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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

§ 1 IMPORTANT

- 1.1 The board of directors (the “**Board**”) and supervisory committee of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) and its directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management confirm that the 2018 interim report (the “**Interim Report**”) does not contain any false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of the contents of the report.
- 1.2 The interim financial statements of the Company for the six months ended 30 June 2018 are unaudited.
- 1.3 Did the controlling shareholder of the Company or its connected persons misappropriate the Company's funds?

No.
- 1.4 Did the Company provide external guarantees in violation of any specified decision-making procedures?

No.
- 1.5 The person in charge of the Company, Mr. Liu Yujun, the person in charge of the accounting function, Ms. Peng Yilin, and the person in charge of the accounting department (the chief accountant), Mr. Liu Tao, have warranted the truthfulness and completeness of the financial statements in the Interim Report.

§ 2 COMPANY PROFILE

2.1 Basic Information

Short form of the A shares	創業環保		
Stock code of the A shares	600874		
Place for listing of the A shares	Shanghai Stock Exchange		
Short form of the H shares	Tianjin Capital		
Stock code of the H shares	1065		
Place for listing of the H shares	The Stock Exchange of Hong Kong Limited (the “ HKSE ”)		
	Secretary to the Board	Company Secretary in Hong Kong	Securities Affairs Representative
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
E-mail	niu_bo@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

2.2 Principal accounting data and financial highlights as prepared in accordance with the PRC Accounting Standards

2.2.1 Major accounting data and financial indicators

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	110,779.8	98,663.5	12.28
Net profit attributable to the shareholders of the Company	28,256.5	25,505.8	10.78
Net profit attributable to the shareholders of the Company after deduction of extraordinary items	25,930.9	24,069.5	7.73
Net cash flow from operating activities	33,799.0	32,413.5	4.27
	As at the end of the current reporting period	As at the end of last year	Increase/decrease as at the end of the current reporting period as compared to the end of last year (%)
Net assets attributable to the shareholders of the Company	558,450.9	511,704.0	9.14
Total assets	1,403,480.0	1,245,289.0	12.70

Major financial indicators

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

2.2.2 Extraordinary profit and loss items

Unit: 0'000 Currency: RMB

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

2.2.3 Difference in accounting standards between the PRC and overseas

There is no difference between the financial reports prepared in accordance with Hong Kong Financial Reporting Standards and the PRC Accounting Standards for Business Enterprises.

2.2.4 The situation, causes and effects of changes in accounting policies and accounting methods compared with the previous reporting period

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

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

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

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

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

§ 3 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Table of share changes

☐ Applicable ☒ Not Applicable

3.2 Number of shareholders and their shareholdings

Total number of shareholders:

Total number of shareholders at the end of the reporting period 102,128, among which 64 shareholders are shareholders of H shares

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

Shareholdings of the top ten shareholders						
Name of shareholder (Full Name)	Increase/ decrease during the reporting period (Shares)	Number of shares held at the end of the reporting period (Shares)	Percentage (%)	Number of restricted shares held (Shares)	Pledged or frozen	Nature of the shareholders
Tianjin Municipal Investment Company Limited	0	715,565,186	50.14	0	Nil	State-owned legal person
HKSCC Nominees Limited	8,000	337,832,900	23.67	0	Unknown	Unknown
Cental Huijin Investment Co., Ltd.	0	14,169,800	0.99	0	Nil	State-owned legal person
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	1,735,000	3,330,000	0.23	0	Nil	Unknown
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund (中證500交易型開放式指數證券投資基金)	1,154,525	3,035,308	0.21	0	Nil	Unknown
Hong Kong Securities Clearing Company Limited	1,602,380	2,356,424	0.17	0	Nil	Unknown
Wu Zuojia	2,241,219	2,241,219	0.16	0	Nil	Unknown
Shenyang Railway Coal Group Co., Ltd.	0	1,500,000	0.11	0	Nil	State-owned legal person
Yu Ronglin	235,400	1,480,000	0.10	0	Nil	Unknown
NSSF Portfolio 402 (全國社保基金四零二組合)	938,099	1,349,999	0.09	0	Nil	Un-known

Shareholdings of the top ten shareholders of non-restricted circulating shares			
Name of shareholder	Number of non-restricted circulating shares held (Shares)	Type and number of shares	
		Type	Number (Shares)
Tianjin Municipal Investment Company Limited	715,565,186	Ordinary RMB Shares	715,565,186
HKSCC Nominees Limited	337,812,900	H Shares	337,812,900
Cental Huijin Investment Co., Ltd.	14,169,800	Ordinary RMB Shares	14,169,800
Zhejiang Jinxin Construction Engineering Co., Ltd.(浙江錦鑫建設工程有限公司)	3,330,000	Ordinary RMB Shares	3,330,000
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund (中證500交易型開放式指數證券投資基金)	3,035,308	Ordinary RMB Shares	3,035,308
Hong Kong Securities Clearing Company Limited	2,356,424	Ordinary RMB Shares	2,356,424
Wu Zuojia	2,241,219	Ordinary RMB Shares	2,241,219
Shenyang Railway Coal Group Co., Ltd.	1,500,000	Ordinary RMB Shares	1,500,000
Yu Ronglin	1,480,000	Ordinary RMB Shares	1,480,000
NSSF Portfolio 402 (全國社保基金四零二組合)	1,349,999	Ordinary RMB Shares	1,349,999
Notes on the connected relationship or parties acting in concert among the above shareholders	It is not certain whether there is any connected relationship among the top 10 shareholders. It is not certain whether there is any connected relationship between the top 10 shareholders of non-restricted circulating shares and the top 10 shareholders. Notes: (1) According to the register of members as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. There was no single client who owned 5% or more interest in the total share capital of the Company. (2) The top ten shareholders are not strategic investors of the Company.		

3.3 Changes in the controlling shareholder and the actual controller of the Company

☐ Applicable ☒ Not Applicable

§ 4 DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

4.1 Changes in the shareholding of the Directors, Supervisors and senior management

☐ Applicable

☒ Not Applicable

§ 5 REPORT OF THE BOARD

A. COMPANY BUSINESS OVERVIEW

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

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

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

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

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

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

(II) Explanation of Industry Situation

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

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

Not applicable

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

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

B. OPERATION DISCUSSION AND ANALYSIS

I. OPERATION DISCUSSION AND ANALYSIS

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

During the reporting period, the Group commenced its work in an orderly manner according to the operational plans and strategies for 2018 as formulated by the Board:

- (1) With increasingly stringent requirements of water environment management, the Group deepened management of operation of all water projects to ensure that operation and services are safe, stable and up to standard; and meanwhile promoted routine work such as agreement maintenance to ensure revenues of the projects.
- (2) Further promotion of the work of market development. During the reporting period, the Group has succeeded in the bids of a total of 5 water projects, including 4 PPP projects for sewage treatment and ancillary pipeline networks distributed over places including Honghu, Baoying and Shibing County. Two of these projects involved the construction and operation of rural sewage treatment and ancillary pipeline networks; the Group has also participated in and won the bid for construction of sponge city in Jiefang South Road District, Tianjin; and acquired the electric heating project of Tianjin Miyun Road Community which covers an area of 210,000 m². The acquisition of the above projects will further enhance the Group's comprehensive service capabilities for environmental governance while increasing the scale of the Group's business and expanding its business scope.
- (3) Deepening management and innovation work. On the basis of linear management, the Group set up regional companies, marketing centers, construction management centers and operation management centers, and combined functional management authorization with business linear management to strengthen capabilities of regional comprehensive management and further enhance the Group's overall management efficiency.
- (4) The successful issuance of 3+2 years of RMB1.1 billion corporate bonds has ensured the funding requirements of the Group's daily operations.

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

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

(1) Analysis of principal business

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

1. Sewage treatment and construction of sewage treatment plants business recorded an income of RMB748.048 million, representing an increase of 7.93% as compared to the same period last year, which was mainly attributable to the increased volume of sewage water treatment. The Group processed a total of 574.63 million m³ of sewage water, representing an increase of 7.5% as compared to the same period last year. Meanwhile, certain subsidiaries increased the unit price of sewage treatment service fees;
2. Recycled water business recorded an income of RMB149.04 million, representing an increase of 50.83% as compared to the same period last year, which was mainly because pursuant to the new revenue standards, the Company has recognized the revenue of the reclaimed water pipeline network connection business according to the progress of project performance since 2018;
3. Tap water supply business recorded an income of RMB46.059 million, representing an increase of 37.44% as compared to the same period last year, and water sales volume of 23.0537 million m³, representing an increase of 10.3% as compared to the same period last year, mainly due to the newly-added Bayannur Industrial Water Supply Project (巴彥淖爾工業供水項目) during the reporting period;
4. New energy cooling and heating supply service business recorded an income of RMB36.574 million, representing an increase of 37.44% as compared with the same period of last year, mainly because the Binhai New Zone Energy Station Project (濱海新區能源站項目) was put into operation at the end of 2017 and obtained income from cooling and heating supply this year;

5. Transformation of achievements in technology research business recorded an income of RMB10.25 million, and toll collection business recorded an income of RMB31.242 million, both remained more or less the same as the same period last year.

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

(2) Other business

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

(1) Analysis of principal businesses

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

Unit: 0'000 Currency: RMB

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Not applicable

(3) Analysis of assets and liabilities

Unit: 0'000 Currency: RMB

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Prepayments	4,528.8	0.32	12,477.0	1.00	-63.70	Mainly due to transfer of the amount for construction of Water Recycling's pipeline network in prepayment to undistributed profit according to "Accounting Standards for Business Enterprises No. 14 -Revenue" promulgated by the Ministry of Finance of the PRC.
Prepayments other receivables	4,015.3	0.29	9,370.8	0.75	-57.15	Mainly due to the recovery of project tender deposit during this period.
Other current assets	12,792.9	0.91	8,544.9	0.69	49.71	Mainly due to the increase in value-added tax to be credited arising from acquisition of assets by the Company.
Available for sale financial assets	—	—	200.0	0.02	N/A	Mainly due to transfer of the amount invested in available for sale financial assets to other equity instrument investment according to "Accounting Standards for Business Enterprises No. 37-Presentation of financial instruments".

Items	Amount as at the end of the current period	Percentage of the amount as at the end of the current period to the total assets (%)	Amount as at the end of the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of previous period (%)	Explanation
Other equity investment	200.0	0.1	0.0	—	N/A	Mainly due to transfer of the amount for connection of Water Recycling's pipeline network in prepayment to undistributed profit according to "Accounting Standards for Business Enterprises No. 14 -Revenue".
Construction in progress	3,027.9	0.22	2,065.7	0.17	46.58	Mainly due to increased investment in non-franchise projects during this period.
Goodwill	2,965.2	0.21	0.0	—	100.00	Mainly due to the excess of payment over the fair value for the purchase of equity of Bayannur Jinshengyuan Water Supply and Drainage Co., Ltd* (巴彥淖爾市金晟源給排水公司) ("Jinshengyuan Company").
Other non-current assets	28,725.8	2.05	59,843.3	4.81	-52.00	Mainly due to the investment amount divested from Jinshengyuan Company.
Short-term borrowings	20,000.0	1.43	49,900.0	4.01	-59.92	Mainly due to the repayment of short-term loans due.
Advance payment	6,529.0	0.47	93,088.8	7.48	-92.99	Mainly due to the reclassification of the prepayment in relation to the Water Recycling's pipeline connection project into contract liabilities according to "Accounting Standards for Business Enterprises No. 14 -Revenue" promulgated by the Ministry of Finance.

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

(4) Analysis of investment

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

Overall analysis of equity investment

(1) Major equity investment

- ① The Company invested RMB84.00 million for capital increase in Fuyang Capital Water Company Limited (“**Fuyang Company**”) and then Fuyang Company invested the same amount for capital increase in Jieshou Capital Water Company Limited* (“**Jieshou Company**”), and the amount would be used by Jieshou Company in the investment, construction and exclusive operation of the first batch of existing projects and additional projects for the sewage treatment PPP project in Jieshou city. After the capital increase, the registered capital of Fuyang Company was RMB191.10 million and the registered capital of Jieshou Company was RMB89.00 million, the registered address and the scope of business of both Fuyang Company and Jieshou Company remained unchanged. During the reporting period, the capital increase was completed and the PPP project intended to be invested in has been in normal operation.
- ② The Board of the Company agreed to contribute of RMB21.00 million for capital increase in Baoying Capital Water Company Limited (“**Baoying Company**”), and the amount would be used by Baoying Company in the investment, construction and operation of its Xianhe sewage treatment plant expansion project. After the capital increase, the registered capital of Baoying Company will increase from RMB53.00 million to RMB83.00 million, and the Company is still holding 70% of the equity interest in Baoying Company. During the reporting period, the capital increase has not been completed.
- ③ The Board of the Company agreed to contribute of RMB3 million by Tianjin Jiayuanxing Innovative Energy Technology Company Limited (“**Jiayuanxing**”), its wholly-owned subsidiary, to jointly establish a project company with Tianjin Kangyuan Electricity Engineering Company Limited* (天津康源電力工程有限公司) for the implementation of the heat supply ancillary project on the land parcel located at Miyun Road developed and constructed by Xiqing District of Tianjin City, and Jiayuanxing would hold 60% of the equity interest in the project company. During the reporting period, the capital contribution has not been completed.

- ④ The Board of the Company agreed to contribute of RMB111.6312 million by the Company in cash for the formation of a project company with Honghu Municipal Water Pollution Control Center* (洪湖市水污染治理中心) and Tianjin Second Municipal Highway Engineering Co., Ltd.* (天津第二市政公路工程有限公司) (“**Tianjin Second Municipal**”). The project company will be responsible for the investment, construction, operation and maintenance of the PPP project for the construction, upgrading and ancillary pipe networking of the rural sewage treatment plants in Honghu City, and the Company would own 85% of equity interest in the project company. During the reporting period, the capital contribution has not been completed.

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

(2) Major non-equity investment

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

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

(5) Disposal of major assets and equity interest

Not applicable

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

Unit: 0'000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products or Services	Registered Capital	Type of Legal Person	Percentage of interest	Asset Size	Net Assets	Net Profits
Tianjin Water Recycling Company Limited ("Water Recycling Company")	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; manufacturing, installation, debugging and operation of water recycling facilities etc.	10,000	Limited Company	100%	137,800	48,855	3,405
Hangzhou Tianchuang Capital Water Company Limited ("Hangzhou Company")	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training	37,745	Limited Company	70%	106,496	53,564	3,716
Xi'an Capital Water Company Limited	Xi'an, Shaanxi	Development, construction, operation and management of municipal sewage treatment plants and tap water and its supporting facilities; research and promotion of environment protection technology	33,400	Limited Company	100%	65,735	25,565	1,822
Tianjin Jiayuanxing Innovative Energy Technology Company Limited	Tianjin	Development, consulting, service and transfer of energy conservation and new energy technology; property management services	19,195	Limited Company	100%	57,865	28,155	572
Tianjin Caring Technology Development Company Limited	Tianjin	Environmental engineering management and technical advice etc.	3,333	Stock Limited Company	60%	13,213	11,270	682
Shandong Capital Environmental Protection Technology Development Co., Ltd.	Shandong	Solid waste treatment	19,200	Limited Company	100%	12,547	12,525	-143

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

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

II. Other Disclosures

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

Not applicable

- (ii) **Possible risks**

- (1) **Risk of government credit**

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

- (2) **Risk of change in policy**

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

- (3) **Risk of operation and management**

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

Risk control measures

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

Strengthening the concept of corporate governance in accordance with the laws by making full use of its overall legal advisory system to protect lawful interests of the Company. Meanwhile, the Company calls for further clarification on the equalities between contracting parties in the licensed operation and PPP projects, tightening of the performance assessment and profit distribution mechanisms, and provision of the government's obligations of contract performance and payment as well as the investors' rights to get reasonable returns under the laws, so as to reduce the risk related to government credit and the financial risks of the investors.

(2) Strengthen comprehensive risk management

Determining the target for comprehensive risk management, establishing an institution for comprehensive risk management organization body to identify, analyze, assess and deal with possible risks hidden in different business links; improving the risk management system by establishing a sound comprehensive risk management system for the Company; enhancing the timeliness of the Company's comprehensive risk management and conducting dynamic management and effective control over risks, so as to reasonably ensure the achievement of the Company's strategic targets.

(3) Continue to raise the standards of operating management

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

(iii) Other disclosures

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

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

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

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

§ 6 Guarantee

Unit: 0'000 Currency: RMB

Guarantees provided to external parties by the Company (excluding guarantees provided to subsidiaries)	
Total amount of guarantees provided during the reporting period (excluding guarantees provided to subsidiaries)	0
Total balance of guarantees as at the end of the reporting period (A) (excluding guarantees provided to subsidiaries)	0
Guarantees provided to subsidiaries by the Company	
Total amount of guarantees provided to subsidiaries during the reporting period	14,500
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	113,444.20
Total amount of guarantees provided by the Company (including guarantees provided to subsidiaries)	
Total amount of guarantees (A+B)	113,444.20
Percentage of the total amount of guarantees to the net assets of the Company (%)	18.10
Of which:	
Amount of guarantees provided to shareholders, ultimate controller and their related parties (C)	0
Amount of guarantees provided directly or indirectly to borrowers with a gearing ratio of over 70% (D)	0
Total amount of guarantees exceeding 50% of net assets (E)	0
Total amount of the above three guarantees (C+D+E)	0

§ 7 FINANCIAL REPORTS

7.1 Audit opinion

Financial Report

☒ unaudited

☐ audited

7.2 Prepared in accordance with Hong Kong Financial Reporting Standards

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2018

(All amounts in RMB thousand unless otherwise stated)

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

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2018	2017
Earnings per share for profit from			
continuing operations attributable to			
the owners of the parent (in RMB per share)			
– basic		<u>0.20</u>	<u>0.18</u>
– diluted		<u>0.20</u>	<u>0.18</u>
Interim dividends	5	<u>—</u>	<u>—</u>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2018

(All amounts in RMB thousand unless otherwise stated)

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)
AS AT 30 JUNE 2018

(All amounts in RMB thousand unless otherwise stated)

		As at	
	<i>Note</i>	30 June 2018	31 December 2017
		Unaudited	Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,427,228	1,427,228
Other reserves		895,840	879,022
Retained earnings		3,261,441	2,810,790
		<u>5,584,509</u>	<u>5,117,040</u>
Non-controlling interests		<u>682,206</u>	<u>296,736</u>
Total equity		<u>6,266,715</u>	<u>5,413,776</u>
LIABILITIES			
Non-current liabilities			
Borrowings		3,671,079	1,543,388
Deferred revenue		2,126,338	2,129,064
Deferred income tax liabilities		124,682	120,259
Other non-current liabilities		40,000	40,000
Provisions for other liabilities and charges		32,930	32,930
		<u>5,995,029</u>	<u>3,865,641</u>

		As at	
		30 June	31 December
	<i>Note</i>	2018	2017
		Unaudited	Audited
Current liabilities			
Trade payables	7	139,741	128,254
Contract liabilities	7	508,898	—
Advances from customers	7	65,290	930,888
Wages payables		10,718	44,550
Income tax and other taxes payables	7	61,237	63,741
Dividend payable		1,912	1,912
Other payables and others	7	571,971	633,672
Borrowings		413,289	1,370,456
		<u>1,773,056</u>	<u>3,173,473</u>
Total liabilities		<u>7,768,085</u>	<u>7,039,114</u>
Total equity and liabilities		<u><u>14,034,800</u></u>	<u><u>12,452,890</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB thousand unless otherwise stated)

1 Basis of preparation of half-year report

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

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

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

(a) New and amended standards adopted by the Group

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

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

The impact of the adoption of these standards and the new accounting policies are disclosed in note 8 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

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

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

The accounting for lessors will not significantly change.

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

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

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	
	For the six months ended	
	30 June 2018	30 June 2017
Revenue from principal operations (Note 2(b))	1,021,839	896,014
Other income	124,557	35,879
	<u>1,146,396</u>	<u>931,893</u>

(b) Operating segment analysis

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

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

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

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

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

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

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

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

3 Operating profit

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

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

4 Income tax

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

Tax charges comprises:

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

5 Interim dividends

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

6 Trade receivables

Details of the trade receivables are as follows:

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

(a) Impaired trade receivables

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

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

- i) As these clients are provincial and municipal governments or their representatives, whose ability to meet their contractual cash flow obligations may not be weakened even if there are adverse changes in the economic and business situation over a long period, the receivables of the Company from Tianjin Water Authority Bureau, Xi'an Capital Water Co., Ltd. from Xi'an Urban Infrastructure Construction Investment Group Co., Ltd., Hangzhou Tianchuang Capital Water Co., Ltd. from Hangzhou Sewage Company, and Guizhou Capital Water Co., Ltd. from Guiyang Water Authority Bureau have a lower credit risk. Based on the historical experience of operation, the Group maintains continuous receipts. Therefore, the Company estimates that the lifetime expected credit loss rate of the receivables is 0.05%.
 - ii) Receivables of Qijing Capital Water Co., Ltd. from Qijing City Water General Company comprise regular sewage treatment fee, tap water fee and price compensation. As the receivables of regular sewage treatment fee and tap water fee have a longer collection period than ordinary government clients and they have higher credit risk, the Group estimates that the lifetime expected credit loss rate is 3%; Considering the debtor's actual performance capacity, historical collection experience and the ageing of the receivables, the Group presumes that the receivables of price compensation have been defaulted and estimates that the lifetime expected credit loss rate is 100%.
 - iii) Receivable of Tianjin Capital Alternative Energy Technology Co., Ltd. from Tianjin Qudong Culture Media Co., Ltd. has reached the litigation stage. Thus, the Company presumes that the receivables have been defaulted and estimates that the lifetime expected credit loss is 100%.
- (ii) As at 30 June 2018, provision for bad debts by the Group is analyzed as below:

Group - banker's acceptance

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

Group - government clients except provincial and municipal government clients

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

Group - others

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

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

7 Trade payables, contract liabilities, advances from customers, other payables and others and income tax and other taxes payables

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

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

(b) Contract liabilities comprise:

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

(c) Advances from customers comprise:

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

(d) Other payables and others comprise:

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

As at 30 June 2018, other payables of RMB 416 million (31 December 2017: RMB 701 million) were aged over one year, which mainly represented payables and deposits for sewage plants upgrading projects. The balances had yet to be settled as those projects and their final accounts have not been completed.

8 Changes in accounting policies

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

(a) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note 8(b)/(d) below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

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

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

(b) HKFRS 9 Financial Instruments – Impact of adoption

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

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 8(c) below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated with the exception of certain aspects of hedge accounting.

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

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

(i) Classification and measurement

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

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

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

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

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

(ii) *Impairment of financial assets*

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

- trade receivables
- other financial assets at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 8(b) above. While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Trade receivables

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

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

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

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

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

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

Other financial assets at amortised cost

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

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

Classification

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

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

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

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

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

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

Debt instruments

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

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

Equity instruments

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

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

Impairment

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

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

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

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

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

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

	2018
Retained earnings – after HKFRS 9 restatement (note 8(b))	(2,808,132)
Restatement of contract liability for pipeline collection project	(328,755)
Restatement of prepayment for costs to fulfil a contract	101,096
Recognition of income tax	56,915
Adjustment to retained earnings from adoption of HKFRS 15	(170,144)
Opening retained earnings 1 January – HKFRS 9 and HKFRS 15	(2,978,876)

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

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

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

Pipeline connection for recycled water

The application of HKFRS 15 requires that revenue and cost are recognized by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the actual outcomes achieved up to the end of the reporting period as a percentage of total promised results of each contract.

Sewage water processing and heating and cooling supply services

Revenues from sewage water processing and heating and cooling supply services are recognised when services are rendered. The Group recognises the revenue from sewage water processing and heating and cooling supply according to the Service concession right agreements signed by the customers.

Sales of environmental protection equipment

The environmental protection equipment mainly relates to the achievement of technology research. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs of each contract.

If the stage of completion can be measured reliably, revenue and cost are recognized by reference to the percentage of completion of the contract activity at the balance sheet date. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Sales of tap water and recycled water

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

Contract operation income

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

Technical services income

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

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

§ 8 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.

§ 9 CORPORATE GOVERNANCE CODE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the reporting period, in compliance with the code provisions of Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the HKSE.

§ 10 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 comprises the independent non-executive Directors, Mr. Guo Yongqing, Mr. Gao Zongze and Mr. Wang Xiangfei. The Audit Committee, together with the management of the Group, have reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Group 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 2018.

By order of the Board

Liu Yujun
Chairman

Tianjin, the PRC
28 August 2018

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