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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 2019

§1 IMPORTANT

- 1.1 The board of directors (the “**Board**”), the supervisory committee, directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) guarantee that information in this 2019 interim report (the “**Interim Report**”) does not contain any false information, misleading statements or material omissions, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of its contents.
- 1.2 The interim financial statements of the Company for the six months ended 30 June 2019 has not been audited.
- 1.3 Did the controlling shareholder of the Company and its connected persons misappropriate the Company’s funds for non-operating purposes ?

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

No.
- 1.5 Mr. Liu Yujun, the officer in charge of the Company, Ms. Peng Yilin, the officer in charge of accounting operations, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have warranted the truthfulness, accuracy and completeness of the financial reports contained in this Interim Report.

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

Major financial indicators

Currency: RMB

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

2.2.2 Extraordinary profit and loss items

Unit: 0'000 Currency: RMB

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

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

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

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

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

§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 as at the end of the reporting period are 87,883, among which 66 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 as 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	-90	337,854,810	23.67	0	Unknown	Other
Central Huijin Investment Co., Ltd.	0	14,169,800	0.99	0	Nil	State-owned legal person
Agricultural Bank of China Limited—CSI500 Index Open-ended Fund (中證500交易型開放式指數證券投資基金)	534,944	5,148,952	0.36	0	Nil	Other
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	10,900	3,340,900	0.23	0	Nil	Domestic non-state-owned legal person
An Liangzhou (安亮洲)	2,320,700	3,014,300	0.21	0	Nil	Domestic natural person
Hong Kong Securities Clearing Company Limited	1,386,947	2,615,311	0.18	0	Nil	Other
Wu Zuojia (吳作佳)	0	2,241,219	0.16	0	Nil	Domestic natural person
Bank of China Limited—Guangfa China Securities Environmental Protection Industry Index Open-ended Fund (廣發中證環保產業交易型開放式指數證券投資基金)	528,300	2,065,317	0.14	0	Nil	Other
Wang Zhanfu (王占府)	1,796,000	2,021,400	0.14	0	Nil	Domestic natural person

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	337,854,810	H Shares	337,854,810
Central Huijin Investment Co., Ltd.	14,169,800	Ordinary RMB Shares	14,169,800
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund (中證500交易型開放式指數證券投資基金)	5,148,952	Ordinary RMB Shares	5,148,952
Zhejiang Jinxin Construction Engineering Co., Ltd. (浙江錦鑫建設工程有限公司)	3,340,900	Ordinary RMB Shares	3,340,900
An Liangzhou (安亮州)	3,014,300	Ordinary RMB Shares	3,014,300
Hong Kong Securities Clearing Company Limited	2,615,311	Ordinary RMB Shares	2,615,311
Wu Zuojia (吳作佳)	2,241,219	Ordinary RMB Shares	2,241,219
Bank of China Limited-Guangfa China Securities Environmental Protection Industry Index Open-ended Fund (廣發中證環保產業交易型開放式指數證券投資基金)	2,065,317	Ordinary RMB Shares	2,065,317
Wang Zhanfu (王占府)	2,021,400	Ordinary RMB Shares	2,021,400
Notes on the connected relationship or parties acting in concert among the above shareholders	It is not certain whether there is any connected relationship among the top 10 shareholders. It is not certain whether there is any connected relationship between the top 10 shareholders of non-restricted circulating shares and the top 10 shareholders. Notes: (1) According to the register of members as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. There was no single client who owned 5% or more interest in the total share capital of the Company. (2) The top ten shareholders are not strategic investors of the Company.		

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

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

In the first half of 2019, oriented towards the requirements of comprehensive water environment management, the Company continued to consolidate and develop its water utilities business, expand its business into the market of sewage treatment in villages and townships and move towards fields integrating plants and networks. The sewage treatment capacity, tap water supply capacity, recycled water capacity and sludge treatment capacity of the Company under the new projects under the PPP model was 220,000 m³ per day, 30,000 m³ per day, 65,000 m³ per day and 80 tons per day, respectively. The Company has deployed supporting pipeline networks of 458 kilometers. The above are mainly distributed in Jieshou of Anhui, Hanshou of Hunan, Gaocheng of Shijiazhuang and Jiuquan of Gansu.

As of the end of the reporting period, the total capacity of equity-type water utilities business of the Company amounted to 5.425 million m³ per day, among which the sewage treatment capacity, including tap water and industrial water supply capacity and recycled water capacity under the PPP model was 4.67 million m³ per day, 335,000 m³ per day, 420,000 m³ per day respectively, and the sewage treatment capacity under the entrusted operation model was 535,500 m³ per day. The service areas of new energy business amounted to 2.00 million m².

(II) Explanation of Industry Situation

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

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

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 2019 as formulated by the Board:

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

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

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

(1) Analysis of the principal businesses

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

1. Sewage treatment and construction of sewage treatment plants business recorded an income of RMB871.299 million, representing an increase of 16.48% as compared to the same period last year, which was mainly attributable to the increased volume of sewage water treatment. During the reporting period, the Group processed a total of 668.93 million m³ of sewage water, representing an increase of 16.4% as compared to the same period last year. On the one hand, the volume of sewage treated by existing projects has increased; on the other hand, certain new sewage treatment projects were put into operation in the first half of this year.
2. Recycled water business recorded an income of RMB43.002 million, representing an increase of 39.40% as compared to the same period last year, which was mainly attributable to the increase in the water sales volume. During the reporting period, the water sales volume was 27.906 million m³, representing an increase of 18.7% as compared to the same period last year. This was on the one hand due to the increase in the number of recycled water users of Tianjin Water Recycling Co., Ltd.* (天津中水有限公司) (“**Water Recycling Company**”), and on the other hand, the commencement of operation of Bayannur recycled water projects in March 2018 boosted the year-on-year increase of water sales volume.
3. Tap water supply business recorded an income of RMB49.703 million, representing an increase of 7.91% as compared to the same period last year, which was mainly attributable to the increase in the water sales volume. During the reporting period, the water sales volume was 24.573 million m³, representing an increase of 6.6% as compared to the same period last year. This was on the one hand due to the increase of domestic water consumption resulting from the meteorological drought in Qujing from March to May in 2019, and on the other hand, the commencement of operation of Bayannur projects in March 2018 boosted the year-on-year increase of water sales volume.
4. New energy heating and cooling supply business recorded an income of RMB 40.417 million, representing an increase of 10.51% as compared to the same period last year, which was mainly attributable to the increased income from heating and cooling supply on a year-on-year basis resulting from the commencement of operation of the Heiniucheng Road new energy project in November 2018.

5. Transformation of achievements in technology research business recorded an income of RMB 18.493 million, representing an increase of 80.42% as compared to the same period last year, which was mainly attributable to heightened marketing efforts and the increase of sales revenue of deodorization equipment on a year-on-year basis.
6. Toll collection business recorded an income of RMB31.151 million, which remained more or less the same as the same period last year.

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

(2) Other business

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

(I) Analysis of principal businesses

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

Unit: 0'000 Currency: RMB

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

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

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

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

Explanation of changes in administrative expenses: It was mainly due to official operation of certain projects of subsidiaries after completion, and the commencement of operation of Inner Mongolia Bayannur Capital Water Co., Ltd.* (內蒙古巴彥淖爾創業水務有限責任公司) (“**Bayannur Company**”) from March in the same period this year, thus administrative expenses in the current period are higher than that in the same period last year.

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

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

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

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

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

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

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

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

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

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

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

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 this year is lower than that in the same period last year.

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

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

Not applicable

(III) Analysis of assets and liabilities

Unit: 0'000 Currency: RMB

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

(IV) Analysis of investment

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

(1) Major equity investment

1. During the reporting period, the Company won the bid of PPP Project for sewage treatment in Jieshou City (2nd batch). After winning the bid, the Company contributed RMB146.1822 million to Fuyang Capital Water Co., Ltd.* (阜陽創業水務有限公司) (“**Fuyang Company**”) for capital increase, which will then be used to increase the capital contribution of Fuyang Company to Jieshou Capital Water Co., Ltd.* (界首市創業水務有限公司) (“**Jieshou Company**”) for the investment, construction and operation of the PPP Project in Jieshou City (2nd batch). Following the capital increase, the registered capital of Fuyang Company increased from RMB191.10 million to RMB337.2822 million, and the registered capital of Jieshou Company increased from RMB89.00 million to RMB235.1822 million. During the reporting period, the above two capital increases were done and the PPP project in which the Company intends to invest proceeded well.
2. During the reporting period, the Company and Hunan Fengyuan Water Investment Construction Co., Ltd.* (湖南省豐源水務投資建設有限責任公司) (“**Fengyuan Water**”) formed a consortium, which won the bid for the franchise project of Yuanquan Waterworks in Hanshou County. After winning the bid, Hanshou Tianchuang Water Co., Ltd.* (漢壽天創水務有限公司) (“**Hanshou Company**”) was established, in which the Company holds 75% interests as a contributor of RMB33.75 million and Fengyuan Water holds 25% as a contributor of RMB11.25 million, respectively, for investment, construction and operation of franchise project of Yuanquan Waterworks in Hanshou County. During the reporting period, Hanshou Company was established, to which capital was contributed, and Yuanquan Waterworks proceeded well.
3. During the reporting period, the Company, Hebei Guokong Jincheng Environmental Control Co.,Ltd.* (河北國控津城環境治理有限責任公司) (“**Hebei Guokong**”), the Third Construction Co., Ltd of China Construction Third Engineering Bureau* (中建三局第三建設工程有限責任公司) (the “**Third Construction Company of China Construction Third Engineering Bureau**”) and Tianjin Municipal Engineering Design & Research Institute* (天津市市政工程設計研究院) (“**Tianjin Municipal Institute**”) formed a consortium, which won the PPP project for comprehensive improvement of regional water environment in Gaocheng District, Shijiazhuang. After winning the bid, Hebei Guojin Tianchuang Sewage Treatment Co. Ltd.* (河北國津天創污水處理有限責任公司) (“**Guojin Tianchuang Company**”) was jointly founded as the project company by the aforementioned members of the consortium and the representatives of the government contributor, for investment, construction and operation of the PPP project. The registered capital of the project company was RMB217.4969 million, in which the Company holds 59% interests as a contributor of RMB128.3232 million, Hebei Guokong holds 30%, the Third Construction Company of China Construction Third Engineering Bureau holds 0.9%, the representatives of government contributors, i.e. Gaocheng District Construction & Investment Co., Ltd of Shijiazhuang City* (石家莊市橋城區建設投資有限公司) and Zhengtong Construction & Development Co.,

Ltd of Gaocheng Economic Development Zone, Shijiazhuang* (石家莊稿城經濟開發區政通建設開發有限公司) hold 10% in total, and Tianjin Municipal Institute holds 0.1%. All those capital contributions were made in cash. During the reporting period, the capital injection was done, so that the project company was founded and the PPP project proceeded well.

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

(2) Major non-equity investment

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

(V) Disposal of major assets and equity interest

Not applicable

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

Unit: 0'000 Currency: RMB

Subsidiary	Principal Place of Business	Major Products or Services	Registered capital	Type of Legal Person	Percentage of interest	Asset Size	Net Assets	Net Profits
Water Recycling Company	Tianjin	Production and sales of recycled water; development and construction of water recycling facilities; manufacturing, installation, debugging and operation of water recycling facilities etc.	10,000	Limited liability company	100%	131,459.3	46,647.8	3,506.50
Hang Zhou Tianchuang Capital Water Co., Ltd. ("Hangzhou Company")	Hangzhou, Zhejiang	Operation and maintenance of sewage treatment and recycled water usage facilities, and supporting services such as its technical services and technical training. And its technical services, technical training and other supporting services	37,744.50	Limited liability company	70%	101,857.9	70,588.7	2,345.3
Xi'an Capital Water Co., Ltd.* (西安創業水務有限公司)	Xi'an, Shaanxi	Development, construction, operation and management of municipal sewage treatment plants and tap water and its supporting facilities; research and promotion of environment protection technology	33,400	Limited liability company	100%	61,437.0	42,854.8	1,601.4
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.* (天津佳源興創新能源科技有限公司)	Tianjin	Development, consulting, service and transfer of energy conservation and new energy technology; property management services	19,195.05	Limited liability company	100%	67,758.0	30,767.9	512.0
Tianjin Caring Technology Developemnt Stock Ltd. Co.* (天津凱英科技發展股份有限公司)	Tianjin	Environmental engineering management and technical advice etc.	3,333.33	Stock limited company	60%	14,886.4	12,233.7	699.8
Bayannur Company	Bayannur, Inner Mongolia	Treatment of sewage water, production and sales of recycled water and supply of tap water	106,757.79	Limited liability company	70%	113,564.3	111,504.7	385.3
Shandong Capital Environmental Protection Technology Development Co., Ltd.* (山東創業環保科技發展有限公司) ("Shandong Company")	Shandong	Disposal of solid wastes, industrial wastes, hazardous wastes, sludge, kitchen wastes, etc.	19,200	Limited liability company	55%	41,268.2	18,449.8	-256.2

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

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

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

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) ***Possible risks***

(1) *Risk of government credit*

Given the characteristic of licensed operation in sewage treatment projects, the capital source of sewage treatment service fee comes mainly from the special sewage-treatment fee charged by the governments through the sales of tap water; the deficient amount will be supplemented by the local governments. As for enterprises, the investment return relies mainly on the payment of sewage treatment service fee from the governments. Therefore, the singleness of capital source determines the importance and cruciality of the government credibility. Whether water utilities companies can recoup the investment as scheduled and obtain the expected rate of return depends on the level of government credibility. In case the risk related to government credibility occurs, the project companies will face cash flow problem, which may generate capital risks such as financial risks and financing risks. Since the government credibility relates to government's financial revenue and expenditure, it is necessary to prevent and control the risk of government credit effectively, particularly in the background of economic downturn and deleveraging policies.

(2) *Risk of change in policy*

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

(3) *Risk of operation and management*

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

2. Risk management measures

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

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

(2) Strengthen comprehensive risk management

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

(3) Continue to raise the standards of operating management

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

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

§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 STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR OF 2019

(All amounts in RMB thousand unless otherwise stated)

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

		Unaudited Half year 2019	2018
	Notes	RMB' 000	RMB' 000
Earnings per share for profit attributable to the ordinary equity holders of the Company (in RMB per share)			
– Basic earnings per share		0.15	0.20
– Diluted earnings per share		<u>0.15</u>	<u>0.20</u>
Interim dividends	5	<u>—</u>	<u>—</u>

**INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2019**

(All amounts in RMB thousand unless otherwise stated)

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)

AS AT 30 JUNE 2019

(All amounts in RMB thousand unless otherwise stated)

		As at	
	Notes	30 June 2019	31 December 2018
		Unaudited	Audited
		RMB' 000	RMB' 000
LIABILITIES			
Non-current liabilities			
Borrowings		4,338,920	4,114,683
Deferred revenue		2,110,298	2,101,085
Deferred income tax liabilities		141,370	138,812
Other non-current liabilities		38,000	38,000
Provisions for other liabilities and charges		10,069	10,069
		<u>6,638,657</u>	<u>6,402,649</u>
Current liabilities			
Trade payables	7	220,762	176,398
Contract liabilities	7	534,107	469,185
Wages payables		11,557	53,942
Income tax and other taxes payables	7	54,215	68,893
Dividend payable		150,699	1,912
Other payables	7	1,051,332	1,456,133
Borrowings		971,230	443,369
		<u>2,993,902</u>	<u>2,669,832</u>
Total liabilities		<u>9,632,559</u>	<u>9,072,481</u>
Net assets		<u>6,823,609</u>	<u>6,614,967</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,427,228	1,427,228
Other reserves		948,131	948,131
Retained earnings		3,510,061	3,442,844
		<u>5,885,420</u>	<u>5,818,203</u>
Non-controlling interests		<u>938,189</u>	<u>796,764</u>
Total equity		<u>6,823,609</u>	<u>6,614,967</u>

Liu Yujun

Niu Bo

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 2019 has been prepared in accordance with Accounting Standard HKAS 34 Interim Financial Reporting.

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

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

(a) New and amended standards adopted by the Group

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

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

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 half year ended	
	2019	2018
	RMB' 000	RMB' 000
Revenue from contracts with customers (Note 2(b))	1,224,716	1,107,798
Other income	60,744	38,598
	<u>1,285,460</u>	<u>1,146,396</u>

(b) Operating segment analysis

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

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

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

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

2 Revenue and segment information (continued)

(b) Operating segment analysis (continued)

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

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

2 Revenue and segment information (continued)

(b) Operating segment analysis (continued)

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

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

3 Operating profit

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

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

4 Income tax expense

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

Tax charges comprises:

	Unaudited	
	For the half year ended	
	2019	2018
	RMB'000	RMB'000
Current income tax	53,596	87,805
Deferred income tax	2,558	4,423
	56,154	92,228

5 Interim dividends

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

6 Trade receivables

Details of the trade receivables are as follows:

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

(a) Impaired trade receivables

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

	Carrying amount RMB' 000	Expected credit loss rate	Loss Allowance RMB' 000	Reasons
Tianjin Water Authority Bureau	1,392,638	0.05	791	i)
Qijing Sewage Company	161,461	21.28	34,357	ii)
Hangzhou Municipal Facilities Supervision Center	93,918	0.05	30	i)
Guiyang Water Authority Bureau	61,469	0.05	2	i)
Xi'an Infrastructure Investment Group	14,998	0.05	14	i)
Tianjin Qudong Culture Media Co. LTD	<u>7,239</u>	100.00	<u>7,239</u>	iii)
Total	<u><u>1,731,723</u></u>		<u><u>42,433</u></u>	

- i) As these customers are provincial governments or their representatives, whose ability to meet their contractual cash flow obligations may not be weakened even if there are adverse changes in the economic and business situation over a long period, the receivables of the Group from Tianjin Water Authority Bureau, from Xi'an Urban Infrastructure Construction Investment Group Co., Ltd., from Hangzhou Municipal Facilities Supervision Center, and from Guiyang Water Authority Bureau have a lower credit risk, based on the analysis of historical payment records and forward-looking measurement. Therefore, the Company estimates that the lifetime expected credit loss rate of the receivables is 0.05%.

6 Trade receivables (continued)

(a) Impaired trade receivables (continued)

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

- ii) Receivables from Qujing City Water General Company comprise regular sewage treatment fee, tap water fee and price compensation. As the receivables of regular sewage treatment fee and tap water fee have a longer collection period than ordinary government customers and they have higher credit risk, the Group estimates that the lifetime expected credit loss rate is 3%; Considering the debtor's actual performance capacity, historical collection experience and the ageing of the receivables, the Group concludes that the receivables of price compensation have been defaulted and estimates that the lifetime expected credit loss rate is 100%. In summary, the Group expects that the expected credit loss rate of receivables from Qujing City Water General Company in the whole period is 21.28%.
- iii) Receivables from Tianjin Qudong Culture Media Co., Ltd. has applied enforcement and got approval from the court. Thus, the Company concludes that the receivables has been defaulted and estimates that the lifetime expected credit loss is 100%.

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

Group – banker's acceptance

As at 30 June 2019, the Group measures bad debt provision in accordance with the lifetime expected credit loss for the entire duration, and no provision is deemed necessary. The Group considers that there is no significant credit risk in banker's acceptance and no major loss will be caused by bank default.

Group – Non-provincial government customers

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

Group – others

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

(iii) The accrued bad debt provision in this half-year is RMB573,000, and the bad debts provision reversed is RMB671,000.

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

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

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

(b) Contract liabilities

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

(c) Other payables:

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

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

8 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 8(a) below.

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

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

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

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

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

(i) Practical expedients applied

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

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

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

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

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

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

§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 Stock Exchange.

§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. Di Xiaofeng and Mr. Wang Xiangfei. The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Company the internal controls and financial reporting matters including the review of the unaudited interim results and the Interim Report. The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2019.

By order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
26 August 2019

As at the date of this announcement, the Board comprises three executive Directors: Mr. Liu Yujun, Ms. Wang Jing and Mr. Niu Bo; three non-executive Directors: Mr. Yu Zhongpeng, Mr. Han Wei and Mr. Si Xiaolong; and three independent non-executive Directors: Mr. Di Xiaofeng, Mr. Guo Yongqing and Mr. Wang Xiangfei.

** For identification purposes only*