenses	266,877	234,074
Utilities	254,272	240,200
Repair and maintenance expenses	91,088	82,197
Cost of recycling water pipeline connection service	84,528	55,669
Raw materials and consumables used	80,659	62,371
Sewage mud processing fee	75,220	65,495
Depreciation of property, plant and equipment and investment properties	43,735	44,095
Factory environment, detection and fire prevention expenses	26,144	23,793
Network maintenance costs	19,175	14,116
Consulting service expenses	12,434	9,588
Provision of trade receivables (Note 9)	11,698	12,904
Travel, meeting and business entertainment expenses	10,174	11,835
Toll road management fee	7,120	7,120
Office expenses	6,458	5,173
Expenses of secretary of the board	5,227	3,905
Auditors' remuneration - audit	4,200	4,200
Construction cost of environmental equipments	2,762	7,131
Other taxes	2,021	3,264
Impairment of intangible assets	—	16,795
Others	25,397	16,984
	1,325,602	1,199,931

4 Other (losses)/gains - net

	2017	2016
Government grants	2,703	43,360
Impairment of other current assets	(10,230)	—
Loss on disposal of property, plant and equipment	(82)	(681)
VAT refund	—	142,637
Impairment of investments accounted for using the equity method	—	(22,358)
Others	(726)	7,736
	(8,335)	170,694

5 Finance expenses- net

	2017	2016
Interest expenses of borrowings	131,714	146,959
Less: Capitalised interest	(282)	(735)
Net interest expenses	131,432	146,224
Less: Interest income	(19,293)	(23,457)
– long-term receivables	(10,511)	(10,860)
– bank deposits	(8,782)	(12,597)
Exchange (gain)/loss	(14,902)	24,582
Others	3,102	4,317
	100,339	151,666

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

6 Income tax expense

	2017	2016
Current income tax	205,442	134,024
Deferred tax	(5,849)	20,298
	199,593	154,322

7 Earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the Company of RMB508 million (2016: RMB443 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2016: 1,427 million shares).

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares. Diluted earnings per share are calculated using the same bases as described above for calculating basic earnings per share.

	2017	2016
Profit attributable to owners of the Company	508,251	443,168
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (RMB yuan)	0.36	0.31

8 Dividends

The dividend paid in 2017 and 2016 were RMB136 million (RMB0.095 per share) and RMB133 million (RMB0.07 per share) respectively. A dividend in respect of the year ended 31 December 2017 will be determined after the completion of non-publie issuance of A shares.

9 Trade receivables

	31 December 2017	31 December 2016
Receivables from third parties	1,897,344	1,766,851
– Trade receivables	1,895,444	1,766,451
– Notes receivable	1,900	400
Receivables from related parties	68,815	71,372
	1,966,159	1,838,223
Less: allowance for impairment of trade receivables (note(b))	(34,101)	(22,403)
	1,932,058	1,815,820

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

	31 December 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,268,394	65	1,275,071	69
1 to 2 years	666,168	34	533,389	29
2 to 3 years	31,597	1	29,763	2
Total	1,966,159	100	1,838,223	100

As of 31 December 2017, trade receivables of RMB1,635 million (31 December 2016: RMB1,485 million) were past due but not impaired. These relate to several independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The past-due aging analysis of these trade receivables is as follows:

	31 December 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Over due within 1 year	968,990	59	1,019,083	69
Over due 1 to 2 years	660,209	40	458,992	31
Over due 2 to 3 years	5,405	1	7,360	0
Total	1,634,604	100	1,485,435	100

(b) Impaired trade receivables

The aging of impaired trade receivables is analysed below:

	31 December 2017		31 December 2016	
	Amount	**% of total balance**	**Amount**	**% of total balance**
Within 1 year	1,950	6	—	—
1 to 2 years	5,959	17	—	—
2 to 3 years	3,926	12	16,992	76
Over 3 years	22,266	65	5,411	24
Total	34,101	100	22,403	100

As at 31 December 2017, the total amount of trade receivables due from Qujing City Water General Company in respect of sewage processing fee and tap water fee was RMB20 million. The management estimated and provided RMB20 million (31 December 2016: RMB17 million) bad debt provision for those foreseeable uncollectible receivables with aging over 2 years.

As at 31 December 2017, the total amount of trade receivables due from Kaiying's customers in respect of sales of environmental protection equipment and contract operation was RMB10 million. The management estimated and provided RMB6 million (31 December 2016: RMB5 million) bad debt provision for those foreseeable uncollectible receivables.

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

Movements on the Group's allowance for impaired trade receivables are as follows:

	2017	**2016**
At 1 January	(22,403)	(9,499)
Additions	(11,698)	(12,904)
At 31 December	(34,101)	(22,403)

The accrual and release of provision for impaired trade receivables have been included in 'administrative expenses' in the consolidated income statement.

(c) The carrying amounts of the Group's trade receivables are all denominated in RMB.

10 Trade payables

At 31 December 2017, the aging analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	31 December 2017	31 December 2016
Within 1 year	98,128	95,336
1 to 2 years	30,126	11,903
	128,254	107,239

Significant differences between financial information reported under Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC (the "PRC Accounting Standards for Business Enterprises")

There is no difference between the consolidated net profit and consolidated net assets prepared under HKFRSs and the PRC Accounting Standards for Business Enterprises.

§6 SALE AND PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

§7 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 year, 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 of Hong Kong Limited (the "**Listing Rules**").

§8 MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

§9 PUBLIC FLOAT

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

§10 PRE-EMPTIVE RIGHTS

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

§11 AUDIT COMMITTEE

On 31 July 2001, the Board approved the establishment of the audit committee (the "**Audit Committee**") to review and supervise the financial reporting procedures and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2017 with the Directors.

§12 REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in this preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

By Order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
27 March 2018

As at the date of this announcement, the Board of Directors comprises four executive Directors: Mr. Liu Yujun, Mr. Tang Fusheng, Ms. Fu Yana and Ms. Peng Yilin; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Mr. Gao Zongze, Mr. Guo Yongqing and Mr. Wang Xiangfei.