



Annual Report 2009



Tianjin Capital Environmental Protection Group Company Limited
天津創業環保集團股份有限公司

1. Important	2
2. Company Profile	3
3. Major Financial Information and Benchmarks	5
4. Details of Changes in Share Capital and Shareholders	9
5. Directors, Supervisors and Senior Management	16
6. Structure of Corporate Governance	25
7. Shareholders' General Meetings	37
8. Directors' Report	38
9. Report of the Supervisory Committee	67
10. Major Events	69
11. Other Information	78
12. Financial Accounting Report	80
13. Report of the Auditors	81
14. Financial Statements prepared in accordance with PRC Accountant Standards for Business Enterprises	83
15. Independent Auditor's Report	143
16. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards	144
17. List of Documents Available for Inspection	200



1. Important

- (1) The board of directors (the “**Board**”), supervisory committee (the “**Supervisory Committee**”), directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) confirm that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of the content.
- (2) All the Directors of the Company have attended the Board meeting.
- (3) PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have issued standard unqualified audit reports of the Company.

- (4) Chairman of the Company Mr. Zhang Wenhui
Officer in charge of the accounting work and
Officer in charge of the accounting department (the chief accountant) Ms. Shi Zhenjuan

Mr. Zhang Wenhui, the Company’s chairman, and Ms. Shi Zhenjuan, the officer in charge of the accounting work and the officer in charge of the accounting department (the chief accountant), have declared that they are responsible for the truthfulness and completeness of the financial reports contained in the 2009 annual report.

- (5) Did the controlling shareholder of the Company and its related parties misappropriate the Company’s funds?
No.
- (6) Did the Company provide external guarantees in violation of any specified decision-making procedures?
No.

2. Company information

(1) Information of the Company

Legal Chinese name of the Company	天津創業環保集團股份有限公司
Abbreviation of the Chinese name of the Company	創業環保
Legal English name of the Company	Tianjin Capital Environmental Protection Group Company Limited
Abbreviation of the English name of the Company	TCEPC
Legal representative of the Company	Mr. Zhang Wenhui

(2) Contact person and method

	Company Secretary to the Board	Company Secretary in Hong Kong	Securities Affairs Representative
Name	Ms. Fu Yana	Mr. Lo Wai Keung, Eric	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	86-22-2393 0128	852-2218 0920	86-22-2393 0128
Facsimile number	86-22-2393 0126	852-2501 0028	86-22-2393 0126
E-mail address	fu_yn@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

(3) Company Profile

Registered address	No. 45 Guizhou Road, Heping District, Tianjin, the PRC
Postal code of the registered address	300051
Office address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal code of the office address	300381
Website	http://www.tjcep.com
E-mail address	tjcep@tjcep.com

(4) Places where the Company's information is disclosed and available for inspection

Name of the newspaper designated for the disclosure of information	Shanghai Securities News
Website designated by the China Securities Regulatory Committee ("CSRC") for the disclosure of the annual report	http://www.sse.com.cn
Place where the annual report is available for inspection	Office of the Secretary to the Board, 18/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC

2. Company information

(5) Profile of the shares of the Company

Shares	Stock Exchange for listing shares	Short form of shares	Stock code	Short form of shares before its change
A Shares	Shanghai Stock Exchange (the "SSE")	創業環保	600874	渤海化工
H Shares	The Stock Exchange of Hong Kong Limited (the "Stock Exchange")	Tianjin Capital	1065	Tianjin Bohai

(6) Other relevant information

Date of first registration of the Company	8 June 1993
The first registered address of the Company	No. 10 Hubei Road, Heping District, Tianjin, the PRC
Last changes	Date of change in registration of the Company
	8 February 2010
	Change in registered address of the Company
	No. 45 Guizhou Road, Heping District, Tianjin, the PRC
	Number of business licence of corporate legal person
	120000400079927
	Tax registration number
	120114103065501
	Organization structure code
	10306550-1
Name of PRC auditor engaged by the Company	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
Correspondence address of PRC auditor engaged by the Company	11th Floor, PricewaterhouseCoopers Center 202 Hu Bin Road, Shanghai, the PRC
Name of Hong Kong auditor engaged by the Company	PricewaterhouseCoopers
Correspondence address of Hong Kong auditor engaged by the Company	22/F, Prince's Building, Central, Hong Kong

Other information of the Company

On 26 August 1998, the Company changed its registered capital to RMB1,330,000,000 and applied for and received a new business license. On 8 January 2001, the Company changed its name from "Tianjin Bohai Chemical Industry (Group) Company Limited" to "Tianjin Capital Environmental Protection Company Limited", changed the company address to "No. 18 Jinlong Apartment, Shuishang Park North Road, Nankai District, Tianjin, the PRC", changed the name of the shareholder of the Company from "Tianjin Bohai Chemical Industry Group Corporation" to "Tianjin Municipal Investment Company Limited", cancelled the original scope of operations, at the same time set up a new scope of operations, re-signed the new Articles of Association, and applied for and received a new business license. On 23 July 2001, the Company revised the scope of operations, applied for and received a new business license. On 25 February 2003, the Company changed its registered address to "No.45 Guizhou Road, Heping District, Tianjin, the PRC", revised the scope of operations, at the same time amended the Articles of Association, and applied for and received a new business license. On 6 December 2004, the Company changed the scope of operations, and at the same time amended the Articles of Association, applied for and received a new business license. On 15 August 2006, due to the conversion of part of the convertible bonds of the Company and the share segregation reform, the Company changed its registered capital, and at the same time amended the Articles of Association, applied for and received a new business license. On 5 June 2008, the Company changed its registration number. On 13 October 2009, the Company changed its legal representative to Zhang Wenhui, applied for and received a new business license. On 8 February 2010, due to the delisting of the convertible bonds, the Company changed its registered capital to RMB1,427,228,430, applied for and received a new business license.

3. Major Financial Information and Benchmarks

(1) Major financial data for the reporting period

Item	Unit: '000	Currency: RMB
		Amount
Operating profit		342,777
Total profit		337,721
Net profit attributable to shareholders of the Company		242,978
Net profit after deduction of extraordinary items attributable to shareholders of the Company		246,770
Net cash flows from operating activities		<u>1,390,313</u>

(2) Extraordinary profit and loss items and amounts

Extraordinary profit and loss project	Unit: '000	Currency: RMB
		Amount
Gain and loss from disposal of non-current assets		-12,834
Income and expenses from other operations other than the above		7,778
Impact of income tax		<u>1,264</u>
Total		<u>-3,792</u>



3. Major Financial Information and Benchmarks

(3) Principal Accounting Data and Financial Highlights For the Three Years Prior to the end of the Reporting Period

Principal Accounting Data	2009	2008	Unit: '000 Currency: RMB	
			Increase/ Decrease from last year (%)	2007
Operating income	1,256,793.00	1,159,307.00	8.40	1,002,042.00
Total profit	337,721.00	310,238.00	8.85	309,592.00
Net profit attributable to shareholders of the Company	242,978.00	231,065.00	5.15	209,328.00
Net profit after deduction of extraordinary items attributable to shareholders of the Company	246,770.00	229,756.00	7.40	210,306.00
Net cash flow from operating activities	1,390,313.00	304,600.00	356.43	255,914.00
			Increase/ Decrease from	
	31 December 2009	31 December 2008	the end of last year (%)	31 December 2007
Total assets	7,195,648.00	7,560,263.00	-4.82	5,944,066.00
Owners' equity (or shareholders' equity)	3,293,591.00	3,107,702.00	5.98	2,933,726.00

3. Major Financial Information and Benchmarks

Financial Highlights	2009	2008	Unit: '000	Currency: RMB
			Increase/ Decrease from last year (%)	2007
Basic earnings per share (Yuan/share)	0.17	0.16	6.25	0.15
Diluter earnings per share (Yuan/share)	0.17	0.16	6.25	0.15
Basic earnings per share after deduction of extraordinary items (Yuan/share)	0.17	0.16	6.25	0.15
Weighted average return ratio on equity (%)	7.38	7.44	Decreased by 0.06 percentage points	7.56
Weighted average return ratio on equity after deduction of extraordinary items (%)	7.49	7.39	Increased by 0.1 percentage points	7.60
Net cash flow from operating activities per share (Yuan/share)	0.97	0.21	361.90	0.18
			Increase/ Decrease from	
	31 December	31 December	the end of	31 December
	2009	2008	last year (%)	2007
Net asset value per share attributable to shareholders of the Company (Yuan/share)	2.31	2.18	5.96	2.06



3. Major Financial Information and Benchmarks

(4) Prepared in accordance with the HKFRS

Results

	For the year ended 31st December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,226,466	1,135,101	978,953	755,595	580,495
Profit before taxation	337,721	310,238	309,592	246,236	259,981
Taxation	(91,319)	(76,753)	(99,224)	(82,948)	(84,345)
Profit after taxation	246,402	233,485	210,368	163,288	175,636
Minority interests	(3,424)	(2,420)	(1,040)	2,317	1,839
Profit attributable to equity holders of the Company	242,978	231,065	209,328	165,605	177,475
Dividend	114,178	57,089	57,089	56,105	53,226

Note:

The results for each of the five years ended 31st December, 2009 have been extracted from the previous annual reports and the audited consolidated income statement as set out in this annual report.

Assets and Liabilities

	As at 31st December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets	2,841,702	2,704,364	2,726,943	2,746,173	3,119,863
Intangible assets	2,367,696	1,884,264	1,174,341	1,163,914	—
Associated company	40,135	39,878	63,979	61,660	—
Available-for-sale financial assets	4,000	4,000	4,000	6,000	6,000
Long-term receivables	331,354	331,254	326,980	318,234	—
Trade receivables due after one year	241,792	697,763	697,763	749,973	466,185
Other non-current assets	3,230	47,252	23,778	46,113	94,975
Net current (liabilities)/assets	71,624	137,563	(158,829)	(405,995)	(165,716)
	5,901,533	5,864,338	4,858,955	4,686,072	3,521,307
Minority interests	121,920	118,496	117,358	116,318	49,132
Long-term liabilities	2,486,022	2,620,140	1,807,871	2,167,853	1,190,814
Net assets	3,293,591	3,107,702	2,933,726	2,401,901	2,281,361

4. Details of Changes in Share Capital and Shareholders

(1) Changes in share capital

1. Table of changes in shares in the Company

		Unit: shares								
		Before the changes in share capital		Increase/decrease during this period (+,-)				After the changes in share capital		
		Quantity	Percentage (%)	New shares issued	Transfer of			Sub-total	Quantity	Percentage (%)
					Bonus issue	surplus to capital	Others			
A.	Restricted shares	664,086,598	46.53	—	—	—	-664,086,598	-664,086,598	0	0
1.	State-owned shares	664,086,598	46.53	—	—	—	-664,086,598	-664,086,598	0	0
2.	State-owned legal persons shares	—	—	—	—	—	—	—	—	—
3.	Shares held by other domestic entities	—	—	—	—	—	—	—	—	—
	Including:									
	Shares held by domestic legal persons	—	—	—	—	—	—	—	—	—
	Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4.	Shares held by foreign entities	—	—	—	—	—	—	—	—	—
	Including:									
	Shares held by overseas legal persons	—	—	—	—	—	—	—	—	—
	Shares held by overseas natural persons	—	—	—	—	—	—	—	—	—
B.	Non-restricted circulating shares	763,141,832	53.47	—	—	—	664,086,598	664,086,598	1,427,228,430	100
1.	RMB ordinary shares	423,141,832	29.65	—	—	—	664,086,598	664,086,598	1,087,228,430	76.18
2.	Domestic listed foreign shares	—	—	—	—	—	—	—	—	—
3.	Overseas listed foreign shares	340,000,000	23.82	—	—	—	0	0	340,000,000	23.82
4.	Others	—	—	—	—	—	—	—	—	—
C.	Total number of shares	1,427,228,430	100	—	—	—	0	0	1,427,228,430	100

Approvals for the changes in the share capital:

Pursuant to the relevant requirements of the Share Segregation Reform Proposal approved at the relevant general meeting for the A shares shareholders of the Company held on 20th March 2006, as at 20 April 2009, there were an aggregate of 664,086,598 restricted circulating A shares of the Company circulating in the market.

4. Details of Changes in Share Capital and Shareholders

2. Table of changes in restricted shares

Unit: shares

Name of shareholder	Number of restricted shares at the beginning of the year	Number of restricted shares released during the year	Number of restricted shares increased during the year	Number of restricted shares at the end of the year	Reasons for restriction	Release date
Tianjin Municipal Investment Company Limited ("TMICL")	664,086,598	664,086,598	0	0	Share segregation reforms undertakings	20 April 2009
Total	664,086,598	664,086,598	0	0	—	—

(2) Issue and listing of securities

1. Issue of securities in the past three years

For the three years ended at the end of this reporting period, the Company has no issue and listing of securities.

2. Changes in the total number and structure of shares of the Company

During the reporting period, there were no changes in the total number and structure of shares of the Company due to bonus issue and share allotment.

3. Existing internal employee shares

There was no internal employee share as at the end of the reporting period.

4. Details of Changes in Share Capital and Shareholders

(3) Details of shareholders and ultimate controller

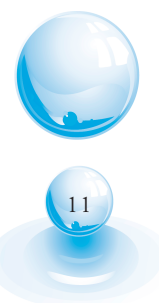
1. Number of shareholders and their shareholdings

Unit: shares

Total number of shareholders 113,391, among which 93 are shareholders of H shares
as at the end of the reporting period

Shareholdings of the top ten shareholders

Shareholders	Nature of the Shareholders	Percentage of shareholding (%)	Total number of shares held	Increase/ Decrease	Number of restricted shares held	Number of shares pledged or frozen
				during the reporting period		
TMICL	State-owned Shareholder	53.06	757,332,766	-17,651,679	0	Pledged 251,940,000
HKSCC Nominees Limited	Unknown	23.66	337,614,900	182,000	0	Unknown
Zhou Jun	Unknown	0.42	5,942,835	-37,165	0	Unknown
Shenyang Railway Coal Group Co., Ltd.	Unknown	0.21	3,000,000	0	0	Unknown
BOC – Shanghai Shenzhen '300 Index Securities Investment Fund	Unknown	0.15	2,122,566	42,600	0	Unknown
Industrial and Commercial Bank of China Limited – China AMC CSI 300 Index Fund	Unknown	0.11	1,500,000	1,500,000	0	Unknown
China Southern Securities Limited	Unknown	0.09	1,300,000	-1,425,000	0	Unknown
Wang Ming Li	Unknown	0.09	1,290,167	-282,033	0	Unknown
Pan Zhi Hong	Unknown	0.09	1,235,320	7,300	0	Unknown
Huatai Securities – BOC – Huatai Zijinding Bubuwaiying Umbrella Asset Management Plan	Unknown	0.08	1,100,000	1,100,000	0	Unknown



4. Details of Changes in Share Capital and Shareholders

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

Name of Shareholder	Number of the non-restricted circulating shares held	Type of shares
TMICL	757,332,766	Ordinary RMB Shares
HKSCC Nominees Limited	337,614,900	H Shares
Zhou Jun	5,942,835	Ordinary RMB Shares
Shenyang Railway Coal Group Co., Ltd.	3,000,000	Ordinary RMB Shares
BOC – Shanghai Shenzhen 300 Index Securities Investment Fund	2,122,566	Ordinary RMB Shares
Industrial and Commercial Bank of China Limited – China AMC CSI 300 Index Fund	1,500,000	Ordinary RMB Shares
China Southern Securities Limited	1,300,000	Ordinary RMB Shares
Wang Ming Li	1,290,167	Ordinary RMB Shares
Pan Zhi Hong	1,235,320	Ordinary RMB Shares
Huatai Securities – BOC – Huatai Zijinding Bubuwaiying Umbrella Asset Management Plan	1,100,000	Ordinary RMB Shares

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.

1. According to the register of members of the Company as provided by HKSCC Nominees Limited, those H Shares held by it were held on behalf of various clients. There was no 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.

4. Details of Changes in Share Capital and Shareholders

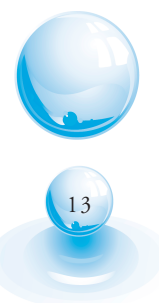
2. Information of the controlling shareholder and the ultimate controller of the Company

(1) Description of the legal person controlling shareholder

Name	TMICL
Legal representative	Xiong Guangyu
Date of incorporation	20 January 1998
Registered capital	RMB1,820,000,000
Principal operations	The investment, construction, operation and management of city infrastructure, road construction and auxiliary facilities with internal funds; development, operation and leasing of real estates; property management; investment and management in Yin He Park with internal funds; leasing of facilities (except motor vehicles); import and export business of self-manufacturing and distribution of various commodities and technologies (except commodities and technologies restricted or prohibited by the State for trading) (in accordance with the State regulations for specific projects and operations).

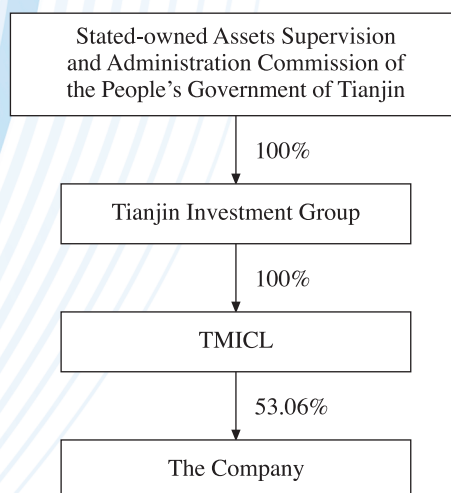
(2) Description of the legal person ultimate controller

Name	Tianjin City Infrastructure Construction and Investment Group Company Limited (“Tianjin Investment Group”)
Legal representative	Wang Zhouxi
Date of incorporation	23 July 2004
Registered capital	RMB67,700,000,000
Principal operations	It uses its own funds to invest in the development and reconstruction of seas and rivers, railways, city roads and bridges, underground tube network, urban environmental infrastructure facilities; investment and planning; corporate management and consultation; market establishment and development services; leasing of self-owned housing; leasing of infrastructural facilities and the development and operation of public facilities projects; operating infrastructure franchise under the authorisation of the government and franchise transfer; production, development and operation of construction materials, decoration materials, mechanical and electrical products (excluding motor vehicles); construction investment consultation (in accordance with the State regulations for specific projects and operations).



4. Details of Changes in Share Capital and Shareholders

Flowchart on the shareholding interests and relationship of control between the Company and its ultimate controller



(3) *Change in the controlling shareholder and the ultimate controller of the Company*

During the reporting period, there were no changes in the controlling shareholder and the ultimate controller of the Company.

3. **Other legal shareholders holding more than 10% of the Shares**

As at the end of the reporting period, there were no other legal shareholders holding more than 10% of the shares of the Company.

4. Details of Changes in Share Capital and Shareholders

(4) Substantial Shareholders Interests

- (a) As at 31st December 2009, so far as is known to or can be ascertained after reasonable enquiries by the Directors, Supervisors or chief executive of the Company, the following entities (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity	Number and class of securities (Note)	Approximate percentage in the relevant class of securities	Approximate percentage in the total issued share capital of the Company
TMICL	Beneficial Owner	757,332,766 A Shares (L)	69.66%	53.06%
ISIS Asset Management Plc	Investment Manager	17,286,000 H Shares (L)	5.08%	1.21%
HSBC Asset Management (Hong Kong) Limited	Investment Manager	20,000,000 H Shares (L)	5.88%	1.40%

Note: The letter "L" represents the person's long position in the Shares.

- (b) Save as disclosed above, there is no other person (other than the Directors, Supervisors or chief executive of the Company) so far as is known to the Directors, Supervisors or chief executives of the Company who, as at 31 December 2009, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 10% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.



5. Directors, Supervisors and Senior Management

(I) Changes in shareholdings and the remuneration of Directors, Supervisors and Senior Management

Name	Position held	Sex	Age	Appointment date	Termination date	No. of shares held at the beginning of the year	No. of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB) (Before Tax)	Receive any remuneration or allowance from companies of shareholders or other related companies?
Zhang Wenhui	Executive Director, Chairman	M	55	18 December 2009	17 December 2012	0	0	—	764,745.92	No
Lin Wenbo	Executive Director, general manager	M	53	18 December 2009	17 December 2012	0	0	—	560,402.60	No
Fu Yana	Executive Director, deputy general manager and secretary to the Board	F	39	18 December 2009	17 December 2012	0	0	—	506,032.64	No
Zhong Huifang	Executive Director, deputy general manager	F	42	18 December 2009	17 December 2012	0	0	—	430,113.32	No
An Pindong	Non-executive Director	M	41	18 December 2009	17 December 2012	0	0	—	100,000.00	Yes
Chen Yinxing	Former chief accountant non-executive Director	F	36	19 December 2006 18 December 2009	5 March 2009 17 December 2012	0	0	—	183,360.00 0	No Yes
Xie Rong	Independent non-executive Director	M	58	18 December 2009	17 December 2012	0	0	—	HK\$200,000	No
Di Xiaofeng	Independent non-executive Director	M	49	18 December 2009	17 December 2012	0	0	—	HK\$200,000	No
Lee Kit Ying, Karen	Independent non-executive Director	F	62	18 December 2009	17 December 2012	0	0	—	0	No
Zhang Mingqi	Chairman of Supervisory Committee	M	53	18 December 2009	17 December 2012	0	0	—	352,050.00	No
Nie Youzhuang	Supervisor	M	41	18 December 2009	17 December 2012	959	959	—	292,939.60	No
						domestic shares	domestic shares			
Xu Zhiyong	Supervisor	M	39	18 December 2009	17 December 2012	0	0	—	274,899.01	No
Wang Yanmin	Supervisor Assistant to manager of the audit department of Tianjin Investment Group	F	44	18 December 2009 July 2009	17 December 2012	0	0	—	128,080.00	No Yes
Li Yang	Supervisor	M	41	18 December 2009	17 December 2012	0	0	—	248,026.16	No
Qi Lipin	Supervisor	F	32	18 December 2009	17 December 2012	0	0	—	294,250.00	No
Deng Biao	Deputy general manager	M	44	18 December 2009	17 December 2012	0	0	—	453,180.00	No
Yang Guang	Deputy general manager	M	40	18 December 2009	17 December 2012	0	0	—	338,820.00	No
Zhang Qiang	Deputy general manager	M	47	18 December 2009	17 December 2012	0	0	—	275,032.00	No
Li Yuqing	Chief engineer	M	45	18 December 2009	17 December 2012	0	0	—	371,566.64	No
Gu Wenhui	Chief economist	M	33	5 March 2009	25 March 2010	0	0	—	348,900.00	No
Shi Zhenjuan	Chief accountant	F	40	18 December 2009	17 December 2012	0	0	—	407,533.32	No
Lo Wai Keung, Eric	Company secretary (Hong Kong)	M	34	18 December 2009	17 December 2012	0	0	—	US\$20,000	No
Tang Fusheng	Deputy general manager	M	37	25 March 2010	17 December 2012	0	0	—	—	No
Wang Hong	Deputy general manager	M	35	25 March 2010	17 December 2012	0	0	—	—	No
Ma Baiyu	Former Chairman, former executive Director	F	48	19 December 2006	21 July 2009	0	0	—	112,500.00	Yes
Gu Qifeng	Former deputy chairman, former executive Director, former general manager	M	44	19 December 2006 19 December 2006	18 December 2009 10 November 2009	0	0	—	821,543.92	No
Wang Zhanying	Former executive Director	M	55	19 December 2006	18 December 2009	6,850	6,850	0	100,000.00	No
						domestic shares	domestic shares			
Tan Zhaofu	Former executive Director	M	55	19 December 2006	18 December 2009	0	0	—	100,000.00	No
Ko Poming	Former independent non-executive Director	M	52	19 December 2006	18 December 2009	0	0	—	HK\$20,000	No
Liu Wenya	Former deputy general manager	M	52	19 December 2006	5 March 2009	0	0	—	318,309.92	No
Chang Xiaolan	Former chief economist	F	42	19 December 2006	5 March 2009	0	0	—	180,360.00	No
Jia Liang	Former deputy general manager	M	45	19 December 2006	5 March 2009	0	0	—	246,360.00	No
Total	/	/	/	/	/	7,809	7,809	/	8,875,405.05	/
						domestic shares	domestic shares			

5. Directors, Supervisors and Senior Management

Major working experience of Directors, Supervisors, senior management in the recent five years:

Zhang Wenhui, is now the chairman and party committee secretary of the Company. Since 1980, Mr. Zhang served as the deputy head of No.4 Branch of Tianjin Sewage Management Division, the deputy chief, chief and party secretary of Tianjin Sewage Management Division, and the vice-chairman of the labour union of Tianjin Urban Construction Bureau. Mr. Zhang was the chairman of the Supervisory Committee of the Company since 20 December 2003. He was the party secretary of the Company since October 2006. Mr. Zhang resigned as the Supervisor and the chairman of the Supervisory Committee of the Company on 21 July 2009, and he was appointed as the executive Director and chairman of the Company on 8 September 2009. Mr. Zhang Wenhui has nearly 30 years of experience in municipal public administration industry and is familiar with the technology and operation of the water industry with extensive experience in enterprise operation and management.

Lin Wenbo, is now the executive Director and deputy general manager of the Company. Mr. Lin Wenbo joined the Company since December 2000 as deputy general manager and executive deputy general manager, in charge of the production operations and market development. He held positions as general manager and chairman, etc. at Guizhou Capital Water Company Limited, Hangzhou Tianchuang Water Company Limited, Baoying Capital Water Company Limited and Wengdeng Capital Water Company Limited. Mr. Lin was appointed as the general manager of the Company since 25 March 2010.

Fu Yana, is now the executive Director, deputy general manager and secretary of the Board of the Company. Ms. Fu has been the secretary to the Board since December 2000. She was appointed as the Director and deputy general manager of the Company since December 2003. During the reporting period, Ms. Fu was the director of Tianjin Beifang Rencaigang Company Limited, in which the Company has interest. Ms. Fu was also the director of the Company's subsidiaries, Tianjin Capital Environmental Protection (Hong Kong) Company Limited and Anguo Capital Water Company Limited.

Zhong Huifang, is now the executive Director, deputy general manager of the Company and general manager of the eastern water business department of the Company. From August 2002 to August 2008, Ms. Zhong Huifang successively held the positions of manager assistant, deputy manager and manager of the market development division of the Company, and deputy chief engineer and general manager assistant of the Company, and participated as a key member in market development of the Company. Ms. Zhong Huifang was the deputy general manager of the Company since 21 August 2008. She was appointed as the general manager of the eastern water business department of the Company since December 2009 and was appointed as the executive Director of the Company since 18 December 2009. During the reporting period, Ms. Zhong was the director of the Company's subsidiary, Hangzhou Tianchuang Water Company Limited, and the director of Tianjin Baotong Light Mass Materials Company Limited, in which the Company has interest.

An Pindong, is now the non-executive Director of the Company, the general manager of TMICL. From December 2000, Mr. An was the chief accountant of the Company. In February 2005, he resigned from the position as the Company's chief accountant. Mr. An was appointed Director of the Company since December 2000.

Chen Yinxing, is now the non-executive Director of the Company and deputy chief accountant of Tianjin Investment Group. From December 2003 to December 2004, Ms. Chen was appointed as the deputy chief economist, general administrative officer, and manager of the asset management department of TMICL. She joined the Company in January 2005 and was the chief accountant

5. Directors, Supervisors and Senior Management

of the Company since February 2005. Ms. Chen Yinxing resigned as the chief accountant of the Company on 5 March 2009 and began to be the deputy chief accountant of Tianjin Investment Group. She was appointed as the non-executive Director of the Company since 18 December 2009.

Xie Rong, is now the independent non-executive Director of the Company, vice-president of Shanghai National Accounting Institute, member of the guidance committee for master degree education of the accounting profession under the Academic Degree Committee of the State Council, executive director of the Accounting Society of China, director of China Audit Society, vice-chairman of Shanghai Institute for Cost Research, external director of SAIC Motors, independent non-executive directors of various listed companies, including Eastern Airlines, Sinopharm Group Co. Ltd. and CITIC Bank. Mr. Xie obtained a master degree in economics from the Department of Accounting of the Shanghai University of Finance and Economics in 1985. He received a doctorate degree in economics from the Auditing Practice Department of the Shanghai University of Finance and Economics in 1992. From September 1968 to December 1978, he joined the Tuanjie Village, Zhangjiang Commune, Chuansha County, Shanghai and engaged in agricultural practice. From December 1985 to June 1990, he served as teaching assistant and lecturer at the Department of Accounting of the Shanghai University of Finance and Economics. From July 1990 to June 1994, he was associate professor of the Department of Accounting of the Shanghai University of Finance and Economics. He was appointed professor of the Department of Accounting of the Shanghai University of Finance and Economics in July 1994. He took up the post of instructor for doctorate students of the Department of Accounting of the Shanghai University of Finance and Economics since December 1994. From December 1994 to March 1997, he was deputy head of the Department of Accounting of the Shanghai University of Finance and Economics. From December 1997 to October 2002, he became a partner of KPMG Huazhen and a certified public accountant in China. Since October 2002, he took up the post of vice-president of Shanghai National Accounting Institute. Mr. Xie was appointed independent non-executive Director of the Company since 16 April 2008.

Di Xiaofeng, is now the independent non-executive Director of the Company, a partner of the Commerce & Finance Law Offices. Mr. Di received a bachelor degree of law from Peking University in 1983 and a master degree of law from the Chinese Academy of Social Sciences in 1986. From August 1986 to March 1988, he worked for the Secretariat of China International Economic and Trade Arbitration Commission, specializing on external economic and trade arbitration. From March 1988 to May 1992, he worked as a full-time lawyer for the China Legal Affairs Centre under the supervision of the Ministry of Justice. During the period between April 1989 and May 1992, he also served as the chief of the economic lawyers' office of that centre. From January to July 1992, he worked and practised as a trainee solicitor in Livasiri & Co., a Hong Kong law firm. Mr. Di Xiaofeng was qualified as a solicitor in 1988 and further qualified to practise as a securities lawyer in 1993. He is currently engaged in legal advisory services in the areas of corporate business, finance, securities, finance lease, real estate, foreign investment and international arbitration. Mr. Di was appointed independent non-executive Director of the Company since 16 April 2008.

Lee Kit Ying, Karen, was previously the chief executive of the Stock Exchange of Hong Kong Limited, is now the independent non-executive Director of the Company and chairman of a charity fund. Ms. Lee has over 20 years of experience in the derivative products and the operation, supervision and risk management of the security market. She has previously held a number of senior positions in Hong Kong Futures Exchange, the Stock Exchange of Hong Kong Limited and Hong Kong Exchanges and Clearing Limited. Ms. Lee is a fellow of the Institute of Chartered Accountants in England and Wales. Ms. Lee was appointed independent non-executive Director of the Company since 18 December 2009.

5. Directors, Supervisors and Senior Management

Zhang Mingqi, is now the chairman of the Supervisory Committee of and deputy secretary of party committee of the Company. Since November 2003, Mr. Zhang was the head of party office of the Company, officer of the organization division of the Company and secretary of institutional party sub-committee. He was the officer of the Company's party community working division, deputy chairman of trade union and secretary of the institutional party sub-committee. He has been deputy secretary of party committee of the Company since 24 February 2009. Mr. Zhang was appointed Supervisor on behalf of the Company's staff since September 2001 and chairman of the Supervisory Committee of the Company since July 2009.

Nie Youzhuang, is now the Supervisor of the Company and the general manager of the southern region of the Tianjin water business division. Mr. Nie joined the Company in January 2001 and worked in the production operation department, and held positions as departmental deputy general manager, manager and deputy chief engineer of the Company. From February 2008 to December 2009, he was the general manager of a water business branch of the Company. He has been the general manager of the southern region of the Tianjin water business division since January 2010. Mr. Nie has been a Supervisor of the Company since 19 December 2003.

Xu Zhiyong, is now the Supervisor of the Company and secretary of the disciplinary committee. Mr. Xu joined the Company in August, 2002 and worked as the secretary of the chief engineer, deputy manager of the Engineering Management Division, deputy head and head of complex office and the head of the general office of the Company. He was no longer head of the general office in January 2010 and was appointed secretary of the disciplinary committee of the Company in September 2009. Mr. Xu has been elected as the Supervisor on behalf of the Company's staff on 16 October 2005.

Wang Yanmin, is now the Supervisor of the Company and the assistant to the director of Audit Department of Tianjin Investment Group. Ms. Wang joined the Company in September 2004 and has been the manager of the Audit Department. She was transferred to Tianjin Investment Group and became the assistant to the director of Audit Department in July 2009. Ms. Wang Yanmin was appointed as the Supervisor of the Company since 19 December 2006.

Li Yang, is now the Supervisor of the Company and general manager of the eastern region of Tianjin water business division. From November 2005 to April 2009, he was the general manager of Fuyang Capital Water Company Limited. From April 2009 to December 2009, he was the general manager of the 2nd Water Operation Branch of the Company. He has been the general manager of the eastern region of Tianjin water business division since January 2010. Mr. Li was appointed as the Supervisor of the Company since 8 September 2009.

Qi Lipin, is now the Supervisor, the manager of operation management department and the deputy chief economist of the Company. She joined the Company in February 2001 and worked for the department of project development, enterprise development and research department, and enterprise planning department. She has been the manager in the department of operation management of the Company since 2006 and was appointed as the deputy chief economist of the Company in March 2010. Ms. Qi was appointed as the Supervisor of the Company since 17 June 2009. During the reporting period, Ms. Qi was the supervisor of the Company's subsidiaries, Wendeng Capital Water Company Limited, Fuyang Capital Water Company Limited and Tianjin Kaiying Environmental Engineering Technology Consulting Limited.

Deng Biao, is now the deputy general manager of the Company. Mr. Deng was the chief engineer of the Company from December 2003 to June 2009. He has been the deputy general manager of the Company since 5 March 2009.

5. Directors, Supervisors and Senior Management

Yang Guang, is now the deputy general manager of the Company and general manager of the western region of water business division. Mr. Yang worked as the deputy general manager and general manager in Guizhou Capital Water Company Limited from June 2003 to March 2009. He has been the deputy general manager of the Company since 5 March 2009. He has been the general manager of the western region of water business division of the Company since 18 December 2009.

Zhang Qiang, is now the deputy general manager of the Company and general manager of the business department of the urban projects of the Company. From August 2003 to October 2007, Mr. Zhang served as deputy general manager in Tianjin Third Municipal Highway Engineering Co., Ltd. in charge of the modification works of Xianyang Road in Tianjin, Celerity Road of Dongfeng Overpass and the operation and development of the Company. From October 2007 to February 2009, he was appointed as chairman and the general manager of Tianjin Seventh Municipal Highway Engineering Co., Ltd. in charge of the overall work. Mr. Zhang served as the deputy general manager of the Company since 5 March 2009. He has been the general manager of the business department of the urban projects of the Company since 18 December 2009.

Li Yuqing, is now the chief engineer of the Company and general manager of the Tianjin water business division. From 2001 to 2008, Mr. Li worked for Dongjiao Sewage Water Treatment Plant, water supply branch and the production and operation department of the Company and held the positions of deputy factory head, factory head, general manager of water supply branch, manager of the operation department and deputy chief engineer of the Company. He has been the chief engineer of the Company since 30 June 2009 and the general manager of the Tianjin water business division of the Company since 18 December 2009. Mr. Li was elected as the Supervisor of the fourth Supervisory Committee of the Company from 9 October 2008 to 17 June 2009.

Shi Zhenjuan, is now the chief accountant of the Company. From August 2004 till now, she has been the chief accountant of Tianjin Water Recycling Company Limited. From March 2008 to December 2009, she was the head and financial controller of the controlling shareholders office. She was appointed as the vice chief accountant of the Company from February 2008 to March 2009. She has been the chief accountant of the Company since 5 March 2009. During the reporting period, Ms. Shi was the director of the Company's subsidiaries, Baoying Capital Water Company Limited, Fuyang Capital Water Company Limited, Anguo Capital Water Company Limited, Tianjin Kaiying Environmental Engineering Technology Consulting Limited and Tianjin Water Recycling Company Limited, and was the supervisor of Chibi Capital Water Company Limited and Xian Capital Water Company Limited.

Lo Wai Keung, Eric, is now the Company Secretary (Hong Kong) of the Company. Mr. Lo graduated from the Chinese University of Hong Kong with a bachelor degree in business administration. Mr. Lo obtained a postgraduate diploma in laws from the Manchester Metropolitan University and a postgraduate certificate in laws from the University of Hong Kong. Mr. Lo is a solicitor admitted in Hong Kong and has extensive experience in handling compliance related matters for listed companies. Mr. Lo has been the Company Secretary (Hong Kong) of the Company since 30 April 2008.

Tang Fusheng, is now the deputy general manager of the Company, chairman and general manager of Tianjin Water Recycling Company Limited. Mr. Tang successively served as the head, deputy general manager and general manager of the development department of Tianjin Water Recycling Company Limited. He was the assistant to general manager of the Company from April 2009 to 25 March 2010. He has been the deputy general manager of the Company since 25 March 2010. He was appointed as chairman and general manager of Tianjin Water Recycling Company Limited since April 2009.

5. Directors, Supervisors and Senior Management

Wang Hong, is now the deputy general manager of the Company and general manager of the construction branch company. Mr. Wang joined the Company in March 2002 and successively served as the deputy manager of work project of Xianyanglu Sewage Water Treatment Plants and deputy general manager of the construction management branch company. He was appointed as the executive deputy general manager and general manager of the construction management branch company of the Company in January 2008 and February 2008 respectively. He was the assistant to general manager of the Company from June 2009 to March 2010. He has been the deputy general manager of the Company since 25 March 2010.

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

As at 31st December 2009, the interests and/or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

Name	The Company/ name of associated corporations	Capacity	Number and class of securities (Note)	Approximate percentage in the total issued share capital of the Company/ associated corporations
Former Director Wang Zhanying	The Company	Beneficial owner	6,850 domestic Shares (non-restricted circulating Shares) (L)	0.00048%
Supervisor Nie Youzhuang	The Company	Beneficial owner	959 domestic Shares (non-restricted circulating Shares) (L)	0.000067%

Note: The letter "L" represents the person's long positions in the shares, underlying shares and debentures of the Company or its associated corporations.

As at 31st December 2009, none of the Directors, Supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).



5. Directors, Supervisors and Senior Management

(II) Positions held at the Shareholder's entity

Name	Name of shareholder's entity	Position held	Commencement of employment	End of employment	Any remuneration, allowance received
An Pindong	TMICL	General Manager	22 February 2005	—	Yes

Positions held at other entities

Apart from the above positions, for details of positions held by the Directors, Supervisors and senior management of the Company during the reporting period, please refer to "Major working experience of Directors, Supervisors, senior management in the recent five years" above.

(III) Remunerations of Directors, Supervisors and senior management

1. The procedures for determining the remuneration of the Directors, Supervisors and the senior management of the Company: the remuneration of the Directors and Supervisors will be determined in accordance with the remuneration standard as approved in the Company's general meetings. The incomes of the senior management officers were determined on the basis of the remuneration plan, the operational result performances, an annual income system and bonus for completion above the target. The Supervisors of the Company do not receive remunerations.
2. The basis for determining the remuneration of the Directors, Supervisors and the senior management: the remuneration of the Company's senior management will be distributed in accordance with the achievements in production and operation and the usual management activities. The annual remuneration and bonus will be determined upon the achievement of annual operating targets and performance indicators and performance appraisal results.
3. During the financial year, the Company did not pay any housing allowance, other allowance and benefits in kind and bonus to the Directors, Supervisors and senior management, nor any payment to them as an inducement to join the Company or as compensation for loss of office of Directors, Supervisors, senior management. None of the Directors, Supervisors and senior management of the Company waived or agreed to waive any emoluments. The Company has not provided any loans to Directors, Supervisors or senior management. Except for remuneration, the Directors, Supervisors and senior management of the Company have not derived other benefits from other contracts. The Company, during the reporting period, did not enter into any administration or management contracts for all or material part of its business.

5. Directors, Supervisors and Senior Management

(IV) Change of Directors, Supervisors and senior management of the Company

Name	Position held	Reasons for leaving the post
Ma Baiyu	Executive Director, Chairman	Job transfer
Gu Qifeng	Executive Director, Vice-chairman, General manager	Job transfer
Liu Wenya	Deputy general manager	Job transfer
Jia liang	Deputy general manager	Job transfer
Chen Yinxing	Chief accountant	Job transfer
Chang Xiaolan	Chief economist	Job transfer
Wang Zhanying	Executive Director	Expiry of office
Tan Zhaofu	Executive Director	Expiry of office
Ko Poming	Independent non-executive Director	Expiry of office
Zhang Wenhui	Supervisor, chairman of Supervisory Committee	Job transfer
Li Yuqing	Supervisor	Job transfer



5. Directors, Supervisors and Senior Management

(V) Employees of the Company

Total number of on-duty employees	582	Number of retired employees for whom the Company is required to afford charges	0
Description of employees of the Company	582 on-duty employees in total		

Staff structure was as follows:

1. By profession

Category of profession	Number of persons
Administration	82
Finance	21
Technical	192
Sewage water treatment plants and others	287

2. By education

Category of education	Number of persons
Doctor	1
Master	30
Undergraduate	252
Tertiary	59
Senior Secondary School and under	240
Total	582

6. Structure of Corporate Governance

(1) The Company's corporate governance

During the reporting period, the Company strictly complied with the requirements under the Company Law, Securities Law and Stock Listing Rules of the PRC, the Articles of Association of the Company and the requirements of the relevant laws and regulations of the CSRC to standardize its daily operation, strengthen its information disclosure and make continued efforts in improving its corporate governance structure. Currently, the actual corporate governance structure basically complies with the requirements of the relevant laws and regulations of the “Code on Corporate Governance for Listed Companies”:

- (1) In respect of shareholders and general meeting: The Company treats all shareholders equally and ensures shareholders can duly exercise their rights and safeguards the legitimate interests of all shareholders; In accordance with the Articles of Association of the Company and the relevant regulations, the Company has developed the Rules of the Procedures of General Meetings and is able to convene and hold general meetings in strict compliance with the relevant laws and regulations, and ensures shareholders can exercise their voting rights duly and successfully. During the reporting period, the number of shareholders attending general meetings of the Company and shares represented by them complied with the relevant provisions of the Company Law of the PRC and the Articles of Association of the Company.
- (2) In respect of the relationship between the controlling shareholder and the listed company: The controlling shareholder of the Company has exercised its shareholders' rights in strict compliance with the relevant provisions of the Articles of Association of the Company without the existence of intervening in the Company's major decision making and production and operation activities by overriding the Board and the general meeting. The Board and internal organs of the Company operate independently to a full extent. For connected transactions, the Company has performed the relevant transaction approval procedures in strict compliance with the Articles of Association of the Company and the stock listing rules in Shanghai and Hong Kong, ensuring the fairness and reasonableness of the transactions.
- (3) In respect of Directors and the Board: The Board of the Company has performed work independently under the support of its subordinate audit committee, remuneration and assessment committee, nomination committee and strategy committee. In accordance with the Rules of the Procedures of Board Meetings, all Directors have duly discharged their duties in a diligent way, have independently performed their duties and have paid sufficient attention to the interests of all medium and small shareholders.
- (4) In respect of Supervisors and the Supervisory Committee: The members and composition of the Supervisory Committee of the Company comply with the requirements of laws and regulations. The Supervisors of the Company are able to conscientiously perform their duties in accordance with the Rules of the Procedures of the Meetings of the Supervisory Committee, and by adhering to the spirit of being accountable to shareholders, monitor the finance of the Company and the legality and compliance of the performance of duties by Directors, managers and other senior management members.
- (5) In respect of performance appraisal and incentive control mechanism: The general meeting of the Company approves the remuneration standard for Directors. A strict remuneration and performance appraisal and incentive system has been implemented upon approval by the Board to conduct appraisal and evaluation on the performance of employees of the manager level or below.

6. Structure of Corporate Governance

(1) The Company's corporate governance (Continued)

- (6) In respect of stakeholders: The Company is able to duly respect and safeguard the legitimate interests of other stakeholders such as banks, other creditors and staff, cooperate and realize good communication with each other, jointly promote the sustained and healthy development of the Company.
- (7) In respect of information disclosure and transparency: In accordance with the stock listing rules in Shanghai and Hong Kong and the Information Disclosure Management System of the Company, the Company has internally established unimpeded information collection channels, ensuring timeliness, fairness, truthfulness, accuracy and integrity in relation to information disclosure of the Company. The Company has also established the Investor Relations Management System to conscientiously receive investors paying visits and conducting on-site inspections. The official website of the Company has established an investor column which serves as a platform for timely communication between the Company and investors. The establishment of a sound communication channel between the Company and investors is of great help to improve the Company's operational management standard and corporate governance.

(2) Corporate governance activities

Corporate governance is a long-term mission. Through further propelling self-examination and self-rectification in respect of corporate governance activities and regulated operation, the Company will continually enhance regulated operation awareness, firmly implemented corporate governance rectification measures, improved various tasks relevant to corporate governance in strict compliance with the relevant laws and regulations and the requirements of the relevant securities regulation authorities so as to further increase the Company's regulated operation standard, drive the corporate governance standard to a new level and ensure the healthy and steady development of the Company.

(3) Performance of duties by Directors

1. Attendance of Directors at the Board meetings

Name of Director	Independent non-executive Director?	Number of Board meetings required to attend this year	Attend by way of other communication			Absence (times)	Absence for two consecutive meetings in person?
			Attend in person (times)	Attend by method (times)	Attend by proxies (times)		
Zhang Wenhui	No	6	6	0	0	0	No
Lin Wenbo	No	1	1	0	0	0	No
Fu Yana	No	13	13	0	0	0	No
Zhong Huifang	No	1	1	0	0	0	No
An Pindong	No	13	11	0	2	0	No
Chen Yinxing	No	1	1	0	0	0	No
Xie Rong	Yes	13	11	1	1	0	No
Di Xiaofeng	Yes	13	13	0	0	0	No
Lee Kit Ying, Karen	Yes	1	1	0	0	0	No
Number of Board meetings held during the year							13
Among which: Physical Meetings (times)							3
Meetings held by way of other communication method (times)							9
Meetings held physically together with by way of other communication method (times)							1

(3) Performance of duties by Directors (Continued)

2. Issues on disagreement by the independent non-executive Directors with the Company

During the reporting period, the Company's independent non-executive Directors have not disagreed with the resolutions proposed in the meeting of the Board and other meetings of the Company held in this year.

3. Establishment and the effectiveness of the relevant working system of independent non-executive Directors, main content and the performance of duty of independent non-executive Directors

According to the relevant standards and rules of CSRC and the stock exchanges, there are clear regulations concerning the qualifications, the exercise of powers, rights and implementation of duties of independent non-executive Directors in the Articles and Association of the Company. The Company formulated the "Working System for the Independent Directors in the Annual Report", providing clear regulations in respect of the responsibilities and duties which the independent non-executive Directors should perform in the process of the compilation and disclosure of the annual report, the sufficient information of the annual report with which the Company should provide the independent non-executive Directors, as well as the on-site inspections arranged for the independent non-executive Directors by the Company. According to the above regulations, during the reporting period, by adhering to the spirit of being accountable to shareholders, the independent non-executive Directors of the Company conscientiously exercised their rights conferred by the shareholders, faithfully performed their duties, with diligence and responsibility, in order to timely know the information about the production and operation of the Company, paid full attention to the development of the Company, actively attended relevant meetings convened by the Company, and expressed independent and objective opinions concerning relevant matters considered by the Company's Board of Directors and its special committees, which played an active role for the decisions made by the Board in a scientific manner and the normal operation of the Company, thus effectively protecting the legitimate rights of the Company's shareholders, especially the small and medium shareholders, as a whole.



6. Structure of Corporate Governance

(4) Independence between the Company and the controlling shareholder with respect to the matters including business, staff, assets, organization and finance

Independence of Business: The Company was independent from the controlling shareholder in conducting of its business, with independent capability on business and self-operation.

Independence of Staffs: The Company's senior management is employed by the Board of the Company, and their remuneration and assessment are determined by the Board; staffs below senior management level are employed by the general manager, with their remuneration and assessment to be determined in accordance with the system of remuneration and assessment approved by the Board. The Company has set up an independent human resource department. All senior management officers such as the present chairman, the general manager, deputy general manager, financial controller, secretary to the Board of the Company received their salaries from the Company and they have not taken up any important positions other than directors in the entities of the controlling shareholder. Therefore, in terms of personnel and remuneration management, the Company is independent of the controlling shareholder.

Independence of Assets: The assets of the Company and the controlling shareholder are clearly cut. The assets of the Company are completely independent from the controlling shareholder. The Company did not provide any guarantee to its controlling shareholder and other companies except for the Company's subsidiaries. The Company has complete control and right of its assets. There were no circumstances of its assets and capital being occupied by the controlling shareholder which would adversely affect the interest of the Company.

Independence of Organisation: The Company established an organizational structure which was absolutely independent from the controlling shareholder, and has set up organizations such as shareholders' general meetings, the Board, the Supervisory Committee and the general manager of the Company. The operation and management of the Company were subject to an accountability system of the general manager under the authorization of the Board. The Company has a separate place of business.

Independence of Finance: The Company has set up an independent finance and accounting department, and established a separate bank account, an independent accounting and audit system and a financial management system.

(5) Corporate Governance Report

1. Compliance with the “Code on Corporate Governance Practices”

Since the listing of the Company, the Company has complied with domestic and overseas regulatory requirements, and gradually set up and upgraded a regularized corporate governance structure. Pursuant to the “Code on Corporate Governance Practices” (“the Code”) and other legal requirements, the Company has continuously amended and improved the related systems under the Articles of Association, Rules of the Procedures of Shareholders’ General Meetings and Rules of the Procedures of the Board Meetings of the Company, and at the same time continued to upgrade its internal control system, and strictly complied with “the Code”. The Company proactively carried out various assignment to continuously enhance the Company’s governance level.

2. Details of Corporate Governance Report

(1) *About Corporate Governance Practices*

The Articles of Association, the Rules of the Procedures of the Board Meetings and the Rules of the Procedures of Shareholders’ General Meetings of the Company have strictly implemented the requirements under the Code. The decision making procedures and its reasonings of the Board (and its Audit Committee, Remuneration and Assessment Committees, Nomination Committee and Strategic Planning Committee), the Supervisory Committee and the general meeting have fully complied with the related system of Corporate Governance. At present or during the period, the Company strictly complies with the requirements under “the Code”.

(2) *About Securities Transactions by the Directors*

The Company has adopted a code of practice in respect of securities transactions by Directors, the standards of which are similar to the “Model Code for Securities Transactions by Directors of Listed Issuers” (“**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”). The Articles of Association requires that the Directors, Supervisors, managers and other senior management shall during their terms of office make regular reports to the Company on the Company’s Shares they held, and shall not transfer the Company’s Shares they held during their terms of office and within six months after their resignation.

After making specific enquiries to all Directors, there were only one former Director (who has not been our Director since 18 Decmeber 2009) and one Supervisor holding 6,850 and 959 A Shares of the Company respectively (Please see the section “Directors, Supervisors and Senior Management” in this annual report for details), and there have been no share transactions during the reporting period. No other Directors, Supervisors and senior management of the Company has purchased the Company’s shares and debentures during the reporting period. Accordingly, all the Directors have complied with the Model Code during the reporting period.

6. Structure of Corporate Governance

(5) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(3) *About the Board*

The Fifth Board of the Company elected in the extraordinary general meeting held on 18 December 2009 consists of nine members, including Mr. Zhang Wenhui, the Chairman and an executive Director, and three other executive Directors: Mr. Lin Wenbo, Ms. Fu Yana and Ms. Zhong Huifang; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Mr. Di Xiaofeng, Mr. Xie Rong and Ms. Lee Kit Ying, Karen.

There was no relationship including financial, business, family or other material/relevant relationship between the members of the Board of the Company. All of the Board members possess immense qualifications and management experience. For details of the members of the Board, please refer to the section headed “Directors, Supervisors and Senior Management” in this Annual Report.

There are clear demarcation on the duties of the Board and the management in the Articles of Association. The Rules of the Procedures of the Board Meetings and the Rules of the Procedures of the General Manager’s meeting have made specific requirements on the decision making procedure and basis of decisions for the Board and the management, so as to ensure the decisions of the Directors, the Board, the senior management and the management to be scientific and legal.

The qualifications and professional experiences of the three independent non-executive Directors have fully complied with the requirements under the Listing Rules. The Board of the Company has accepted the declaration of independence for the year 2009 by each independent non-executive Director, and confirms that they comply with the relevant independence requirements as set out under Rule 3.13 of the Listing Rules.

The Company held 13 Board meetings during the reporting period. Details of the resolutions and attendance of Directors are set out in the section headed “Directors’ Report” in this Annual Report.

(5) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(4) *About the Chairman and the Chief Executive Officer*

In accordance with the Article of Association of the Company, the main duties of the Chairman of the Board and the Chief Executive Officer (the Article of Association of the Company refers to the Chairman of the Board as “Chairman”, the Chief Executive Officer as “General Manager”; therefore hereinafter referred to as “Chairman” and “General Manager” respectively) is clearly separated. The Chairman of the Board is responsible for holding and presiding over the Board meetings, and the effective operation of the Board, while the General Manager of the Company is responsible for various operation activities, development strategies, objectives and plan for the Company, and is accountable to the Board. The appointment of the Chairman should be approved by more than a half of all the Directors while the General Manager should be nominated by the Chairman with his appointment to be approved by the Board.

During the reporting period, Ms. Ma Baiyu, the former Chairman of the Company, resigned as executive Director and chairman on 21 July 2009 due to job rearrangement. Mr. Zhang Wenhui was elected as executive Director of the Fourth Board of the Company in the shareholders’ meeting held on 8 September 2009, and in the Board meeting held on the same day, Mr. Zhang Wenhui was elected as Chairman of the Fourth Board. On 9 November 2009, the General Manager of the Company, Mr. Gu Qifeng, resigned as General Manager due to job rearrangement. Since there was no suitable candidate, the Board meeting on the same date approved Mr. Zhang Wenhui to act for the position of acting General Manager. In the shareholders’ meeting held on 18 December 2009, the members of the fifth Board of the Company was elected and Mr. Zhang Wenhui was elected as the Chairman of the fifth Board of the Company and continued to act for the position of the acting General Manager in the first meeting of the fifth Board of the Company held on the same day. In the second meeting of the fifth Board held on 25 March 2010, it was agreed to appoint Mr. Lin Wen Bo as the General Manager of the Company.

(5) *About non-executive Director*

As required by the Article of Association of the Company, independent non-executive Director is subject to a term of office of three years and re-election, provided that the appointment shall not exceed 6 years. The independent non-executive Director, Mr. Ko Poming, whose six-year term of office expired on 18 December 2009, has retired as an independent non-executive Director of the Company. In the shareholders’ meeting of the Company held on 18 December 2009, the Directors of the fifth Board of the Company were elected, with three independent non-executive Directors, including Mr. Di Xiao Feng, Mr. Xie Rong and Ms. Lee Kit Ying, Karen; two non-executive Directors, including Mr. An Pindong and Ms. Chen Yinxing; the tenures of the abovementioned non-executive Directors commenced on 18 December 2009 for three years.



6. Structure of Corporate Governance

(5) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(6) *About the remunerations of the Directors'*

The Company has established a Remuneration and Assessment Committee and its members consist of all three independent non-executive Directors. During the reporting period, Mr. Ko Poming, the former independent non-executive Directors, whose six-year term expired on 18 December 2009, retired as an independent non-executive Director of the Company. Therefore, in the first meeting of the Fifth Board of the Company, the independent non-executive Directors of the Fifth Board was elected as the members of the Remuneration and Assessment Committee, including Mr. Xie Rong, Mr. Di Xiaofeng and Ms. Lee Kit Ying, Karen, who became the chairman of the committee. The primary duties of the Remuneration and Assessment Committee are to propose remuneration plan of Directors and senior management of the Company to the Board. For its written working scope, please refer to the "Details for the works of the Remuneration and Assessment Committee" which was discussed and approved at the 25th Meeting of the Third Board.

There were three meetings of the Remuneration and Assessment Committee during the reporting period. For details, please refer to the section headed "Directors' Report" in this Annual Report.

(7) *About the nomination of Directors*

In accordance with the Articles of Association of the Company and the relevant requirements of the SSE and the Stock Exchange, the Board of the Company set up the Nomination Committee. During the reporting period, the Nomination Committee comprised three independent non-executive Directors and two executive directors, including Ms. Ma Baiyu and Mr. Gu Qifeng. Ms. Ma Baiyu resigned as executive Director and chairman on 21 July 2009 due to job rearrangement. On 2 November 2009, with the approval of the Board of the Company, Mr. Zhang Wenhui assumed a member of the Nomination Committee. Upon the expiration of the fourth Board of the Company on 18 December 2009, the Directors of the Fifth Board of the Company were elected at the general meeting held on the same day. At the first meeting of the Fifth Board of the Company held on the same day, the members of the Nomination Committee of the Fifth Board were elected, which comprised three independent non-executive Directors, the Chairman, Mr. Zhang Wenhui, and executive Director, Mr. Lin Wen Bo, with independent non-executive Director, Mr. Di Xiao Feng being the chairman of the Nomination Committee.

The Board of the Company formulated the "Detailed Working Rules of the Nomination Committee", which provided the working scope of the Nomination Committee, nomination procedures and the criteria of selecting and recommending the candidates of directors and senior management. The working rules were considered and approved at the general meeting held on 27 December 2007.

For more details about the work of the Nomination Committee, please refer to the section headed "Directors' Report" in this Annual Report.

(5) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(8) *About the Remuneration of Auditors*

One of the important duties of the Audit Committee of the Board is to provide proposal in respect of the appointment, reappointment and removal of external auditors and to approve remuneration and employment terms of the auditors. During the reporting period, the Audit Committee proposed to re-elect PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the Company's domestic and external auditors respectively and was approved at the general meeting. The appointment agreement sets out the details of the audit content and remuneration of the Auditors. The appointment agreement was implemented strictly during the reporting period. During the reporting period, the Auditors have not provided non-auditing services to the Company.

(9) *About the Audit Committee*

The primary duties of the Audit Committee include making proposal for the appointment of external auditors, reviewing of annual and interim financial statements. For details of its written working scope, please see the "Articles of the Works of the Audit Committee". In order to upgrade the Company's internal control system, the Company has formulated the "Internal Audit System", which is in line with the works of the Audit Committee. The Audit Committee comprises independent non-executive Directors, with Mr. Ko Poming, the independent non-executive Director, as the chairman. However, Mr. Ko Poming, whose six-year term expired on 18 December 2009, has retired as an independent non-executive Director. Mr. Xie Rong, an independent non-executive Director, assumed the chairman of the Remuneration Committee since 18 December 2009.

Please refer to the section headed "Directors' Report" in this Annual Report for the circumstances regarding the performance of the Remuneration Committee during the reporting period.



6. Structure of Corporate Governance

(5) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(10) *About other specific disclosures*

The Directors are responsible for supervising the compilation of the accounts for each financial period, in order to ensure that those accounts reflect genuinely and fairly the situations of the Company, such as the state of affairs and performance, for the period. In compiling the accounts for the year ended 31 December 2009, the Directors have chosen and thoroughly applied the appropriate accounting policies with due and reasonable judgement and estimates having been made, and prepared the accounts on a going concern basis.

The Directors consider that there was no occurrence of material uncertainties or situations which may affect the ability of the Company as a going concern during the reporting period.

The Board of the Company has been much concerned about the internal control of the Company. At the second meeting of the Fifth Board held on 25 March 2010, the resolution in respect of the internal control of the Company was solely considered and a self-assessment report on the internal control was issued.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have been the Company's domestic and overseas auditors respectively. In view of their continued understanding to the Company and their high professional level, the Audit Committee has proposed to re-appoint the above audit firms to provide audit services to the Company in 2010, and such proposal has been considered and passed at the second meeting of the Fifth Board.

(6) Establishment and the effectiveness of the internal control system of the Company

During the reporting period, pursuant to the PRC Company Laws, Securities Law and the Code, the Company made amendments to the "Articles of Association", which was strictly implemented. It continued to implement the "Detailed Implementation Rules of the Audit Committee", "Detailed Implementation Rules of the Remuneration and Assessment Committee", "Detailed Working Rules of the Nomination Committee" and "Detailed Working Rules of the Strategic Planning Committee". The implementation of the above systems in relation to corporate governance has enhanced the improvement and regulated operation of the Company's governance.

(6) Establishment and the effectiveness of the internal control system of the Company (Continued)

The Board is solely responsible for the establishment and improvement of the internal control system, and for the inspection of its effectiveness in order to protect the rights of shareholders as a whole and the security and integrity of each item of assets of the Company, thus preventing the loss of assets. As the decision-making body in the daily operation of an enterprise, the manager office guides, implements and supervises the establishment and operation of the internal control system of the Company. The operation management department, which is mainly responsible for the establishment and protection of the internal control system with the authorization of the Company, is in charge of the planning, co-ordination, promotion and daily supervision of the establishment of the internal control of the Company. The audit committee carries out an independent examination and verification of the internal control system of the Company by means of the legal audit department of the Company. Each business and functional department is responsible for the establishment as well as the effective implementation of its internal control, according to the planning and arrangement of the establishment of the internal control system by the operation management department. Subsidiaries shall promote the establishment and implementation of the internal control according to the unified arrangements by the Company. The Company engaged professional management consultancy companies in 2007 to conduct effective examinations on the Company's internal control system in respect of the control at company level and business flow level, which facilitated the improvement of the different systems and business flow of the Company.

As at the end of the reporting period, a reasonable system of internal control has been established and completed for all major events of the Company, including more than 60 management systems that cover sales and receipt of payment, production and purchase, management of fixed assets, management of construction works, research and development of technology, management of monetary funds, guarantees and financing, management of subsidiaries, comprehensive budgeting, financial reports and information disclosure, connected transactions, market and public relations, personnel management, administrative management and information technology management, etc., which have been fully implemented without major setbacks, and conforming with the actual needs of the present production and operation. Risks can be reasonably prevented and controlled and possible mistakes made by the Company during its operation can be prevented, discovered and rectified in a timely manner, ensuring the security and completeness of the assets of the Company and the truthfulness, accuracy and timeliness of accounting records and accounting information.

The Company is under a stage of development, and the expansion in scale of operation presents higher demands of internal control of the Company. The Company will continue to improve its system of internal control, strengthen its awareness of regulated operation and reinforce the internal supervision mechanism to promote the healthy, stable and rapid development of the Company.

The Board has carried out self-assessment on internal control of the Company during the reporting period. For details, please see the announcement of the Company.

The audit institution has not yet issued verified assessment opinion on the internal control of the Company.

6. Structure of Corporate Governance

(7) Appraisal and incentive mechanism for senior management

Appraisal and incentive mechanism :

The Company enters into a target responsibility manual with the senior management based on the Company objectives, and an assessment shall be made by the Performance Assessment Committee of the Company every year end on the completion of their annual targets. The award and punishment and the amounts will be decided based on the completion level of the target.

During the accounting period, the contributions made to the pension scheme of the highest paid individuals by the Company are as follows:

Name	Contribution to pension scheme (RMB)
Gu Qifeng	18,720
Zhang Wenhui	18,720
Lin Wen Bo	18,720
Fu Yana	18,720
Deng Biao	18,720

Notes:

- (1) Ms. Zhong Huifang, the executive Director of the Company, has received the pension contribution the same as that of the above five individuals from the Company. Other Directors of the Company have not received any pension contributions from the Company;
- (2) The basic remuneration for the above five persons is less than HK\$1 million. For details, please refer to the section headed “Directors, Supervisors and Senior Management”.

(8) The Company has disclosed the Corporate Social Responsibility Report. For details, please refer to the Company’s announcement.

(9) Establishment and the effectiveness of the disclosure accountability system for major errors in the annual report

In order to enhance the quality of the information disclosure and the transparency in the annual report, the Company has established the “Disclosure Accountability System for Major Errors in the Annual Report”, which clearly defines the whole process, links and relevant responsible persons for the collection and verification of information of the annual report. It also specifies that in the event of occurrence of major accounting errors or omissions, relevant responsible persons shall be dealt with seriously according to the system, and supplementary information disclosure for amendments shall be made on a faithful basis according to the “Annual Report Guidelines”. The Company will soon include the disclosure accountability system for major errors into the “Information Disclosure Management System”, setting up a long-term mechanism for the prevention of major errors and omissions relating to the information disclosure, thus ensuring the quality and transparency of the information disclosure of the Company.

7. Shareholders' General Meetings

1. Annual General Meeting

Session	Convening Date	Newspapers for publishing the resolutions	Date for publishing the resolutions
2008 Annual General Meeting	17 June 2009	Shanghai Securities News	17 June 2009

2. Extraordinary General Meeting

Session	Convening Date	Newspapers for publishing the resolutions	Date for publishing the resolutions
2009 First Extraordinary General Meeting	8 September 2009	Shanghai Securities News	8 September 2009
2009 Second Extraordinary General Meeting	18 December 2009	Shanghai Securities News	18 December 2009



8. Directors' Report

(I) Review of Operations of the Company during the Reporting Period

1. An overview of the overall operations of the Company during the reporting period

In 2009, under the leadership of the Board, the strategic guidelines of “rapid growth on the basis of capability enhancement and value creation”, the ongoing effects of the international financial crisis and improving domestic economic development, and higher requirements for environmental supervision, energy saving and emission reduction indicators, the Company and its subsidiaries (the “Group”) proactively devoted more efforts on the Group’s internal management and established maturity models for significant businesses such as technology, construction, finance, human resources and information technology in order to search and resolve the “short-circuit” problems in the business development process. More efforts and investments were dedicated to research and development of science and technology and training in order to enhance corporate technical capability as well as the skills and quality of staff to improve the overall corporate core competitiveness.

In 2009, the Group recorded income from principal operations of RMB1,256.79 million, representing an increase of 8.4% as compared to 2008, and recorded net profit of RMB242.98 million (excluding profit and loss attributable to minority shareholders), representing an increase of 5.16% as compared to 2008. With stable development in its businesses, the Group continued to be listed as one of the Top 10 Influential Water Business Enterprises in 2009.

2. Analysis of the Company’s principal businesses and its operating conditions

The principal businesses of the Company during the reporting period were the construction, design, management, operation, technology consultation and auxiliary services of sewage water treatment, tap water and recycled water plants and their facilities; licensed operation of the Southeastern Half Ring Urban Road of the Middle Ring of Tianjin City.

(1) Operating conditions of the Company’s principal businesses

a. Sewage water processing business

During the reporting period, the processing capacity of both the invested operated and entrusted operated sewage water treatment plants of the Group were 3.635 million cubic metres per day, and the plants processed a total of 763.54 million cubic metres of sewage water during the reporting period. An income of RMB 1,066.34 million was recorded, representing an increase of 9.26% as compared to the same period last year. The increase was mainly due to an increase in the growth of sewage water processing service fees of the Group’s subsidiaries as well as a small growth in income from sewage water processing service in the Tianjin region.

During the reporting period, pursuant to the “Sewage Water Processing Agreement” and the “Sewage Water Processing Interim Service Agreement”, the Company had treated a total of 373.74 million cubic metres of sewage water for the whole year in the Tianjin region, and realized an income of RMB721.32 million from sewage water processing service, representing an increase of 2.57% as compared to the same period last year.

8. Directors' Report

During the reporting period, the Company's subsidiaries provided sewage water processing services pursuant to the sewage water processing licensed operation agreements and sewage water processing service agreements entered into between the local governments and the Company. In 2009, the new sewage water processing projects in Anguo and Chibi commenced commercial operations, and the Xian sewage water processing project completed its full year of commercial operation. As at the end of the reporting period, there were 11 projects under commercial operations by the subsidiaries of the Group which processed 389.80 million cubic metres of sewage water in aggregate, representing an increase of 20% as compared to the same period last year. Income from sewage water processing services of RMB345.02 million was realized, representing an increase of 27% as compared to the same period last year.

During the reporting period, the Group proactively carried out operational management of its existing projects as well as expanded markets actively. New additional sewage water processing capacity from entrusted operations amounted to 245,000 cubic metres per day, and the sewage water processing capacity of entrusted operations increased to 525,000 cubic metres per day.

During the reporting period, the Group added a new licensed operation project of Yingdong Sewage Water Treatment Plant in Fuyang city with a capacity of 30,000 cubic metres per day, and was granted a licensed operation project of Balitai Town Sewage Water Treatment Plant in Jinnan district of Tianjin, with a capacity of 40,000 cubic metres per day.

b. Recycled water business

During the reporting period, recycled water business recorded water sales of 3.46 million cubic metres, which was in line with the same period of last year, and recorded income from sales of recycled water of RMB8.64 million, representing a growth of 96% as compared to the same period last year, which was mainly due to the effects of the approval of an increase in recycled water prices by the Tianjin Price Bureau with effect from April 2009 and the policy of value-added tax exemption from 2009 to 2013.

During the reporting period, Jizhuangzi Recycled Water Plant secured a new customer of Chentangzhuang thermal power plant at the end of November 2009 with a daily average water consumption of approximately 8,000 cubic metres. The Xianyanglu and Dongjiao Recycled Water Plants had also started water sales on a small scale.



8. Directors' Report

c. Tap water business

During the reporting period, the tap water project of the Group's subsidiary Anguo Capital Water Company Limited commenced commercial operation in November 2009 on a relatively small scale with daily average on-grid water volume of approximately 7,000 cubic metres. The Group's subsidiary, Qujing Capital Water Company Limited, had negotiated successfully with the local government authority to eliminate water resources management and fees for its water plant and the tap water price was adjusted accordingly.

During the reporting period, tap water business recorded on-grid water volume of 34.97 million cubic metres and realized RMB36.60 million in income, representing a decrease of 16% as compared to the same period last year, which was mainly due to the above business adjustment and the effect of the dry weather. Qujing's Tap Water Plant No.3 experienced flow intermissions during the reporting period, which resulted in the decrease in the on-grid tap water volume by approximately 5% as compared to the same period last year.

d. Operations of toll collection business

During the reporting period, the Group recorded an income of RMB67.04 million from the toll collection business, which was basically in line with the same period of the previous year, and realized an operating profit of RMB56.15 million, basically in line with the previous year. Pursuant to the "Subcontracting Toll Collection Agreement" entered into between the Group and Tianjin City Indebted Road Construction for Vehicle-passage Toll Collection Office, the toll collection office would provide toll collection service to the Group. Starting from 1 January 2010, Tianjin City Indebted Road Construction for Vehicle-passage Toll Collection Office ceased toll collection, while the Group's mode of toll collection and the measures for the licensed toll collection were still uncertain. An announcement will be made by the Group once the government has made a decision.

8. Directors' Report

(2) *Principal businesses by industry*

Unit: '0,000
Currency: RMB

Industry	Income from operations	Cost of operations	Profit margin from operations (%)	Increase/decrease in income from operations as compared to last year (%)	Increase/decrease in cost of operations as compared to last year (%)	Increase/decrease in profit margin from operations as compared to last year (%)
Sewage water treatment	106,634	48,816	54.22	9.26	16.45	Decreased by 2.82 percentage points
Recycled water	5,649	3,904	30.89	16.69	9.94	Increased by 4.24 percentage points
Tap water	3,660	2,766	24.43	-16.21	-13.59	Decreased by 2.28 percentage points
Toll collection business	6,704	1,089	83.76	0.03	0.55	Decreased by 0.09 percentage points



8. Directors' Report

(3) Principal businesses by region

Region	Income from operations	Unit: '0,000 Currency: RMB Increase/decrease in income from operations as compared to last year (%)
Tianjin	84,485	0.69
Guiyang	3,820	14.82
Qujing	5,075	-14.95
Fuyang	3,379	17.16
Baoying	1,022	-2.85
Hangzhou	12,868	7.59
Honghu	966	27.44
Wendeng	2,358	51.35
Xian	7,171	69.61
Chibi	1,084	Commenced commercial operation in 2009
Anguo	419	Commenced commercial operation in 2009

Reasons for a relatively great increase in income from operations of Wendeng and Xian as compared to last year:

There was a great increase in sewage water processing volume in 2009 for Wendeng Capital Water Company Limited. Xian Capital Water Company Limited commenced commercial operation in the second half of 2008.

8. Directors' Report

3. Material changes in major financial data during the reporting period as compared with the corresponding period of last year

As at 31 December 2009, the total assets of the Group amounted to RMB7,195.65 million, representing a decrease of RMB364.62 million or fell by 4.82% as compared to the year end of 2008; the total liabilities amounted to RMB3,780.14 million, representing a decrease of RMB553.93 million or fell by 12.78% as compared to the beginning of 2009. Equity interest attributable to the shareholders of the Company amounted to RMB3,293.59 million, representing an increase of RMB185.89 million or grew by 6% as compared to the beginning of the year. Realized net profit attributable to the Company for the year 2009 amounted to RMB242.98 million. The following is an analysis of items with more significant changes:

Unit: '0,000
Currency: RMB

Items	Amount		Increase/ Decrease	Percentage change (%)	Details of changes
	Amount at the end of the period	Amount at the beginning of the period			
Accounts receivables	50,347	79,887	-29,540	-36.98	During the reporting period, recovery of accounts receivables by the Company improved, a total amount of RMB1.524 billion due from Tianjin Sewage Water Company was received. In addition to the settlement of sewage water treatment charges outstanding for previous years, part of the new sewage water processing charges for this year and part of the long-term receivables were collected, hence the overall balance of accounts receivables of the Group had decreased.
Prepayments	19,416	8,199	11,217	136.80	Balance of prepayments at the end of the period increased rather significantly as compared to the beginning of the period, which was mainly due to the upgrading and renovation projects of four sewage water plants of the Company and the increase in the prepayments for preparation materials and project amounts paid by Hangu and Beichen water recycling plants, and the increase in project prepayments made by the subsidiary, Tianjin Water Recycling Company Limited.



8. Directors' Report

Unit: '0,000
Currency: RMB

Items	Amount at the end of the period	Amount at the beginning of the period	Increase/Decrease	Percentage change (%)	Details of changes
Construction in progress	37,480	20,712	16,768	80.95	Construction in progress at the end of the period increased by 80.95% as compared to the beginning of the period, which was mainly due to investments in upgrading and renovation projects of four sewage water plants of the Company that resulted in a significant increase in construction in progress.
Long-term receivables	57,315	102,902	-45,587	-44.30	Amount due from Tianjin Sewage Water Company was received during the year, resulting in a decrease in the long-term receivables due from Tianjin Sewage Water Company from RMB698 million to RMB242 million.
Short-term borrowings	10,000	82,189	-72,189	-87.83	Short-term borrowings at the end of the period was significantly decreased as compared to the beginning of the period due to satisfactory recovery of receivables during the period which resulted in the repayment of a significant loan amount.
Short-term debenture payable	50,000	—	50,000	—	In July 2009, the Company made a public offer of short-term debenture with total principal amount of RMB500 million for a term of one year issued at the nominal value of RMB100 each and at the interest rate of 2.8%.
Advances	30,509	22,872	7,637	33.39	Balance of advances received increased at the end of the period was mainly due to new additions of advances received from the Company's Hangu project and the advances received in respect of a new water recycling piping connection service project from the subsidiary Tianjin Water Recycling Company Limited.
Other payables	23,143	9,985	13,158	131.77	Balance at the end of the period was relatively higher than the balance at the beginning of the period, which was mainly due to new additions to project amounts payable in respect of the renovation works for Dongjiao Water Recycling Plant and four sewage water treatment plants of the Company.
Non-current liabilities due within 1 year	9,853	49,479	-39,626	-80.08	Due to the same reason as "Short-term borrowings"

8. Directors' Report

Unit: '0,000
Currency: RMB

Items	2009	2008	Increase/ Decrease	Percentage change (%)	Details of changes
Asset impairment loss	600	—	600	—	During the reporting period, the subsidiary, Tianjin Capital New Materials Company Limited, made a fixed asset impairment provision of RMB6 million.
Investment gains	46	613	-567	-92.49	Investment gains were mainly recognized investment gains from the associate Tianjin International Machinery Company Limited this year.
Non-operating expenses	1,299	118	1,181	1,000.84	Non-operating expenses for the reporting period increased at a higher rate than the previous year, which was mainly caused by the elimination of part of the assets during the renovation and upgrading process for four sewage water plants of the Company.
Net cash flow from operating activities	139,031	30,460	108,571	356.43	Please see “accounts receivables” for reasons of the changes.
Net cash flow from financing activities	-98,395	109,870	-208,265	-189.55	During the reporting period, recovery of accounts receivables improved, therefore loan repayment amounts were more than amounts of borrowings, resulting in a net outflow of cash from financing activities.
Net increase in cash and cash equivalents	-29,479	56,208	-85,687	-152.44	Although substantial amounts of receivables were received during the period, substantial amounts of bank loans were repaid at the same time, it resulted in a decrease in the net increase amount as compared to the same period of last year.



8. Directors' Report

4. Operations and results of the major companies in which the Company has controlling interests and has invested

(1) Operations and results of the major companies in which the Company has controlling interests

Unit: '0,000
Currency: RMB

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net assets	Net profit
Tianjin Water Recycling Company Limited	Tianjin	Production and sales of recycled water, development and construction of facilities for recycled water; manufacture, installation, commissioning and operation of equipment for recycled water.	10,000	Limited company	98%	53,603	9,231	341
Guizhou Capital Water Company Limited	Guiyang, Guizhou	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; consultancy services for water processing facilities and environmental projects.	10,000	Limited company	95%	18,270	13,322	831
Tianjin Capital New Materials Company Limited	Tianjin	Manufacture and sales of construction materials, new compound material products and polymer material products; technical consultation on new piping materials.	3,750	Limited company	70.67%	1,353	-260	-878
Baoying Capital Water Company Limited	Yangzhou, Jiangsu	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	3,800	Limited company	70%	8,943	4,163	5

8. Directors' Report

Unit: '0,000
Currency: RMB

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net assets	Net profit
Quijing Capital Water Company Limited	Quijing, Yunnan	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	12,000	Limited company	90.07%	34,595	11,461	-23
Fuyang Capital Water Company Limited	Fuyang, Anhui	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	6,300	Limited company	98.57%	16,284	7,767	532
Hangzhou Tianchuang Water Company Limited	Hangzhou, Zhejiang	Operation and maintenance and technical services for sewage water processing and recycled water utilization facilities, and ancillary services such as technology training.	25,745	Limited company	70%	83,782	28,069	1,575
Tianjin Capital Environmental Protection (Hong Kong) Company Limited	Hong Kong	Treatment and recycling and utilization of sewage water.	US\$7,840,000	Limited company	100%	6,652	6,651	-277
Wendeng Capital Water Company Limited	Wendeng, Shandong	Development, construction, operation and management of sewage water treatment and its ancillary facilities, solid waste treatment facilities and water recycling facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	4,800	Limited company	100%	12,766	5,612	387



8. Directors' Report

Unit: '0,000
Currency: RMB

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net assets	Net profit
Tianjin Jing Hai Capital Water Company Limited	Jinghai, Tianjin	Development, construction, operation and management of ancillary services for sewage water treatment plant, urban sewage water treatment plant and tap water plants, and solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities and environmental projects.	1,200	Limited company	100%	3,524	1,180	-20
Xian Capital Water Company Limited	Xian, Shaanxi	Development, construction, operation and management of sewage water treatment and its ancillary facilities, solid waste treatment facilities, water recycling facilities; research, development and promotion of environmental protection technology; application of renewable energy and related equipment; installation services for sewage water treatment plant equipment; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects (in accordance with the State regulations for specific projects and operations).	27,000	Limited company	100%	63,840	25,445	-1,794
Tianjin Kaiying Environmental Engineering Technology Consulting Limited	Tianjin	Environmental governance projects, civil engineering works, urban planning and related project technology consultation services; surveying design, tender agency, engineering projects management and technical services (in accordance with the State regulations for specific projects and operations).	200	Limited company	100%	192	184	-15
Anguo Capital Water Company Limited	Anguo, Hebei	Urban water supply, drainage and sewage water treatment (water-drawing permit valid until September 2, 2013 and hygiene permit valid until July 17, 2012. Operations are forbidden for projects which require special approval until such approval is obtained, and operations are forbidden for projects which require approval as stipulated by administrative laws and regulations or the State Council until such approval is obtained).	4,100	Limited company	100%	9,427	3,850	-250

8. Directors' Report

Unit: '0,000
Currency: RMB

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net assets	Net profit
Wuhan Tianchuang Environmental Protection Company Limited	Wuhan, Hubei	Investment and development, construction, operation, management and consultancy services of municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities and water recycling facilities; production, supply and sales of equipment and materials relating to water and environmental protection; research, development and promotion of environmental protection technology.	10,324	Limited company	100%	28,370	11,410	682

(2) *Operations and results of the major companies which the Company has invested*

Tianjin Beifang Rencaigang Company Limited

As at the end of the reporting period, the Company invested a total of RMB2,000,000 in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. Its principal activities comprise senior executive insurance services, senior executive personnel services (employment agent service, financial guarantee consultation service, personal creditworthiness assessment), enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. During the reporting period, this company recorded a net profit of RMB5.519 million. During the reporting period, the Group received bonus distribution of RMB200,000 for the year 2008 from this company.

Tianjin Baotong Light Mass Materials Company Limited

As at the end of the reporting period, the Company invested a total of RMB2,000,000 in Tianjin Baotong Light Mass Materials Company Limited (“**Baotong**”), representing 4.9% of its registered capital. The principal activities of this company include production and sales of high resistance and light mass materials and its products. Since applications of the company's products in the domestic market was not mature and was lack of design experience, costs of raw materials, fuel, wages, water and electricity increased significantly, together with factors such as disruption in the purchases of raw materials by the company, cancellation of sales market and more stringent requirement for smoke and dust emissions by the environmental protection authority, serious damages of the operations of production, supply and sales, this company recorded losses for consecutive years. On May 13, 2009, Underground Railway Group, the major shareholder of the company, convened a shareholders' general meeting and decided to wind up and closed the company. Currently, Baotong has the book value of total assets of RMB 26.76 million, with liabilities amounted to RMB1.56 million and accumulated losses amounted to RMB15.62 million. In December 2009, pursuant to the requirements of the relevant authority of Tianjin city and its superior administration authority, the winding up team commenced the application for Baotong's assets to be listed for sale on the Tianjin Property Rights Exchange. As at the end of the reporting period, the application was still under processing.

8. Directors' Report

5. The Company's Technology

During the reporting period, the Group initiated 25 technological programs and 7 technological reform projects to meet the technological innovation demand for “Upgrading and reconstruction work of the sewage water treatment plants” and “Energy saving and emission reduction by enterprises”. The programs and projects were implemented successfully and met its expected requirements. The Group invested a total of RMB7 million in technology, representing 0.56% of the Company's income from operations.

The R&D project participated by the Group on the program “Study and applications of integrated technology for Dagu sewage discharge river bed sludge and urban sludge treatment” had successfully obtained support from the Tianjin Mayor Technology Innovation Fund. The Group, being the leader unit for the first sub-program of the above programs, is mainly responsible for the study of sludge treatment for urban sewage plants. This would be helpful in providing technological support for the Group's sludge treatment in urban sewage water treatment plant, and would be advantageous for the Group's research and development to resolve quickly such general problems faced by Tianjin city and the domestic sewage industry. As at the end of 2009, portions of the program completed included major study on the technological aspects of acute dehydration of sludge, biodehydration, combustion, etc. and progress was achieved in stages. In future, more indepth study will be conducted on technological operation standards. In addition, the Group had applied for and successfully obtain one technology project from the Ministry of Housing and Urban-Rural Development, two technology projects from the Tianjin Municipal Commission of Housing and Urban-Rural Development and two technology projects from Tianjin Investment Group. The commitments to these projects led to rapid development of technology in the industry by the Group and promoted improvements in technology.

Moreover, the Group was also successful in applying for the city, sea and river program entitled “Study on technology for deep dephosphorization and denitrification of sewage water and sludge reduction in northern cities” under the “Major special project for water body pollution control and improvement technology”, one of the sixteen major special programs included in the national medium and long term scientific and technological development plan. Such program was developed in connection with the current demand for the core technology for upgrading and reconstruction of sewage water treatment plants. As at the end of 2009, a number of interim tests and production test studies were commenced and completed, and the results of the studies were partly applied to the upgrading and reform projects of several sewage water treatment plants in Tianjin and practical benefits were gained accordingly.

The reporting of these programs further enhanced the Group's technological position in the industry. While actively participating in the construction of national or Tianjin city's major scientific and technological projects, the Group made proactive efforts to provide technological support for “upgrading and reforms of sewage water treatment plants” and “energy saving and emission reduction”, which ensured a more efficient scientific and technological advancement of the Group, and in turn contributed to the overall development of the Group.

(II) Outlook of the Company's future development

1. Changes of external environment and future development opportunities of the Company

Under the impact of the global financial crisis in 2009, the economy of China showed the first signs of recovery under the pulling force of the stimulation package. However, the basis for an overall recovery of the economy was not solid, positive changes and unfavourable effects appeared at the same time. In particular, inflationary pressures may lead to a tightened monetary policy. Meanwhile, efforts to change in the approach of economic growth and adjust the economic structure in China will be increased. Progress in energy saving and emission reduction and robustness of the environmental protection industry will be favourable for further development of the water industry. In 2009, the overall performance of the water industry displayed the following three trends: Firstly, the market share of operational service continued to expand, DBO projects and bundled entrusted operation projects appeared one after the other. Secondly, strategic integration of enterprises became a dominant trend. Integration of enterprises in the aspects of investment, operation, technology integration and water works project, integration of upstream and downstream enterprises of the equipment manufacturing industry as well as the integration between investors of different scales resulted in an appropriate concentration of the water industry in general, whereas the establishment of environmental industry funds assisted to promote mergers, acquisitions and restructuring of the industry. Finally, the establishment of an environmental protection alliance and the actualization stage of regional governance may call forth the emergence of large environmental conglomerate enterprises. The above series of external environmental changes demand higher requirements for corporate capabilities, indicating the coexistence of opportunities and challenges in the water industry in 2010.

2. Overall strategy of the Group in 2010

Development strategy

In 2010, facing the opportunities and challenges of development in the industry, the Group will continue to purify the water environment for the daily living of the human race, uphold its organizational mission of raising water quality, and apply great efforts in achieving fast growth on the basis of capability enhancement and value creation. The organizational mission will expand both in its content and external reach, focusing on water treatment with target on the industry chain of the water industry. The organization will also be led by technology enhancement, striving to realize the state of a concentric and diversified development, for creating the maximum value for shareholders.



8. Directors' Report

Operating strategy for the coming year

With regard to business structure, the Group will continue the stable development of water investment and operation business, and use it as a focus to expand construction management services for municipal projects and the market share of water plant entrustment operation services. The Group will also expand the design and consultancy services of the water service industry as well as the equipment and pharmaceutical supply services. Business investments in earth crust thermal energy and other renewable energy and the production and supply services of construction materials for underground railway will be made according to the needs of urban construction development in Tianjin.

With regard to the choice of geographical locations, the Group will continue to base itself at Tianjin and strengthen the market shares in Tianjin area and the surrounding regions and counties to support the construction of an ecological city. The Group will coordinate the development and expansion plans for the markets in the eastern and western regions nationwide through the business divisional system, expand coverage to the surrounding regions by leveraging on the branding advantage of services, and strive to expand the service area in order to realize a positive cycle of self sufficiency.

With regard to technological operations, the Group will strengthen the collection, collating and analysis of the Group's internal and external basic technology information and intelligence; develop reviews on water business operation and engineering construction technology proposals; improve the operating mechanism of the Group's technology system, quality and standards system and the security system; organize and prepare internal quota and standards for production; summarize the experience of upgrading and reforming water plants to establish patented technology proposals; further implement and improve the information technology system.

With regard to internal management, the Group will adjust its organization and structure and strengthen operation management through the business divisional system; improve the budget plan, tracking and analysis mechanism of the Group's production operations and supplemented with relevant incentive schemes and target appraisal methods; optimize the Group's financial management mechanism and funds allocation mechanism by strengthening asset management, reviewing operation contracts, coordinating funds arrangement, carrying out audit, internal control and legal work in order to avoid and control overall risks; further optimize the remuneration system for companies of the Group by strengthening the incentive mechanism and the carrot-and-stick system, optimizing the recruitment and training of specific staff in demand to create a learning organization; develop investor relationship management proactively and maintain good governmental relationship for licensed operations.

Operation plan for the coming year

1. Operation plan

- (1) operate the existing sewage water treatment plant, tap water plant and recycled water plant businesses well to ensure the quality of water will satisfy the requirements of customers;
- (2) complete the key projects of upgrading, reconstruction or expansion works of the subsidiaries' water processing plants in Jizhuangzhi, Xianyanglu, Dongjiao, Beichen and Qujing in Tianjin;
- (3) complete the construction projects of Yingdong sewage water treatment plant in Fuyang and Balitai sewage water treatment plant in Tianjin;
- (4) realize commercial operation of Xianning sewage water treatment plant in Wuhan and Jinghai Development Zone sewage water treatment plant in Tianjin;
- (5) expand the market development of water plant investment operations and entrusted operations actively, strive to achieve at least the same rate of growth as in 2009 and facilitate the development of design and consultancy businesses;
- (6) relying on the construction of the Tianjin environmental industrial park, to achieve more breakthrough in the construction management service and construction contracting service for municipal projects. Relying on the construction of the Tianjin cultural centre, investment is intended to be made in the projects of earth crust thermal energy and other renewable energy, and by making use of the plants of Tianjin Capital New Materials Company Limited, investment is intended to be made in the production and supply of construction materials for underground railway;
- (7) research on the supply services of equipments and pharmaceuticals relating to the water industry.

2. Planning for income, expenses and costs:

In 2010, subject to no material changes in the prevailing national direction policies, operating environment and sewage water processing service agreements being complied by the Group, it is expected that the change in the target income from the sewage water processing service fees as compared to the amount in 2009 will not exceed 10%.



8. Directors' Report

3. Cost control targets:

In the circumstances of rising charges for various types of resources, there is a higher pressure on the increase in the business costs of various operations run by the Group's companies. Subject to no material changes in the prevailing national direction policies being complied by the Group and in the operating environment, it is expected that the increase in the costs of principal businesses of the Group in 2010 as compared to that in 2009 will be approximately 20%. Relying on the many years of operation experience in sewage water treatment, the Group will adopt scientific and effective energy saving and consumption reduction measures to improve cost management as well as control operating costs through administrative and technological means and incentive measures, in order to keep the cost at a reasonably low range, subject to the satisfaction of the requirements for quality and various regulatory conditions, while at the same time, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

4. R&D plans:

In 2010, the Group will further increase the investments and supporting management efforts in scientific research work. The Company plans to inject at least RMB7 million of funds as scientific research fees for the R&D of technology related to the principal businesses of the Group and technology reserve related to the development strategy of the Group. The Company will conduct indepth studies on the major projects including the program of "Study and engineering demonstration on the technology for dephosphorization, denitrification and sludge output quantification for large-scale sewage water treatment plants in northern cities" and its "twelfth five-year research study plan" under the national "special water projects", and the Tianjin Mayor Technology Innovation Fund programs of "Study and engineering demonstration on the key technology for deep dephosphorization and denitrification of urban sewage water" and "Study and applications of integrated technology for Dagu sewage discharge river bed sludge and urban sludge treatment". At the same time, research studies will be commenced on the projects of "Study on integrated deodorization technology for urban sewage water treatment plants and its standardization and transfer of results" and "Study on the reduction in quality and quantity of sludge from township sewage water treatment plants and its comprehensive applications".

All subsidiaries of the Group will also increase technological investments, commence R&D on various technologies and technological reform activities, which will have positive effects on enhancing the production efficiency and reasonable control of operation costs.

Demand for funds and application plans for the coming year

The Group's current financing sources can basically satisfy the needs of the Group's annual operation plans. As competition in the water service market becomes severe, there exists certain opportunities for merger and acquisition in the industry. Coupled with the Group's market development goals, the Group is seeking suitable merger and acquisition opportunities at appropriate time to lay down a good foundation for the future growth of the Group in accordance with the Group's future development plan. The Group will obtain the funds that the relevant projects may require from its current financing sources.

Analysis of risk factors

- (1) In response to the economic crisis, the Group will further enhance its risk control capability. The Group will, on one hand, intensify the monitoring, analysis and judgment of risks at an earlier stage, and, on the other hand, will increase the speed of response to any risks that may have crystallized and control its effect. For this purpose, the Group is increasing and will continue to increase relevant investment to establish an efficient risk warning system and a speedy reaction mechanism. In addition, the Group will continuously intensify operational management and scientific and technological development in order to maintain its competitive advantages, and will enhance project quality and operation service level through continuous self-improvement, and in turn to become a major force of energy-saving and emission-reduction and to continuously improve quality of water environment.
- (2) In July 2005, the Tianjin Municipal Government issued the "Administrative Measures on Licensed Operations of Public Utilities of Tianjin Municipality" ("**Administrative Measures**"). Under Rule 22, license(s) for operating current urban public utilities projects within the scope of requirements may be granted directly to the original operator after a review by the department in charge of municipal construction and administrative management and obtaining approval from the Municipal People's Government, and a licensed operation agreement will be signed between the department in charge of municipal construction and administrative management and the operator. The major provisions of the "Administrative Measures" in respect of such licensed operation are as follows:
 - a. Licensed operators of new projects shall be ascertained by public tenders;
 - b. The municipal construction and administrative management authority shall be authorized to take charge of organizing and implementing licensed operations of municipal public utilities;
 - c. The licensed operators shall implement the municipal public utility product prices and service charge standards set by the State and the city.
 - d. The term of the licensed operation shall not exceed 30 years.



8. Directors' Report

- e. Having been reviewed by the municipal construction and administrative management authority and approved by the Municipal People's Government, the existing municipal public utility projects can be directly granted to the existing operators of licensed operations, and licensed operation agreements shall be signed between the municipal construction and administrative management authority and the operators.

The Group has submitted an application for operating licences for four sewage water treatment plants at the central region of Tianjin city to the municipal construction and administrative management department of Tianjin City after the implementation of Administrative Measures in November 2005. Currently, no approval reply has been received so far, and the Group will publish timely announcements in accordance with the progress of the matter and the relevant rules.

- (3) Starting from 1 January 2010, Tianjin City Indebted Road Construction for Vehicle-passage Toll Collection Office ceased toll collection, while the Group's mode of toll collection and the measures for the licensed toll collection were still uncertain. An announcement will be made by the Group once the government has made a decision.

(III) The Company's investments

1. Use of proceeds from fund-raising

During the reporting period, there was no fund raising of the Company or there was no fund raised in previous periods that was applied in this period.

2. Project made out of funds other than proceed from fund-raising

- (1) On 21 July 2009, the Group injected capital of RMB18 million into Fuyang Capital Water Company Limited ("Fuyang Limited") for investing in the Yingdong Sewage Water Treatment Plant BOT project in Fuyang city. RMB13.2777 million was invested for the project in 2009. After the capital injection, the registered capital of Fuyang Limited increased to RMB63 million and the capital contribution of the Company reached 98.57%.
- (2) On 7 August 2009, the Group, based on valuation, transferred the equity interest of its shareholdings in Honghu Capital Water Company Limited and Chibi Capital Water Company Limited to Wuhan Tianchuang Environmental Protection Company Limited ("Wuhan Ltd."), a wholly-owned subsidiary of the Group, and Guizhou Capital Water Company Limited, the other shareholder of Chibi Capital Water Company Limited, also transferred its entire shareholding in Chibi Capital Water Company Limited to Wuhan Ltd. Upon completion of the transaction, Honghu Capital Water Company Limited and Chibi Capital Water Company Limited became the subsidiaries of Wuhan Ltd., where Chibi Capital Water Company Limited was a wholly-owned subsidiary of Wuhan Ltd.

8. Directors' Report

- (3) On 18 December 2009, the Board agreed to contribute capital in the amount of RMB5 million to establish a wholly-owned subsidiary, Tianjin Capital Environmental Water Company Limited. Upon incorporation, this project company will invest in and undertake the construction of Balitai Town Sewage Water Treatment Plant in Jinnan district of Tianjin by adopting the mode of licensed operation and will enjoy the exclusive rights of occupation, use, operation and maintenance of the project facilities as well as the asset operation right to receive sewage water processing service charges during the licence period. Tianjin Capital Environmental Water Company Limited has been incorporated on 7 January 2010.
- (4) In 2010, the Group will invest in the upgrading and reform projects of four sewage water treatment plants in Tianjin, namely, Xianyanglu, Beicang, Jizhuangzi and Dongjiao. Total investment in the project is estimated to be approximately RMB1.04 billion. RMB194 million was invested in 2009. The overall project is scheduled to be completed by the end of 2010.
- (5) The Group's subsidiary, Qijing Capital Water Company Limited, invested in the reconstruction project of Lianjiangkou Sewage Water Treatment Plant with total investment amount of approximately RMB100 million, investment contribution of approximately RMB17 million was completed in 2009.
- (6) For the Xianning Sewage Water Treatment Plant project of the Group's subsidiary, Wuhan Tianchuang Environmental Protection Company Limited, contribution of investment amount of RMB55.6461 million was completed in 2009. All the construction work for Phase 1 series with capacity of 30,000 tonnes per day was completed and is currently under adjustment and trial operation.
- (7) The Group's subsidiary, Anguo Capital Water Company Limited, invested RMB33 million in the expansion and reconstruction of a tap water plant. As at the end of 2009, the construction work of a total investment amount of RMB10.64 million was completed for the project.
- (8) For the reconstruction and expansion project of the Jizhuangzi Recycled Water Plant, the Group's subsidiary, Tianjin Water Recycling Company Limited, had invested a total amount of approximately RMB87.5732 million, and an accumulated investment amount of RMB18.56 million was completed in 2009.



8. Directors' Report

(IV) Statement of the discussion results of the reasons and effects by the Board relating to the changes of accounting policies and accounting estimates of the Company, corrections of significant accounting errors, supplements to significant omissions of information and amendments to the results notice, as well as the accountability measures adopted against relevant responsible persons and the result of disposition

1. Changes of the disclosure policies of segment information

Before 1 January 2009, the Group differentiated the segment information disclosure of the business segment from that of the geographical segment, with the business segments as the primary reporting format and geographical as the secondary reporting format. According to the related regulations of enterprise improvement in reporting segment information under the "China Accounting Standards for Business Enterprises Interpretation No. 3" issued by the Ministry of Finance of the PRC on 11 June 2009, starting from 1 January 2009, the Group no longer differentiates business segment from geographical segment as the primary reporting format and secondary reporting format respectively in the segment information disclosure, instead the Group determines operating segments based on the internal organization structure, management requirements and internal reporting system. The reporting segment and disclosure information of segments are determined on the basis of operating segments.

The segment information for 2008 has been restated in accordance with the above requirements. This change has no impact on the amount and the specific items in the financial statements.

2. Changes of recognition of investment income under the cost method

Investment income is recognised in profit or loss for the cash dividends or profit declared by the investee. Such recognition is made only to the extent of the distributions received from accumulated net profits of the investees arising after the investment was made. Cash dividends or distributions received in excess of such profits are regarded as a recovery of the initial cost of the investments.

In accordance with the related regulations of cost method under the "China Accounting Standards for Business Enterprises Interpretation No. 3" issued by the Ministry of Finance of the PRC on 11 June 2009, starting from 1 January 2009, investment income for the cash dividends or profit declared by the investee is recognized except that actual payment or consideration when the investment is acquired has included the cash dividends or profit declared, regardless whether the net profit of investee is arisen prior or subsequent to the investment made.

According to the relevant requirements of the "China Accounting Standards for Business Enterprises Interpretation No. 3", this change in accounting policies shall be applied prospectively. This change has no impact on the amount and the specific items in the financial statements.

Other than the above matters relating to two changes in accounting policies, the Group has no other changes in accounting policies and accounting estimates, other corrections of significant accounting errors, other supplements to significant omissions of information or amendments to the results notice during the reporting period.

8. Directors' Report

(V) Review of the Board Activities

1. The Board meetings and resolutions passed

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 26th Meeting of the 4th Board	5 March 2009	Agreed the resignation of several people, including Mr. Liu Wen Ya, as senior management, and the appointment of 5 people including Mr. Zhang Qiang, as deputy general manager, chief economist and chief accountant of the Company	Shanghai Securities News	6 March 2009
The 27th Meeting of the 4th Board	25 March 2009	Agreed the upgrading and reconstruction work of four sewage water treatment plants in Tianjin	Shanghai Securities News	26 March 2009
The 28th Meeting of the 4th Board	28 April 2009	(1) Agreed the 2008 annual report and its summary to be announced in the PRC and overseas; (2) Agreed the financial and accounting statements of the Company for 2008 audited by the domestic and overseas auditors; (3) Agreed the 2008 working report of the Board and the 2009 operation development plan; (4) Approved the 2008 final financial report and the 2009 financial budget report; (5) Approved the 2008 profit distribution plan; (6) Considered the 2008 internal control report; (7) Considered the report on social responsibility 2008; (8) Agreed the reappointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the domestic and external auditors of the Company; (9) Agreed the amendments to the Articles of Association; (10) Agreed the application for liquidity loan facility; (11) Agreed the grant of mandate at the general meeting for the allotment and issue of new shares (H Shares); (12) Agreed the announcement of the first quarterly report for 2009 and the summary of the report within the PRC and overseas; (13) Agreed the convening of the 2008 Annual General Meeting	Shanghai Securities News	29 April 2009



8. Directors' Report

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 29th Meeting of the 4th Board	16 June 2009	Agreed the election of Ms. Fu Yana as chairman of the 2008 Annual General Meeting	Shanghai Securities News	17 June 2009
The 30th Meeting of the 4th Board	30 June 2009	Agreed the resignation of Mr. Deng Biao as chief engineer and the appointment of Mr. Li Yuqing as chief engineer of the Company	Shanghai Securities News	1 July 2009
The 31st Meeting of the 4th Board	21 July 2009	Agreed the nomination of Mr. Zhang Wenhui as candidate for director of the 4th Board of the Company	Shanghai Securities News	22 July 2009
The 32nd Meeting of the 4th Board	21 August 2009	Agreed the announcement of the 2009 interim report and its summary in the PRC	Shanghai Securities News	22 August 2009
The 33rd Meeting of the 4th Board	8 September 2009	Agreed the election of Mr. Zhang Wenhui as chairman of the 4th Board of the Company	Shanghai Securities News	9 September 2009
The 34th Meeting of the 4th Board	24 September 2009	(1) Agreed the tenancy agreement entered into with connected persons including Tianjin Investment Group; (2) Agreed the provision of loan guarantee to Wuhan Tianchuang Environmental Protection Company Limited	Shanghai Securities News	25 September 2009
The 35th Meeting of the 4th Board	22 October 2009	Agreed the announcement of the third quarterly report for 2009 and the summary of the report in the PRC and overseas	Shanghai Securities News	23 October 2009
The 36th Meeting of the 4th Board	2 November 2009	(1) Agreed the nomination of nine people including Mr. Zhang Wenhui as candidates for Directors of the 5th Board of the Company; (2) Suggested the remuneration of Directors of the 5th Board of the Company; (3) Agreed the provision of loan guarantee to Anguo Capital Water Company Limited; (4) Agreed the provision of loan guarantee to Fuyang Capital Water Company Limited; (5) Agreed the nomination of Mr. Zhang Wenhui as member of the Nomination Committee of the Board and the Strategy Planning Committee; (6) Agreed the proposal to convene the second extraordinary general meeting for 2009.	Shanghai Securities News	3 November 2009

8. Directors' Report

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 37th Meeting of the 4th Board	9 November 2009	Agreed the chairman, Mr. Zhang Wenhui, to act as acting general manager	Shanghai Securities News	10 November 2009
The 1st Meeting of the 5th Board	18 December 2009	(1) Elected Mr. Zhang Wenhui as chairman of the 5th Board of the Company; (2) Elected members of the Audit Committee, the Remuneration and Assessment Committee, the Nomination Committee and the Strategy Planning Committee; (3) Agreed the chairman, Mr. Zhang Wenhui, to act as acting general manager; (4) Agreed the appointment of 9 people including Mr. Lin Wen Bo, as executive deputy general manager, deputy general manager, chief economist, chief engineer, and chief accountant of the Company; (5) Agreed the appointment of Ms. Fu Yana as the Company Secretary to the Board, and the appointment of Ms. Guo Fengxian as the Securities Affairs Representative of the Company; and the appointment of Mr. Lo Wai Keung, Eric as the Company Secretary (Hong Kong) of the Company; (6) Approved the remuneration of senior management of the Company; (7) Agreed the adjustment of the organization structure of the Company; (8) Agreed the establishment of the Tianjin Capital Water Company Limited.	Shanghai Securities News	19 December 2009



8. Directors' Report

2. Execution of the resolutions passed at the general meetings by the Board

During the reporting period, pursuant to the relevant provisions of the PRC "Company Law", "Securities Law" and the "Articles of Association" of the Company, the Board of the Company seriously executed all resolutions passed at the general meetings in strict compliance with the resolutions and authorization of the general meeting.

The execution of the profit appropriation plan passed at the annual general meetings for 2008: The profit appropriation plan for 2008 of the Company has been considered and approved by the 2008 annual general meeting held on 17 June 2009. The relevant resolutions were published on Shanghai Securities News, the website of SSE (www.sse.com.cn), the website of the Stock Exchange (www.hkex.com.hk) and the website of IFN Financial Press Ltd. (<http://www.ifn.com.hk/ir/tjcep/>) on 18 June 2009. The profit appropriation plan has been implemented. The Company distributed RMB0.04 in cash per share (tax inclusive) to A Share shareholders and RMB0.04 (HK\$0.04536, tax inclusive) per share to H Share shareholders. The Company issued an announcement of A Share dividend distribution on 31 July 2009 in the PRC, with the registration date of the share rights on 5 August 2009. The Company issued a notice of the 2008 annual general meeting, with the registration date of the share rights on 15 May 2009. The distribution of A Share dividends ended on 12 August 2009, while the distribution of H Share dividends ended on 6 August 2009.

In respect of the implementation of the resolution relating to the application to issue and allot new shares (H shares) of the Company considered and approved by the 2008 annual general meeting, since the H share market did not have suitable conditions for allotting new shares, the Board has not implemented the work of issuing and allotting new shares (H shares).

3. A summary report on the establishment and the effectiveness of the relevant work system of the Audit Committee under the Board, main content and the performance of duty

The Audit Committee under the Board consists of three Directors, all of whom are independent non-executive Directors of the Company. The relevant staff of the financial department, legal audit department and the office of the secretary to the Board are all the staff members of the Audit Committee, who assist the Audit Committee in its daily work. Approved by the Board, "Details for the works of the Audit Committee" has been established, which specifies the terms of working scope and working procedures of the Audit Committee, thus regulating the daily work of the Audit committee.

In accordance with the relevant requirements of the CSRC and SSE, the Detailed Implementation Rules of the Audit Committee of the Company, and the work system in respect of the annual reports of independent Directors, the Audit Committee of the Company has duly performed its supervisory and examination functions during the preparation and disclosure process of the 2008 annual report and the 2009 interim report, safeguarding audit independence.

8. Directors' Report

(1) *Regarding the Review of the 2008 Annual Report:*

- (1) The Committee established the “Working Rules of the Audit Committee in respect of the 2008 Annual Report”(《2008 年年度報告審核委員會工作規則》), which regulate the audit work in the process of the preparation of the annual report;
- (2) Before the auditor’s arrival, the Committee reviewed the unaudited financial statements of the Company and the auditor’s audit working plan through a telephone conference and formed written opinions;
- (3) By way of physical meetings, the Committee carried out in-depth communications with the auditor in relation to significant audit matters found;
- (4) By way of physical meetings, the Committee considered and passed the audited annual report and then submitted it to the Board for consideration and approval;
- (5) By way of physical meetings, the Committee considered the conditions of the audit work for 2008 and agreed the reappointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the domestic and external auditors of the Company respectively, and submitted a relevant proposal to the Board for consideration.

(2) *Regarding the Review of the 2009 Interim Report*

- (1) in the process of preparing the interim financial statements for 2009, communication in relation to the material financial matters with the Company’s management has been conducted by way of telephone conference;
- (2) the meeting of the Audit Committee has been convened to consider and vote for the interim financial statements of the Company for 2009, and a resolution has been formed for submission to the Board for consideration.

Except Di Xiaofeng, who could not attend the meeting of the Audit Committee held on 27 April 2009 due to his business trip, all the other members attended the above meetings of the Audit Committee.



8. Directors' Report

4. A summary report on the performance of duty of the Remuneration Committee under the Board

The Remuneration Committee under the Board consists of all three independent non-executive Directors of the Company and chaired by an independent non-executive Director. Approved by the Board of the Company, the “Details for the works of the Remuneration Committee” has been established, which specifies the terms of working scope and working procedures of the Remuneration Committee, thus regulating the daily work of the Remuneration Committee.

During the reporting period, there were three meetings in total held by the Remuneration Committee. All members attended the meetings held, at which resolutions including “A resolution regarding the determination of Li Yuqing’s remuneration”, “A resolution regarding the remuneration of the 5th Board of the Company”, “A resolution regarding the remuneration of senior management of the Company” and “A resolution regarding the remuneration of the Company Secretary (Hong Kong) of the Company”, were considered and passed respectively, and were submitted to the Board for consideration.

5. A summary report on the performance of duty of the Nomination Committee under the Board

The Nomination Committee under the Board consists of three independent non-executive Directors, the chairman, Mr. Zhang Wenhui and executive Director, Mr. Lin Wen Bo, and is chaired by independent non-executive Director, Mr. Di Xiaofeng. Approved by the Board and the general meeting of the Company, the “Details for the works of the Nomination Committee” has been established, which specifies the terms of working scope of the Audit Committee, nomination procedures and the standards of recommendation of candidates, thus regulating the daily work of the Nomination Committee.

During the reporting period, there were five meetings in total held by the Nomination Committee. All members attended the meetings held, at which committee members nominated five people including Mr. Zhang Qiang, as deputy general manager, chief economist and chief accountant of the Company respectively; nominated Mr. Li Yuqing as chief engineer of the Company; nominated Mr. Zhang Wenhui as candidate for Director of the 4th Board of the Company; nominated candidates for Directors of the 5th Board of the Company and nominated senior management, secretary to the Board and the Securities Affairs Representative under the 5th Board of the Company. The above nominations were approved by the Board and the general meetings.

8. Directors' Report

(VI) Profit distribution plan or the proposal for the increase in share capital by transferral of Capital Reserve Funds

As audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers respectively, the net profit attributable to the Company in 2009 was RMB242.98 million. Pursuant to the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, a Statutory Common Reserve in the amount of RMB23.03 million was taken out, adding the undistributed profit of RMB1,044.04 million at the beginning of the year, and less 2008 cash dividends of RMB57.09 million distributed in 2009, the actual distributable profits attributable to the shareholders for this year was RMB1,206.90 million. According to the profit distribution proposal 2009, a cash dividend of RMB0.80 (tax inclusive) per 10 shares will be distributed to all shareholders. Such proposal will be submitted to the 2009 annual general meeting for consideration and approval before implementation.

No transfer from the capital reserve fund to share capital was made for 2009.

(VII) Dividends of the Company for the past three years:

Unit: '0000 Currency: RMB

Year	Amount of cash dividends (before tax)	Net profit for the year attributable to shareholders of the Company in the consolidated financial statements	Percentage of net profit attributable to shareholders of the Company to the consolidated financial statements (%)
2006	5,610.55	16,561	34
2007	5,708.91	20,933	27
2008	5,708.91	23,107	25



8. Directors' Report

(VIII) Establishment and the effectiveness of the management system concerning the users of external information of the Company

In order to strengthen the Group's management of information disclosure, the Group strictly implements the delivery, verification and disclosure procedure of undisclosed information and prevent the insider from taking advantage of the insider information to carry out security-dealing activities, in order to eliminate the insider transactions. Pursuant to the relevant requirements of the Securities Law, the Company Law and the Administrative Measures Concerning Information Disclosure for Listed Companies (《上市公司信息披露管理辦法》) of the PRC, the Group established the Administrative Rules Concerning the Insiders of Tianjin Capital Environmental Protection Group Company Limited (《天津創業環保集團股份有限公司內幕信息知情人管理規定》) which includes the Notice of Relevant Regulations Concerning the Users of External Information of Tianjin Capital Environmental Protection Group Company Limited (《天津創業環保集團股份有限公司關於外部信息使用人相關規定的通知》). The relevant regulations mainly include: The Group shall reject the request for submission of the annual financial statements of an external company which does not abide by the laws and regulations. If the Group considers it suitable for the submission in compliance with the laws and regulations, it will classify the relevant person of the external company for submission as an insider and record the same for inspection. The Group shall consider relevant information as insider information and remind in writing the relevant person of the external company for submission to fulfill the obligation of confidentiality.

Prior to the announcement of periodic reports and relevant sensitive information, the users of external information must strictly comply with the laws and regulations including the Securities Law, the Company Law and the Administrative Measures Concerning Information Disclosure for Listed Companies of the PRC, strictly implement the delivery, verification and disclosure procedure of undisclosed information and prevent the insider and the person illegally obtaining insider information from taking advantage of the insider information to carry out security-dealing activities in order to absolutely eliminate the insider transactions.

Furthermore, the Group also requires the users of external information to fill in the Reply Slip on the Notice of Relevant Regulations Concerning the Users of External Information, makes sure that the users of the external information are aware of the relevant regulations concerning the users of external information by CSRC, and will carry out relevant work strictly in accordance with relevant requirements.

9. Report of the Supervisory Committee

(1) Operation of the Supervisory Committee

Meetings held by the Supervisory Committee	Resolutions considered at the meetings of the Supervisory Committee
The 11 th meeting of the Fourth Supervisory Committee	considered (1) the 2008 Supervisory Committee working report; (2) the 2008 annual report and its summary proposed to be announced in China and overseas; (3) 2008 accountant's report audited by the domestic and overseas auditors; (4) the 2008 financial report and the 2009 financial budget report; (5) the 2008 profit appropriation plan; (6) the legality for the operation of the Board of the Company for 2008; (7) the 2009 first quarterly report proposed to be announced in China and overseas; (8) the nomination of Ms. Qi Lipiin as a Supervisor of the Fourth Supervisory Committee of the Company.
The 12 th meeting of the Fourth Supervisory Committee	considered (1) the resolution in relation to the nomination of Mr. Li Yang as a Supervisor of the Fourth Supervisory Committee of the Company; (2) the resolution regarding the election of Mr. Zhang Mingqi as the chairman of the Fourth Supervisory Committee of the Company.
The 13 th meeting of the Fourth Supervisory Committee	considered the resolution in relation to the 2009 interim report proposed to be announced in China and overseas.
The 14 th meeting of the Fourth Supervisory Committee	considered the resolution in relation to the third quarterly report proposed to be announced in China and overseas.
The 15 th meeting of the Fourth Supervisory Committee	considered (1) the resolution in relation to the Supervisor candidates of the Fifth Supervisory Committee; and (2) the resolution in relation to the remunerations of the Supervisors of the Fifth Supervisory Committee.
The 1 st meeting of the Fifth Supervisory Committee	considered the resolution in relation to the election of Mr. Zhang Mingqi as the chairman of the Fifth Supervisory Committee.

(2) Independent opinion of the Supervisory Committee on the legality of the Company's operation

The Supervisory Committee considers that in conducting various production operation activities during the reporting period, the Board was in strict compliance with the requirements under the various laws, regulations of the PRC and the Company's Articles of Association, and its decision making procedures were legal. There has been no violation of the laws, regulation, the Articles of Association of the Company or no damages to the Company's interests or the interests of the investors during the discharge of duties by the Directors and senior management of the Company.



9. Report of the Supervisory Committee

(3) Independent opinion of the Supervisory Committee on reviewing the financial situation of the Company

The Supervisory Committee considers that the Company's financial system and internal control system were strict and have been seriously implemented, and considers that the 2009 financial report of the Company could truly reflect the financial situation and operating results of the Company. The audit opinion issued by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers was objective and fair.

(4) Independent opinion of the Supervisory Committee on the previous fund raising exercise

During the reporting period, there is no fund raising by the Company and no raised fund was used till this reporting period.

(5) Independent opinion of the Supervisory Committee on the acquisition and disposal of assets of the Company

There were no acquisitions or disposal of assets made by the Company during the reporting period.

(6) Independent opinion of the Supervisory Committee on the connected transactions of the Company

During the reporting period, the Company did not have any material connected transactions pursuant to the Listing Rules of the Shanghai Stock Exchange. For details of other connected transactions, please refer to "Connected transactions of the Company during the reporting period" below and Note (9) to the financial statements of the annual report of the Company. The Supervisory Committee considers that the connected transactions of the Company were conducted conforming to the market principles of fairness, equality, voluntary basis and friendly negotiation and sufficient information disclosure was made in compliance with the rules, and the interests of the non-related shareholders were protected.

10. Major Events

(1) Material litigation or arbitration

During the year, there is no litigation or arbitration which is material to the Company.

(2) Bankruptcy and restructuring events

During the year, there is no bankruptcy and restructuring events for the Company.

(3) Shareholdings of the Company in other listed companies and financial enterprises in which the Company has invested

During the year, the Company did not hold any shareholdings in other listed companies or financial enterprises in which the Company invests.

(4) Asset acquisition and disposal and mergers during the reporting period

The Company did not have any asset acquisition and disposal, or mergers during the year.

(5) Connected transactions of the Company during the reporting period

In order to obtain steady return of rental income in respect of its owned premises, on 24 September 2009, the Company entered into tenancy agreements with Tianjin Investment Group, Tianjin City Investment and Construction Engineering Management and Consultation Company Limited (“**Tianjin Construction Engineering**”) and Tianjin City Investment and Resources Operating Company Limited (“**Tianjin City Resources**”) respectively. Tianjin Investment Group is the ultimate controlling shareholder of the Company. Both Tianjin Construction Engineering and Tianjin City Resources are wholly - owned subsidiaries of Tianjin Investment Group. As such, the above 3 parties are all connected persons of the Company. The transactions contemplated under the tenancy agreements constitute continuing connected transactions of the Company. A summary of the principal terms of the tenancy agreements is as follows:

The tenancy agreement between the Company and Tianjin Investment Group

Date:	24 September 2009
Parties:	the Company as landlord and Tianjin Investment Group as tenant
Premises:	Certain area from 3rd floor to 12th floor of TCEP Building
Car parking spaces:	28
Lettable area:	Floor area — 6,845.91 square meters Public area — 814.86 square meter (building) 866.39 square meter (courtyard)
Term:	9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)
Total rent:	RMB4,537,994.36



10. Major Events

The tenancy agreement between the Company and Tianjin Construction Engineering

Date:	24 September 2009
Parties:	the Company as landlord and Tianjin Construction Engineering as tenant
Premises:	Certain area of 3rd floor and 4th floor of TCEP Building
Car parking spaces:	10
Lettable area:	Floor area — 1,175.93 square meters Public area — 139.81 square meters (building) 133.61 square meters (courtyard)
Term:	9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)
Total rent:	RMB775,325.16

The tenancy agreement between the Company and Tianjin City Resources

Date:	24 September 2009
Parties:	the Company as landlord and Tianjin City Resources as tenant
Premises:	Certain area of 6th floor of TCEP Building
Car parking spaces:	10
Lettable area:	Floor area — 726.08 square meters Public area — 100.75 square meters (building) 125.00 square meters (courtyard)
Term:	9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)
Total rent:	RMB496,043.19

(6) Major contracts and their implementation

1. Custody, subcontracting and leasing, which brought a profit for the Company up to 10% of the total profit of the Company during the period or above.

- (1) Custody

The Company did not provide any custodian during the year.

- (2) Subcontracting

The Company did not provide any subcontracting during the year.

- (3) Leasing

The Company did not have any leasing during the year.

2. Guarantee

Unit: '000 Currency: RMB

Guarantee provided to external parties by the Company**(not including guarantee provided to the subsidiaries of the Company)**

Total amount of guarantee provided during the reporting period (not including guarantee provided to the subsidiaries of the Company)	0
Total amount of outstanding guarantee provided as at the end of the reporting period (A) (not including guarantee provided to the subsidiaries of the Company)	0

Guarantee provided to the subsidiaries of the Company

Total amount of guarantee provided to the subsidiaries of the Company during the reporting period	190,000
Total amount of outstanding guarantee provided to the subsidiaries of the Company as at the end of the reporting period (B)	915,460

Total amount of guarantee granted by the Company (including guarantee provided to the subsidiaries of the Company)

Total amount of guarantee (A+B)	915,460
Percentage of the total amount of guarantee to the net assets of the Company (%)	27.80
Of which:	
Amount of guarantee provided to the shareholders, ultimate controller and other related parties (C)	0
Amount of guarantee provided directly or indirectly for the borrowers with gearing ratio of over 70% (D)	0
Total amount of guarantee exceeding 50% of net assets (E)	0
Total amount of the above three guarantess (C+D+E)	0

3. Trust arrangement

The Company did not make any trust arrangements during the year.

4. Other major contracts

During the year, there were no other major contracts entered into by the Company.



10. Major Events

(7) Implementation of commitments

Commitments made by the Company or shareholders who hold or continued to hold over 5% of the shares during the reporting period.

Commitments	Content	Implementation
Commitment of Share Segregation Reform	<ol style="list-style-type: none">Pursuant to the requirements under Article 27 During the reporting period, in the “Administration Method in respect of Share Segregation Reform of Listed Companies”, all the original non-circulating shares shall not be traded or transferred within 12 months commencing from the date of implementation of the Share Segregation Reform.TMICL undertakes that upon expiry of the aforesaid commitment period, the number of shares sold through the SSE shall not exceed 5% of the total number of shares of the Company within 12 months and shall not exceed 10% within 24 months.In the event the amount of shares sold through the SSE attained 1% of the total number of the Company’s shares, an announcement shall be made within two working days of the occurrence of such event.	TMICL had been in strict compliance of its commitments and had not violated any relevant commitments.

(8) Appointment and removal of the accountants of the Company

During the reporting period, the Company did not change its accountants. The original PRC auditor of the Company is PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company. The original overseas auditor of the Company is PricewaterhouseCoopers. A total of approximately RMB3.5 million were paid to the two auditors for auditing services rendered in the previous year. As at the end of the previous reporting period, the above two accountants have rendered auditing services to the Company for 15 years. During the past three years, the Company did not change its auditors.

(9) Punishments and rectification to listed companies and its directors, supervisors, senior management, shareholders and ultimate controllers

During the year, the Company and its Directors, Supervisors, senior management, shareholders and ultimate controllers were not subject to any investigation, administration punishments, criticisms by the CSRC or public reprimand by any stock exchange.

(10) Explanation of other major events

During the year, there were no other major events of the Company.

(11) Information Disclosure Index

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement Relating to the Discharge of Pledge and the Pledge of Part of Shares Held by the Controlling Shareholder of the Company	“Shanghai Securities News” page A12	13 February 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of the Resolutions Passed at the 26 th Meeting of the Fourth Board	“Shanghai Securities News” page C36	5 March 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of the Resolutions Passed at the 27 th Meeting of the Fourth Board	“Shanghai Securities News” page C104	25 March 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement relating to the Listing of Restricted Circulating Shares	“Shanghai Securities News” page C33	14 April 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in relation to the Resolutions passed at the 11 th Meeting of the Fourth Supervisory Committee and Resignation and Appointment of the Supervisor	“Shanghai Securities News” page C80	28 April 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/



10. Major Events

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Notice of 2008 Annual General Meeting	“Shanghai Securities News” page C80	28 April 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
“Report on Social Responsibility 2008” and “Self-assessment Report of the Internal Control 2008”		28 April 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
2008 Annual Report		28 April 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of Final Results for the Year ended 31 December 2008	“Shanghai Securities News” page C80	28 April 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in relation to the Resolutions passed at the 28 th Meeting of the Fourth Board and Amendment to the Articles of Association	“Shanghai Securities News” page C80	28 April 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
2009 First Quarterly Report	“Shanghai Securities News” page C80	28 April 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Supplemental Announcement relating to the 2008 Annual Report of the Company	“Shanghai Securities News” page A16	15 May 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Resolutions passed at the 2008 Annual General Meeting	“Shanghai Securities News” page C6	17 June 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement of the Resolutions Passed at the 30 th Meeting of the Fourth Board		30 June 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement relating to the Discharge of the Pledge of Part of Shares held by the Controlling Shareholder of the Company	“Shanghai Securities News” page C16	14 July 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement relating to the Pledge of Part of Shares held by the Controlling Shareholder of the Company	“Shanghai Securities News” page A16	17 July 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Notice of the 2009 First Extraordinary General Meeting	“Shanghai Securities News” page C9	21 July 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Resolutions Passed at the 12 th Meeting of the Fourth Supervisory Committee and Resignation and Appointment of Supervisors	“Shanghai Securities News” page C9	21 July 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Resolutions Passed at the 31 st Meeting of the Fourth Board and Resignation and Appointment of Directors	“Shanghai Securities News” page C9	21 July 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in relation to the Implementation of 2008 Profit Distribution for A Shares	“Shanghai Securities News” page C33	30 July 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/



10. Major Events

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement in relation to the Issuance of the First Tranche of 2009 Short-term Financial Bills	“Shanghai Securities News” page C33	30 July 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of Interim Results for the Six Months Ended 30 th June 2009	“Shanghai Securities News” page A27	21 August 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
2009 Interim Report		31 August 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Resolutions Passed at the 2009 First Extraordinary General Meeting	“Shanghai Securities News” page B16	8 September 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of the Resolution Passed at the 33 rd Meeting of the Fourth Board		8 September 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in relation to the Provision of Guarantee on Loans of Wuhan Tianchuang Environmental Protection Company, Limited	“Shanghai Securities News” page B11	24 September 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Continuing Connect Transactions		24 September 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
2009 Third Quarterly Report	“Shanghai Securities News” page B24	22 October 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement of the Resolutions Passed at the 36 th Meeting of the Fourth Board and Change of Directors	“Shanghai Securities News” page B17	2 November 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of the Resolutions Passed at the 15 th Meeting of the Fourth Supervisory Committee and Change of Supervisors	“Shanghai Securities News” page B17	2 November 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Notice of 2009 Second Extraordinary General Meeting	“Shanghai Securities News” page B17	2 November 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of the Resolutions Passed at the 37 th Meeting of the Fourth Board	“Shanghai Securities News” page B30	9 November 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in relation to the Reduction of Shareholding by Tianjin Municipal Investment Company Limited, the Controlling Shareholder of the Company	“Shanghai Securities News” page B8	17 November 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Resolutions Passed at the First Meeting of the Fifth Board	“Shanghai Securities News” page B18	18 December 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Resolutions Passed at the 2009 Second Extraordinary General Meeting and Clarification Announcement	“Shanghai Securities News” page B18	18 December 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Resolutions Passed at the First Meeting of the Fifth Supervisory Committee	“Shanghai Securities News” page B18	18 December 2009	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/



11. Other Information

Sale and Purchase or Redemption of Shares of the Company

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

Code on Corporate Governance Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the year, in compliance with the Code on Corporate Governance Practice as set out in the Listing Rules.

Model Code for Securities Transactions by the Directors

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

Public Float

On the basis of publicised information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

Pre-emptive Rights

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

Tax concession

Holders of listed securities of the Company were not granted any tax concession for holding securities of the Company.

Charge of assets

The Company did not charge any assets of the Company or its subsidiaries.

Audit Committee

On 31st July, 2001, the Board approved the establishment of the Audit Committee to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31st December, 2009 with the Directors.

Publication of Financial Information

The Company's 2009 annual report which sets out all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules is published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

12. Financial accounting report

For details, please refer to the accounting statements and audited reports for 2009 of Tianjin Capital Environmental Protection Group Company Limited.

13. Report of the Auditors

To the shareholders of

Tianjin Capital Environmental Protection Group Company Limited:

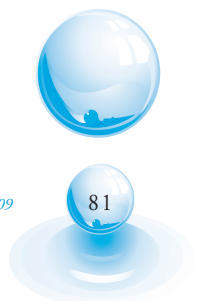
We have audited the accompanying financial statements of Tianjin Capital Environmental Protection Group Company Limited (“the Company”) which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the year then ended and notes to these financial statements.

Management’s Responsibility for the Financial Statements

The management of the Company is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.



13. Report of the Auditors

PwC ZT Shen Zi (2010) No. 10037

(Page 2 of 2)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as of 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

25 March 2010

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Balance Sheet

As at 31 December 2009

(All amounts in RMB thousand unless otherwise stated)

ASSETS	Notes	Group		Company	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
CURRENT ASSETS					
Cash and bank balances	(1)	603,161	909,047	234,354	275,440
Trade receivables	(2)	503,466	798,869	429,063	742,879
Prepayments	(3)	194,160	81,987	142,623	33,813
Other receivables	(4)	55,299	52,137	169,464	300,769
Inventories	(5)	9,653	9,448	3,556	3,360
Other current assets		—	—	25,000	—
Total current assets		1,365,739	1,851,488	1,004,060	1,356,261
NON-CURRENT ASSETS					
Long-term receivables	(6)	573,146	1,029,017	573,146	1,029,017
Long-term equity investments	(7)	44,135	43,878	1,108,481	1,094,981
Investment properties	(8)	123,301	118,692	97,995	92,876
Fixed assets	(9)	1,960,394	1,985,415	1,729,439	1,837,744
Construction in progress	(9)	374,804	207,122	323,388	111,767
Intangible assets	(10)	2,750,899	2,277,399	370,936	389,561
Other non-current assets	(11)	3,230	47,252	19,290	43,700
Total non-current assets		5,829,909	5,708,775	4,222,675	4,599,646
TOTAL ASSETS		7,195,648	7,560,263	5,226,735	5,955,907



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Balance Sheet (Continued)

As at 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Group		Company	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
CURRENT LIABILITIES					
Short-term borrowings	(13)	100,000	821,890	100,000	776,890
Short-term debenture	(13)	500,000	—	500,000	—
Trade payables	(12)	22,952	17,841	8,362	7,277
Advances	(12)	305,085	228,716	110,908	61,130
Wages payable		3,848	5,054	1,481	3,587
Taxes payable	(12)	10,000	23,678	1,871	21,188
Dividend payable	(16)(c)	2,014	2,048	733	766
Other payables	(12)	231,426	99,848	232,270	132,928
Long-term borrowings due within one year	(13)	98,530	494,790	9,000	434,000
Other current liabilities	(13)	20,260	20,060	16,364	16,364
Total current liabilities		1,294,115	1,713,925	980,989	1,454,130
NON-CURRENT LIABILITIES					
Long-term borrowings	(13)	2,163,930	2,318,160	824,000	1,259,000
Deferred income tax liabilities	(14)	30,198	23,640	14,275	12,258
Other non-current liabilities	(13)	291,894	278,340	182,645	178,909
Total non-current liabilities		2,486,022	2,620,140	1,020,920	1,450,167
TOTAL LIABILITIES		3,780,137	4,334,065	2,001,909	2,904,297
SHAREHOLDERS' EQUITY					
Share capital	(15)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	(16)(a)	383,338	383,338	380,788	380,788
General reserves	(16)(b)	276,124	253,093	276,124	253,093
Undistributed profits		1,206,901	1,044,043	1,140,686	990,501
Equity attributable to the shareholders of the Company		3,293,591	3,107,702	3,224,826	3,051,610
Minority Interests	(17)	121,920	118,496	—	—
Total shareholders' equity		3,415,511	3,226,198	3,224,826	3,051,610
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,195,648	7,560,263	5,226,735	5,955,907

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Income Statement

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

	Notes	Group		Company	
	6	2009	2008	2009	2008
Income from operations	(18)	1,256,793	1,159,307	816,119	790,295
Less: Cost for operations	(18)	(578,927)	(510,075)	(294,056)	(269,900)
Business tax and surcharges	(19)	(42,973)	(42,097)	(40,199)	(41,140)
Administrative expenses		(99,830)	(90,283)	(55,759)	(59,163)
Financial expenses - net	(20)	(186,743)	(214,489)	(104,868)	(150,704)
Assets impairment losses	(21)	(6,000)	—	(4,500)	—
Add: Investment income	(7)	457	6,129	200	5,913
Including: Share of profit of an associate		257	5,729	—	—
Operation profit		342,777	308,492	316,937	275,301
Add: Non-operating income		7,934	2,927	815	4
Less: Non-operating expenses		(12,990)	(1,181)	(9,260)	(518)
Including: Loss on disposal of non-current assets		(12,834)	(934)	(9,160)	(317)
Total profit		337,721	310,238	308,492	274,787
Less: Income tax	(22)	(91,319)	(76,753)	(78,187)	(67,216)
Net profit		246,402	233,485	230,305	207,571
Attributable to shareholders of the Company		242,978	231,065	230,305	207,571
Minority interests		3,424	2,420	—	—
		246,402	233,485	230,305	207,571
Earnings per share (in Rmb yuan)	(23)				
– Basic		0.17	0.16		
– Diluted		0.17	0.16		
Other comprehensive income		—	—	—	—
Total comprehensive income		246,402	233,485	230,305	207,571
Attributable to shareholders of the Company		242,978	231,065	230,305	207,571
Minority interests		3,424	2,420	—	—

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

Zhang Wenhui
Company Representative

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Person in charge of
accounting department

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Cash Flow Statement

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2009	2008	2009	2008
1. Cash flows from operating activities				
Cash received from sales of goods and rendering of services	2,001,377	868,805	1,550,163	489,249
Cash received relating to other operating activities	34,392	44,143	9,733	29,603
Sub-total of cash inflows	2,035,769	912,948	1,559,896	518,852
Cash paid for goods and services	(343,711)	(321,466)	(154,933)	(169,520)
Cash paid to and on behalf of employees	(105,394)	(87,101)	(60,094)	(51,344)
Payments of taxes and levies	(149,822)	(163,723)	(140,487)	(151,155)
Cash payments relating to other operating activities	(46,529)	(36,058)	(25,634)	(21,656)
Sub-total of cash outflows	(645,456)	(608,348)	(381,148)	(393,675)
Net cash flows from operating activities	1,390,313	304,600	1,178,748	125,177
2. Cash flows from investing activities				
Cash received from disposal of investments	—	21,000	—	—
Cash received from returns on investments	200	9,230	200	400
Net cash received from disposal of fixed assets	2,016	520	479	380
Cash received from release of restricted bank deposits	22,000	22,770	13,000	22,770
Cash received from subsidiaries	—	—	227,810	97,000
Sub-total of cash inflows	24,216	53,520	241,489	120,550
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(714,467)	(884,747)	(165,219)	(94,359)
Cash paid to acquire equity investments	—	—	(18,000)	(370,230)
Payments of restricted bank deposit	(10,900)	(10,000)	(10,000)	(10,000)
Cash paid to subsidiaries	—	—	(84,380)	(286,600)
Sub-total of cash outflows	(725,367)	(894,747)	(277,599)	(761,189)
Net cash flows from investing activities	(701,151)	(841,227)	(36,110)	(640,639)

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Cash Flow Statement (Continued)

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2009	2008	2009	2008
3. Cash flows from financing activities				
Cash received from borrowings	1,849,000	2,338,590	1,435,000	1,784,890
Cash received from release of restricted bank deposits	31,000	—	31,000	—
Cash received relating to government grants	33,100	48,000	20,100	48,000
Sub-total of cash inflows	1,913,100	2,386,590	1,486,100	1,832,890
Repayments of amounts borrowed	(2,628,226)	(956,985)	(2,488,254)	(871,727)
Payments for interest expenses	(211,699)	(224,980)	(121,447)	(157,972)
Payments for distribution of dividends or profits	(57,123)	(57,165)	(57,123)	(57,165)
Payments of restricted bank deposit	—	(43,700)	—	(43,700)
Cash payments relating to other financing activities	—	(5,057)	—	(5,057)
Sub-total of cash outflows	(2,897,048)	(1,287,887)	(2,666,824)	(1,135,621)
Net cash flows from financing activities	(983,948)	1,098,703	(1,180,724)	697,269
4. Effect of foreign exchange rate changes on cash	—	—	—	—
5. Net increase/(decrease) in cash (Note 6(24)(b))	(294,786)	562,076	(38,086)	181,807
Add: Cash and bank balances at beginning of year	887,047	324,971	262,440	80,633
6. Cash and bank balances at end of year	592,261	887,047	224,354	262,440

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Consolidated statement of changes in equity

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

	Attributable to shareholders of the Company					Total shareholders' equity
	Share capital	Capital surplus	General reserve	Undistributed profits	Minority interests	
Balance at 1 January 2008	1,427,228	383,338	232,336	890,824	117,358	3,051,084
Changes in 2008						
Net profit	—	—	—	231,065	2,420	233,485
Profit appropriation						
– Appropriation to statutory common reserve	—	—	20,757	(20,757)	—	—
– Dividend appropriation to shareholders	—	—	—	(57,089)	(1,282)	(58,371)
Balance at 31 December 2008	1,427,228	383,338	253,093	1,044,043	118,496	3,226,198
Changes in 2009						
Net profit	—	—	—	242,978	3,424	246,402
Profit appropriation						
– Appropriation to statutory common reserve	—	—	23,031	(23,031)	—	—
– Dividend appropriation to shareholders	—	—	—	(57,089)	—	(57,089)
Balance at 31 December 2009	1,427,228	383,338	276,124	1,206,901	121,920	3,415,511

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Company statement of changes in equity

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

	Share capital	Capital surplus	General reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2008	1,427,228	380,788	232,336	860,776	2,901,128
Changes in 2008					
Net profit	—	—	—	207,571	207,571
Profit appropriation					
– Appropriation to statutory common reserve	—	—	20,757	(20,757)	—
– Dividend appropriation to shareholders	—	—	—	(57,089)	(57,089)
Balance at 31 December 2008	1,427,228	380,788	253,093	990,501	3,051,610
Changes in 2009					
Net profit	—	—	—	230,305	230,305
Profit appropriation					
– Appropriation to statutory common reserve	—	—	23,031	(23,031)	—
– Dividend appropriation to shareholders	—	—	—	(57,089)	(57,089)
Balance at 31 December 2009	1,427,228	380,788	276,124	1,140,686	3,224,826

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises

Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES

Tianjin Capital Environmental Protection Group Company Limited (the “Company”) was established on 8 June 1993 in the People’s Republic of China (the “PRC”) as a joint stock limited liability company. The holding company and ultimate holding company of the Company is Tianjin Municipal Investment Company Limited (“TMICL”) and Tianjin City Infrastructure Construction and Investment Group Company Limited (“TICIG”) respectively.

Pursuant to the approval of “Jin Guo Zi Chan Quan [2006] No.13” in relation to “the Approval of Related Questions of the Stock Reform Plan of Tianjin Capital Environmental Protection Company Limited” from State-owned Assets Supervision and Administration Commission of Tianjin Municipal Government, the Company proceeded its stock reform plan on 20 April 2006. As at 31 December 2009, all of the non-circulating shares held by enterprise legal person shareholders had become circulating shares.

The principal activities of the Company and its subsidiaries (the “Group”) include processing of sewage water, tap water and recycled water as described below:

(a) Processing of sewage

Pursuant to relevant agreements (“Sewage Water Processing Agreements”), the Group currently provides sewage processing services via the following plants:

Plant Location	Agreement date	Customer
Dong Jiao, Tianjin	10 October 2000	Tianjin Sewage Company (“TSC”)
Ji Zhuang Zi, Tianjin	10 October 2000	TSC
Xian Yang Lu, Tianjin	10 October 2000	TSC
Bei Cang, Tianjin	10 October 2000	TSC
Gui Yang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Bao Ying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chi Bi, Hubei	15 July 2005	Chibi Construction Bureau
Fu Yang, Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qu Jing, Yunnan	25 December 2005	Qujing City Water General Company
Hong Hu, Hubei	29 December 2005	Honghu Construction Bureau
Hang Zhou, Zhejiang	20 November 2006	Hangzhou Sewage Company
Jing Hai, Tianjin	12 September 2007	Tianyu Science Technology Park
Wen Deng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi An, Shanxi	18 March 2008	Xi’an Infrastructure Investment Group
An Guo, Hebei	14 October 2008	An Guo Municipal Government

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(a) Processing of sewage (Continued)

The principal terms and the pricing formula as set out in the relevant agreements are briefly summarised below:

Dong Jiao:

The Group will have full recovery of actual operating costs, including depreciation of fixed assets, excluding interest expenses and foreign exchange gains or losses and at minimum:

- (i) earn a return of 15% per annum of the average balances of the monthly net book value of fixed assets (as defined in the agreement) of the plants; and
- (ii) incentive pricing adjustments will be made for cost saving and/or when actual processing volume exceeds the minimum processing volume stipulated in the agreement.

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

Based on the supplementary agreement reached with TSC on 10 March 2006, the Company is entitled to a pre-determined sewage processing fee from the completion date of construction to the completion date of inspection of the Ji Zhuang Zi, Xian Yang Lu and Bei Cang plants. After the inspection of these three plants is completed, processing fee will be collected from TSC using the same principle as for Dong Jiao plant as described above.

All other sewage processing plants:

Initial sewage water processing prices are predetermined, thereafter processing prices may be revised after considering various factors including renovation of equipment, additional investment, power and energy and labour force, and other significant changes of government policy.

All sewage processing plants outside Tianjin, except for the one in Guiyang, are guaranteed a minimum processing volume by their respective customers. If the actual volume is lower than the guaranteed volume, processing fee will be settled using the guaranteed volume.

Pursuant to the relevant agreement, Guiyang Price Bureau adjusts the sewage water processing price periodically, which will allow full recovery of all actual costs, including operating cost, depreciation, income tax and a return of 8% on budgeted net assets of the plant.

(b) Processing of tap water

Pursuant to relevant agreement, the Group provides tap water supply service initially at pre-determined price and the processing prices as pre-determined may be revised after considering various cost factors based on contract terms.

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(c) Recycled water and pipeline connection

The Group's recycled water business includes developing, constructing and operating of recycled water projects, production and sale of recycled water and research, development and technical consultation of processing technology and equipment of recycled water.

These consolidated financial statements were approved by the Directors of the Company on 25 March 2010.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group adopted the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, the Application Guidance for Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as "the Accounting Standard for Business Enterprises" or "CAS") and No. 15 General Requirements of Financial Reporting of Information Disclosure Preparation Regulation of Company with Public Issuance Securities (Revised in 2010) stipulated by China Securities Regulatory Commission.

3 STATEMENT OF COMPLIANCE WITH CAS

The financial statements of the Company for the year ended 31 December 2009 truly and completely present the financial position as of 31 December 2009 and the operating results, cash flows and other information for the year then ended of the Group and the Company in compliance with the Accounting Standards for Business Enterprises.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Accounting period

The accounting year starts on 1 January and ends on 31 December.

(2) Recording currency

The recording currency is Renminbi ("Rmb").

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(3) Preparation of consolidated financial statements

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

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

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

All significant inter-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not held by the Company are recognized as minority interests and presented separately in the consolidated balance sheet within equity and net profits respectively.

(4) Cash and cash equivalents

Cash and cash equivalents comprises cash in hand and deposits held at call with bank, short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(5) Foreign currency translation

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

At the balance sheet date, monetary items denominated in foreign currency are translated into Rmb using the spot exchange rate on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated at the balance sheet date using the spot exchange rate at the date of the transaction. The effect of exchange rate changes on cash is presented separately in the cash flow statement.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Financial instruments

(a) Financial assets

The Group's financial assets represent receivables (Note 4(7)), which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(i) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. The related transaction cost of other financial assets is included in the initial recognition amounts. A financial asset is derecognised when the contractual rights to receive cash flows from the financial asset have expired or all substantial risks and rewards of ownership of the financial asset have been transferred.

Receivables are carried at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The Group assesses the carrying amount of a financial asset at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Group shall determine the amount of any impairment loss.

If an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

(iii) Derecognition of financial assets

A financial asset is derecognised where: (1) the contractual rights to receive cash flows from the asset have suspended; (2) the Group has transferred substantially all the risks and rewards associated with ownership of the asset to the transferee; (3) the Group has neither transferred nor retained substantially all the risks and rewards associated with ownership of the asset, but has waived control of the asset.

When a financial asset is derecognized, the differences between its carrying value and proceeds received and the cumulative amount of changes in fair value previously recorded in equity are recognized in profit and loss.

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Financial instruments (Continued)

(b) Financial liabilities

The financial liabilities are classified initially as financial liabilities at fair value through profit and loss and other financial liabilities. The Group's financial liabilities mainly represent other financial liabilities, including payables and borrowings.

Payables include trade and other payables, which are initially recognized at fair value and subsequently measured at amortised cost using effective interest method. Payables due within one year (including one year) are included in current liabilities, the remaining portion are included in non-current liabilities.

Borrowings are initially recognized at its fair value net of transaction costs, and subsequently measured at amortised cost using effective interest method. Borrowings with maturity within one year (including one year) are included in short-term borrowings, Borrowings with maturity over one year but due within one year (including one year) at balance sheet date are included in current portion of non-current liabilities, the remaining portion are included in long-term borrowings.

When the current obligation under a financial liability is completely or partially cancelled, the whole or relevant portion of the liability is derecognized. The differences between carrying value of derecognized portion and consideration paid are recognized in profit and loss.

(7) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyer.

Receivables that are individually significant are subject to separate impairment assessment. If there is objective evidence that the Group will not be able to collect the full amounts according to the original terms, a provision for impairment of the receivable is made.

Receivables that are not individually significant together with those receivables that have been individually evaluated for impairment and found not to be impaired are grouped on the basis of similar credit risk characteristics. The impairment losses are determined, considering the current conditions, on the basis of historical loss experience for the groups of receivables with the same or the similar credit risk characteristics of prior years.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Inventories

Inventories include raw materials, finished goods, spare parts and low cost consumables, and are presented at the lower of cost and net realisable value.

Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour and an allocation of all production overheads expenditures incurred based on normal operating capacity. Low cost consumables are expensed upon each usage.

Provisions for declines in the value of inventories are determined at the carrying value of the inventories net of their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and relevant taxes.

The Group adopts the perpetual inventory system.

(9) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its joint ventures and associates as well as other long-term equity investments where the Group does not have control, joint control or significant influence over the investees, and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are all investees over which the Company is able to control. Joint ventures are all investees over which the Group is able to control jointly with other parties. Associates are all investees that the Group has significant influence on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted using the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method. other long-term equity investments where the Group does not have control, joint control or significant influence over the investees, and which are not quoted in an active market and whose fair value cannot be reliably measured are accounted for using cost method.

(a) *Initial recognition of investment cost*

Long-term equity investments accounted for using the cost method are measured at the initial investment cost. Long-term equity investment accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted accordingly.

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments (Continued)

(b) *Subsequent measurement and recognition method of income/loss*

Long-term equity investments accounted for using the cost method, investment income is recognised in profit or loss for the cash dividends or profit declared by the investee.

Long-term equity investment accounted for using the equity method, the Group recognised the investment income based on its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Group continues to recognise the investment losses and the provision. For changes in owner's equity of the investee other than those arising from its net profit or loss, the Group record directly in capital surplus its proportion, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions between the Group and its investees are eliminated to the extent of the Group's interest in the investees, on the basis of which the investment gain or losses are recognised. The loss on the intra-group transaction between the Group and its investees, of which the nature is asset impairment, is recognised in full amount, and the relevant unrealised gain or loss is not allowed to be eliminated.

(c) *Determination of control, joint control and significant influence over investees*

Control is the power to govern the financial and operating policies so as to obtain benefits from their operating activities. The existence and effect of potential voting rights (including that derived from the convertible bonds and warrants that are currently convertible or exercisable) is considered to determine whether the Group has control over the investee.

Joint control is contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

Significant influence is the power to participate the financial and operating policy decisions of the investee but is not control or joint control over those policies.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments (Continued)

(d) Impairment of long-term equity investments

The carrying value of investments in subsidiaries, joint ventures and associates are written down to its recoverable amount when its recoverable amount is lower than the carrying value. When other equity investments which are not quoted in active market and whose fair value can not be reliably measured are impaired, the differences between its carrying value and its discounted present value of future cash flows using return rate of similar financial assets under current market. Once the impairment loss is recognised, it is not allowed to be reversed for the value recovered in the subsequent periods.

(10) Investment properties

Investment properties are buildings that held for the purpose of lease, is measured initially at cost. Subsequent expenditures incurred for an investment property is included in the cost of the investment property when it is probable that economic benefits associated with the investment property will flow to the Group and its cost can be reliably measured, otherwise the expenditure is recognised in profit and loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of the investment property. They are depreciated or amortised to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values expressed as a percentage of cost and the annual depreciation (amortisation) rates of the investment properties are as follows:

	Estimated useful lives	Estimated residual value rate	Annual depreciation (amortisation) rate
Buildings	40-50 years	5%	1.9%-2.4%

When an investment property is changed to an owner-occupied property, it is transferred to fixed asset at the date of the change. When an owner-occupied property is changed to be held to earn rentals or for capital appreciation, the fixed asset is transferred to investment property at the date of the change at the carrying amount of the property.

The estimated useful life, net residual value of the investment property and the depreciation (amortisation) method applied are reviewed, and adjusted as appropriate at each financial year-end.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The amount of proceeds on sale, transfer, retirement or damage of an investment property less its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

When the recoverable amount of an investment property is lower than its carrying value, the carrying value shall be reduced to its recoverable amount.

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Fixed assets

Fixed assets comprise buildings, machinery and equipment, motor vehicles and others.

A fixed asset is recognised when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognized and all the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings and structures	10-50 years	0%-5%	1.9%-9.5%
Machinery and equipment	10-20 years	0%-5%	4.8%-10%
Motor vehicles and others	5-10 years	0%-5%	9.5%-20%

Pipelines network laid outside the plant are included in structures and are depreciated over their estimated useful lives of 25 years.

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

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

When the recoverable amount of a fixed asset is lower than its carrying value, the carrying value shall be reduced to its recoverable amount (Note 6(9)).



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, other costs necessary to bring the fixed assets ready for their intended use and borrowing costs that are eligible for capitalization. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is lower than its carrying value, the carrying value shall be reduced to its recoverable amount.

(13) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For those specific borrowings relating to the acquisition and construction of fixed assets which meet capitalization conditions, the capitalization amount of borrowing costs of specific borrowings is the net amount of specific borrowings interest expense incurred for the period after deducting interest income of unused bank deposits or investment income arising from temporary investments.

For those general borrowings occupied relating to the acquisition and construction of fixed assets which meet capitalization conditions, the capitalization amount of borrowing costs of specific borrowings is calculated according to the weighted average amount of cumulative asset expenditures exceeded asset expenditures associated with specific borrowings and weighted average effective interest rate of general borrowings occupied. The effective interest rate is the interest rate used for discounting the future cashflow of borrowings during its expected using periods or its applicable shorter periods to its initial recognized amount.

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets

Intangible assets including land use rights and concession rights are measured at cost.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their estimated useful lives of 25 to 50 years. If the purchase costs of land use rights and attached buildings cannot be reliably allocated between the land use rights and buildings, all the purchase costs are recognised as fixed assets.

(b) Concession rights

Concession rights represent the rights to charge users of public service that the Group obtained under service concession arrangements, which are amortised on the straight-line basis over their respective concession periods of 25 to 30 years.

(c) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review and adjustment on useful life and amortization method are performed at each year-end. When the recoverable amount of an intangible asset is lower than its carrying value, the carrying value shall be reduced to its recoverable amount.

(15) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. A provision for asset impairment is determined and recognised on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the asset impairment loss mentioned above is recognised, it is not allowed to be reversed for the value recovered in the subsequent periods.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Terminated benefits are recognized as provision and expensed in the income statement, when and only when, the Group demonstrably commits itself to terminate employment or provide benefits as a result of voluntary redundancy by having detailed formal plan which is without realistic possibility of withdrawal.

Except for the benefits paid to terminated employees, employee benefits are recognised as a liability in the accounting period in which an employee has rendered service, and as costs of assets or expenses to whichever the employee service is attributable.

(17) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax base of assets and liabilities and their carrying amount (temporary differences). Deferred tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax law. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilized, the corresponding deferred tax assets are recognized.

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

Deferred tax assets and liabilities are offset when:

- The deferred taxes are relate to the same tax payer within the group and same fiscal authority, and;
- That tax payer has a legally enforceable right to offset current tax assets against current tax liabilities.

(18) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates, discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the relevant revenue can be reliably measured and specific revenue recognition criteria have been met for each of the Group's activities as described below:

(i) Rendering of services

Services income is recognized upon services rendered.

(ii) Sale of goods

Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.

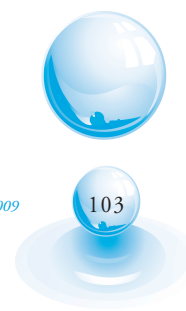
(iii) Transfer of asset use rights

Interest income is recognised on a time-proportion basis using the effective interest method.

Income from an operating lease is recognised on a straight-line basis over the period of the lease.

(19) Dividend distribution

Proposed cash dividend is recognised as a liability in the period in which it is approved by the shareholders' meeting.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Government grants

Government grants represent monetary assets granted from government bodies for free, including financial subsidies.

Grants from the government are recognised where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are measured at its received or receivable amount when they are in form of monetary assets.

Government grants relating to assets are recognized as deferred revenue and are allocated into income statement on straight-line basis over the useful lives of related assets.

Government grants relating to income, are recognized as deferred revenue when they are intended to compensate expenses or losses in subsequent periods, or credited to income statement when they are intended to compensate expenses or losses incurred.

(21) Segment information

The Group determines operating segments based on the internal organization structure, management requirement and internal reporting system, the reporting segments and disclosure information of segments are determined on the basis of operating segments.

Operating segments represent those components of the Group which meet conditions as follows: (1) the component can generate income and incur expenses from normal operating activities; (2) the operating results of the component can be evaluated by the management of the Group periodically, and a decision for allocation of resources and assessment of performance can be made; and (3) The Group can obtain the relevant accounting information of the financial position, operating results and cash flows of the component. Two or more operating segments can be combined into one operating segment, if they have similar economical characteristic and meet certain conditions.

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Significant changes in accounting policies

(a) Segment information

Prior to 1 January 2009, the Group differed disclosure segment information into business segments and geographical segments, and which are regarded as primary reporting and secondary reporting respectively.

Pursuant to related regulations of improvement in reporting of segment information under CAS Interpretation Announcement No. 3 (“CAS Int-3”) stipulated by Ministry of Finance on 11 June 2009, the previous method prior to 1 January 2009 has been suspended. Since 1 January 2009, the Group determines operating segments based on the internal organization structure, management requirement and internal reporting system, the reporting segments and disclosure information of segments are determined on the basis of operating segments.

The segment information for 2008 has been restated according to those regulations described as above.

Such change is not necessary to be approved by the Group’s internal approval authority, as it is a change in accounting policy required by CAS Int-3. In addition, such change has no impact on the amount and specific item of financial statements.

(b) Recognition of investment income under cost method

Prior to 1 January 2009, investment income is recognised in profit or loss for the cash dividends or profit declared by the investee. Such recognition is made only to the extent of the distributions received from accumulated net profits of the investees arising after the investment was made. Cash dividends or distributions received in excess of such profits are regarded as a recovery of the initial cost of the investments.

Pursuant to related regulations of cost method under CAS Int-3 stipulated by the Ministry of Finance on 11 June 2009, investment income for the cash dividends or profit declared by the investee is recognized except that actual payment or consideration when the investment is acquired has included the cash dividends or profit declared, regardless whether the net profit of investee is arisen prior or subsequent to the investment made.

According to the requirements of CAS Int-3, such change in accounting policy shall be applied prospectively.

Such change is not necessary to be approved by the Group’s internal approval authority, as it is a change in accounting policy required by CAS Int-3. In addition, such change has no impact on the amount and specific item of financial statements.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(23) Critical accounting estimate and judgements

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Impairment for receivables

The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 31 December 2009 are not impaired.

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

5 TAXATION

The applicable taxes and tax rates of the Group are mainly presented as follows:

Tax by category	Basis of tax	Tax rate
Enterprise income tax	Taxable income	25%
Value Added Tax (VAT)	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the effective tax rate less deductible VAT input of current period)	6%
Business tax	Gross service income	5%
City construction and maintenance tax	The amount of business tax and VAT	7%

6 NOTES TO THE FINANCIAL STATEMENTS

(1) CASH AND BANK BALANCES

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Cash on hand and in bank	603,161	909,047	234,354	275,440
Including:				
Special funds for construction in progress (note (a))	67,647	38,609	65,540	38,609
Restricted bank deposits due within one year (note (b))	10,900	22,000	10,000	13,000

- (a) The special funds for construction in progress represent the unutilised balances of the special loans for sewage processing projects.
- (b) The bank deposits represented deposits for project bids due within one year of Rmb10.9 million (2008: Rmb22 million).



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES

Details of trade receivables are as follows:

	31 December 2009	Group 31 December 2008	31 December 2009	Company 31 December 2008
Due from TSC for (note (a))				
– Sewage processing service	350,863	955,992	350,863	955,992
– Construction of sewage processing plants	241,792	466,185	241,792	466,185
	<u>592,655</u>	<u>1,422,177</u>	<u>592,655</u>	<u>1,422,177</u>
Due from Tianjin Toll Collection Office (note (b) and Note 11)				
– Toll road fee	78,200	18,465	78,200	18,465
Less: Non-current portion (Note 6(6))	<u>(241,792)</u>	<u>(697,763)</u>	<u>(241,792)</u>	<u>(697,763)</u>
Individual items with significant amount	429,063	742,879	429,063	742,879
Other items with insignificant amount	74,403	55,990	—	—
	<u>503,466</u>	<u>798,869</u>	<u>429,063</u>	<u>742,879</u>

- (a) Total settlement of receivables (including long-term receivables) in cash of approximately Rmb1,524 million was received from TSC during 2009. As at 31 December 2009, the non-current portion of receivables from TSC was reduced to about Rmb242 million and TSC plans to settle the amount by cash.

The acquisition of sewage processing assets of TSC as funded by foreign loans is estimated to be completed in 2010.

- (b) Pursuant to an agreement (“Toll collection Agreement”) with Tianjin Toll Collection Office (“the Office”) on 24 July 2003, the Office is to collect the tolls on behalf of the Company for the six toll stations of which collection right were granted to the Company. The collected tolls will be paid to the Company periodically. The receivable balance at 31 December 2009 represents the tolls for 2009.

14. Financial statements prepared in accordance with PRC Accounting
Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

(c) Aging of trade receivables prior to the classification to long-term receivables described as above is as follows:

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Within one year	497,119	771,614	429,063	721,733
One to two years	1,361	27,255	—	21,146
Over two years	246,778	697,763	241,792	697,763
	<u>745,258</u>	<u>1,496,632</u>	<u>670,855</u>	<u>1,440,642</u>

(d) As at 31 December 2009, there were no trade receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2008: Nil).

(e) As at 31 December 2009, the trade receivables from the top five debtors is analysed as below:

	relationship with the Group	amount	aging	% of total balance
TSC (note (a))				
– Sewage processing service	customer	350,863	within 1 year	47
– Construction of sewage processing plants	customer	241,792	over 2 years	32
Tianjin Toll Collection Office (note (b))	agent	78,200	within 1 year	10
Qijing City Water General Company	customer	20,396	within 1 year	3
Hangzhou Sewage Company	customer	13,400	within 1 year	2
Hubei Chibi Sewage Processing Office	customer	6,555	within 1 year	1
		<u>711,206</u>		<u>95</u>

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(3) PREPAYMENTS

(a) The aging of prepayments is analysed as below:

	31 December 2009	Group 31 December 2008	31 December 2009	Company 31 December 2008
Within one year	152,798	59,303	113,583	30,391
One to two years	37,568	22,684	28,899	3,422
Over two years	3,794	—	141	—
	<u>194,160</u>	<u>81,987</u>	<u>142,623</u>	<u>33,813</u>

As at 31 December 2009, the prepayments aged over one year were mainly for project Hangu and recycled water pipeline connection for which the projects have not been completed and hence balances remain outstanding.

(b) As at 31 December 2009, there were no prepayments to any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2008: Nil).

(c) As at 31 December 2009, the prepayments from the top five debtors is analysed as below:

	relationship with the Group	amount	% of total balance	prepayment period	reason for not settled
Siemens (Tianjin) Water Technology Engineering Co., Ltd.	contractor	25,028	13	2009	project in progress
Tianjin Third Municipal Highway Engineering Co., Ltd.	contractor	21,061	11	2009	project in progress
Tianjin Construction Machinery Co., Ltd.	contractor	11,750	6	2008	project in progress
The 12th Construction Company Ltd. of China National Chemical Engineering Corp.	contractor	11,000	6	2008	project in progress
China Construction sixth engineering division Corp. Ltd.	contractor	10,815	6	2009	project in progress
		<u>79,654</u>	<u>42</u>		

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) OTHER RECEIVABLES

Other receivables include:

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Project deposits	29,650	29,893	27,300	25,550
Other receivables from customers	7,971	8,914	—	—
Receivables from subsidiaries	—	—	127,136	262,000
Others	17,678	13,330	15,028	13,219
	<u>55,299</u>	<u>52,137</u>	<u>169,464</u>	<u>300,769</u>

(a) The aging of the Group's other receivables is analysed below:

	31 December 2009		31 December 2008	
	amount	% of total balance	amount	% of total balance
Within 1 year	14,747	27	14,060	27
1 to 2 years	5,403	10	32,067	61
2 to 3 years	30,260	55	5,677	11
Over 3 years	4,889	8	333	1
	<u>55,299</u>	<u>100</u>	<u>52,137</u>	<u>100</u>

(b) As at 31 December 2009, there were no receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2008: Nil).

(c) As at 31 December 2009, the prepayments from the top five debtors is analysed as below:

	relationship with the Group	amount	aging	% of total balance
E'zhou Tap Water Co., Ltd.	Project bidding	25,000	2 to 3 year	45
Guiyang State-owned Assets Investment Management Company	customer	6,115	within 1 year	11
Guiyang Construction Investment Holding Co., Ltd.	customer	3,650	2 to 3 year	7
Environmental Data Management System (Hong Kong) Limited.	service supplier	2,387	over 3 years	4
Hangzhou Urban Asset Management Corporation	customer	2,007	Within 1 year	4
		<u>39,159</u>		<u>71</u>



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(5) INVENTORIES

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Raw materials	8,526	8,458	3,423	3,257
Finished goods	3,768	3,768	—	—
Spare parts and low value consumables	359	222	133	103
	<u>12,653</u>	<u>12,448</u>	<u>3,556</u>	<u>3,360</u>
Less: Provision for declines in the value of inventories	<u>(3,000)</u>	<u>(3,000)</u>	<u>—</u>	<u>—</u>
	<u><u>9,653</u></u>	<u><u>9,448</u></u>	<u><u>3,556</u></u>	<u><u>3,360</u></u>

(6) LONG-TERM RECEIVABLES

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Receivables from TSC (Note 6(2)(a))	241,792	697,763	241,792	697,763
Receivables from toll road concession	331,354	331,254	331,354	331,254
	<u>573,146</u>	<u>1,029,017</u>	<u>573,146</u>	<u>1,029,017</u>

Receivables from toll road concession represent amortised cost using effective interest method, calculated with reference to a traffic flow forecast over the concession period (Note 11).

14. Financial statements prepared in accordance with PRC Accounting
Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Investment in subsidiaries (note (a))	—	—	1,130,981	1,112,981
Less: Impairment provision for long-term investment (note (c))	—	—	(26,500)	(22,000)
	—	—	1,104,481	1,090,981
Investment in an associate (note (b))	40,135	39,878	—	—
Other long-term equity investments	4,000	4,000	4,000	4,000
	<u>44,135</u>	<u>43,878</u>	<u>1,108,481</u>	<u>1,094,981</u>



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS

(a) Investments in subsidiaries

All of the Company's subsidiaries are registered and established in China other than Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd, which is registered in Hong Kong.

All subsidiaries are limited liability companies.

	Note	Investment cost	Carrying Value		Interest held / Voting shares %	
			31 December 2008	Addition/ (disposal)		31 December 2009
Xi'an Capital Water Co., Ltd.		270,000	270,000	—	270,000	100
Hangzhou Tianchuang Water Co., Ltd		180,212	180,212	—	180,212	70
Qujing Capital Water Co., Ltd.		108,081	108,081	—	108,081	90
Tianjin Water Recycling Co., Ltd.		98,000	98,000	—	98,000	98
Guizhou Capital Water Co., Ltd.		95,000	95,000	—	95,000	95
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.		62,988	62,988	—	62,988	100
Wendeng Capital Water Co., Ltd.		48,000	48,000	—	48,000	100
Wuhan Tianchuang Environmental Protection Co.,Ltd	(i)	98,500	47,230	51,270	98,500	100
Fuyang Capital Water Co., Ltd.		62,100	44,100	18,000	62,100	99.9
Anguo Capital Water Co., Ltd.		41,000	41,000	—	41,000	100
Chibi Capital Water Co., Ltd.	(i)	33,250	33,250	(33,250)	—	—
Baoying Capital Water Co., Ltd.		26,600	26,600	—	26,600	70
Tianjin Capital New Materials Co., Ltd.		26,500	26,500	—	26,500	71
Honghu Capital Water Co., Ltd.	(i)	18,020	18,020	(18,020)	—	—
Tianjin Jinghai Capital Water Co., Ltd.		12,000	12,000	—	12,000	100
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.		2,000	2,000	—	2,000	100
			<u>1,112,981</u>	<u>18,000</u>	<u>1,130,981</u>	

(i) During the year, the Company increased the registered capital of its wholly owned subsidiary, Wuhan Tianchuang Environmental Protection Co., Ltd., using its interest held in Honghu Capital Water Co., Ltd. and Chibi Capital Water Co., Ltd. of 90.01% and 95% respectively. Consequently, Honghu Capital Water Co., Ltd. and Chibi Capital Water Co., Ltd. became subsidiaries of Wuhan Tianchuang Environmental Protection Co., Ltd thereafter.

(ii) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS

(b) Investment in an associate

	Registered capital	Interest & voting shares held	31 December 2009		2009	
			Total assets	Total liabilities	Revenue	Net profit
Tianjin international Machinery Co., Ltd.	120,000	27.5%	566,700	407,508	1,155,470	934

Tianjin International Machinery Co., Ltd. (TIMC) is a sino-foreign joint venture registered in the Tianjin Economics Development Area. The principal activities of TIMC include research and development, production and sale of environment protection equipment; engineering technical consultation; trading; manufacturing and sale of general equipment.

The movements of the Group's investment in TIMC are as follows:

	Investment cost	31 December 2008	Disposal	Share of profit in associated company	31 December 2009
TIMC	33,000	39,878	—	257	40,135

- (c) Full provision has been made for the investment in Tianjin Capital New Materials Co., Ltd. of approximately Rmb26.5 million as at 31 December 2009 (31 December 2008: Rmb22 million).



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(8) INVESTMENT PROPERTIES

Buildings

	Group	Company
Cost		
At 31 December 2008	129,005	102,279
Transfer from fixed assets (Note 6(9))	8,369	8,369
	<hr/>	<hr/>
At 31 December 2009	137,374	110,648
	<hr/>	<hr/>
Accumulated depreciation		
At 31 December 2008	(10,313)	(9,403)
Transfer from fixed assets (Note 6(9))	(622)	(622)
Charge for the year	(3,138)	(2,628)
	<hr/>	<hr/>
At 31 December 2009	(14,073)	(12,653)
	<hr/>	<hr/>
Net book value		
At 31 December 2009	123,301	97,995
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2008	118,692	92,876
	<hr/> <hr/>	<hr/> <hr/>

During the year, a building with net book value of Rmb7,747 thousand (Cost: Rmb8,369 thousand) has been changed for lease. It has been accounted for investment properties since its change of use.

14. Financial statements prepared in accordance with PRC Accounting
Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS

(a) Group

	Buildings & structure (note (i))	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2008	2,409,620	250,947	105,257	2,765,824
Transfer from construction in progress	105	1,119	1,515	2,739
Transfer from investment properties	23,746	—	—	23,746
Addition	—	11	6,480	6,491
Disposal	(358)	(713)	(1,381)	(2,452)
At 31 December 2008	2,433,113	251,364	111,871	2,796,348
Transfer from construction in progress	—	94,445	406	94,851
Addition	903	11,637	4,786	17,326
Disposal	(4,373)	(17,939)	(17,956)	(40,268)
Transfer to investment properties (Note 6(8))	(8,369)	—	—	(8,369)
At 31 December 2009	2,421,274	339,507	99,107	2,859,888
Accumulated depreciation				
At 1 January 2008	(465,442)	(172,453)	(53,290)	(691,185)
Charge for the year	(86,100)	(11,949)	(9,905)	(107,954)
Transfer from investment properties	(2,792)	—	—	(2,792)
Disposal	—	446	552	998
At 31 December 2008	(554,334)	(183,956)	(62,643)	(800,933)
Charge for the year	(87,360)	(12,794)	(8,447)	(108,601)
Disposal	1,833	8,041	15,544	25,418
Transfer to investment properties (Note 6(8))	622	—	—	622
At 31 December 2009	(639,239)	(188,709)	(55,546)	(883,494)
Impairment				
At 1 January 2008	—	(4,068)	(932)	(5,000)
Transfer from investment properties	(5,000)	—	—	(5,000)
At 31 December 2008	(5,000)	(4,068)	(932)	(10,000)
Charge for the year (Note 6(21))	(6,000)	—	—	(6,000)
At 31 December 2009	(11,000)	(4,068)	(932)	(16,000)
Net book value				
At 31 December 2009	1,771,035	146,730	42,629	1,960,394
At 31 December 2008	1,873,779	63,340	48,296	1,985,415



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS *(Continued)*

(a) *Group* (Continued)

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) The Group's depreciation expense of Rmb98 million (2008:Rmb99 million) has been included in cost of sales and Rmb11 million (2008: Rmb9 million) in administrative expenses.
- (iii) Ownership of certain land and buildings included in fixed assets, investment properties and land use rights with cost of Rmb311 million (31 December 2008: Rmb311 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the Directors believe that the titles will be received without additional significant cost to the Group, if any.

14. Financial statements prepared in accordance with PRC Accounting
Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS (Continued)

(b) Company

	Buildings & structure	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2008	2,314,482	204,987	80,001	2,599,470
Transfer from construction in progress	105	—	32	137
Addition	—	198	2,977	3,175
Disposal	—	(525)	(795)	(1,320)
At 31 December 2008	2,314,587	204,660	82,215	2,601,462
Transfer from construction in progress	—	—	406	406
Addition	—	3,371	956	4,327
Disposal	(2,066)	(15,081)	(15,347)	(32,494)
Transfer to investment properties (Note 6(8))	(8,369)	—	—	(8,369)
At 31 December 2009	2,304,152	192,950	68,230	2,565,332
Accumulated depreciation				
At 1 January 2008	(457,343)	(159,214)	(48,643)	(665,200)
Charge for the year	(82,893)	(7,736)	(8,512)	(99,141)
Disposal	—	444	179	623
At 31 December 2008	(540,236)	(166,506)	(56,976)	(763,718)
Charge for the year	(82,701)	(6,655)	(6,296)	(95,652)
Disposal	1,102	7,004	14,749	22,855
Transfer to investment properties (Note 6(8))	622	—	—	622
At 31 December 2009	(621,213)	(166,157)	(48,523)	(835,893)
Net book value				
At 31 December 2009	1,682,939	26,793	19,707	1,729,439
At 31 December 2008	1,774,351	38,154	25,239	1,837,744



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS (Continued)

(c) Construction in progress comprised of the following projects:

	Budget	31 December 2008	Addition	Transfer to fixed assets	31 December 2009	Sources of funds	Incurred costs to budget costs ratio (%)
Water recycling plants:							
– Dong Jiao	129,072	70,037	7,152	—	77,189	Self-raised fund	60
– Bei Chen	97,000	34,193	9,374	—	43,567	Self-raised fund	45
Sewage water processing plants:							
– XianYang Lu (Project BNR)	6,873	4,970	270	—	5,240	Self-raised fund	76
– Dong Jiao (upgrade project)	271,944	412	40,149	—	40,561	Self-raised fund	15
– XianYang Lu (upgrade project)	301,128	—	70,271	—	70,271	Self-raised fund	23
– Bei Cang (upgrade project)	199,370	—	55,132	—	55,132	Self-raised fund	28
– Ji Zhuang Zi (upgrade project)	267,806	—	28,166	—	28,166	Self-raised fund	11
Others		2,155	1,513	(406)	3,262	Self-raised fund	
Total –Company		111,767	212,027	(406)	323,388		
Water recycling plants:							
– Xian Yang Lu	141,000	93,773	—	(93,773)	—	Self-raised fund	
– Ji Zhuang Zi (expansion project)	87,573	—	18,565	—	18,565	Self-raised fund	21
– Office buildings		—	31,618	—	31,618	Self-raised fund	
Others		1,582	323	(672)	1,233	Self-raised fund	
Total –Group		207,122	262,533	(94,851)	374,804		
Including: Capitalised borrowing costs - Group		2,445	1,670	(3,158)	957		

Borrowing costs have been capitalized for the year ended 31 December 2009 at an average interest rate of 5.35% per annum (2008: 6.5%).

14. Financial statements prepared in accordance with PRC Accounting
Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(10) INTANGIBLE ASSETS

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Concession rights (note (a))	2,367,696	1,884,264	—	—
Land use rights (note (b))	383,203	393,135	370,936	389,561
	<u>2,750,899</u>	<u>2,277,399</u>	<u>370,936</u>	<u>389,561</u>

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

	Group
Cost	
At 31 December 2008	2,022,574
Addition	<u>562,969</u>
At 31 December 2009	<u>2,585,543</u>
Accumulated amortisation	
At 31 December 2008	(138,310)
Charge for the year	<u>(79,537)</u>
At 31 December 2009	<u>(217,847)</u>
Net book value	
At 31 December 2009	<u>2,367,696</u>
At 31 December 2008	<u>1,884,264</u>

As at 31 December 2009, certain of concession rights with net book value of Rmb262 million (Cost: Rmb302 million) (31 December 2008: net book value: Rmb272 million; cost: Rmb302 million) have been secured against long-term borrowings of Rmb175 million (31 December 2008: Rmb180 million) (Note 6(13)(a)(v)).



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(10) INTANGIBLE ASSETS (Continued)

(b) Land use rights

	Group	Company
Cost		
At 31 December 2008	495,927	485,454
Transfer to subsidiaries	—	(11,038)
	<hr/>	<hr/>
At 31 December 2009	495,927	474,416
	<hr/>	<hr/>
Accumulated amortisation		
At 31 December 2008	(102,792)	(95,893)
Charge for the year	(9,932)	(9,795)
Transfer to subsidiaries	—	2,208
	<hr/>	<hr/>
At 31 December 2009	(112,724)	(103,480)
	<hr/>	<hr/>
Net book value		
At 31 December 2009	383,203	370,936
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2008	393,135	389,561
	<hr/> <hr/>	<hr/> <hr/>

(11) OTHER NON-CURRENT ASSETS

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Restricted bank deposits	10,900	65,700	10,000	56,700
Entrusted loans	—	—	44,290	—
	<hr/>	<hr/>	<hr/>	<hr/>
	10,900	65,700	54,290	56,700
Less: Included in cash and bank balance (Note 6(1)(c))	(10,900)	(22,000)	(10,000)	(13,000)
Included in other current assets	—	—	(25,000)	—
	<hr/>	<hr/>	<hr/>	<hr/>
Others	—	43,700	19,290	43,700
	3,230	3,552	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	3,230	47,252	19,290	43,700
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(12) TRADE PAYABLES, ADVANCES, TAXES PAYABLE AND OTHER PAYABLES

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Trade payables (note (a))	22,952	17,841	8,362	7,277
Advances (note (b))	305,085	228,716	110,908	61,130
Other payables (note (c))	231,426	99,848	232,270	132,928
Taxes payable (note (d))	10,000	23,678	1,871	21,188
	<u>569,463</u>	<u>370,083</u>	<u>353,411</u>	<u>222,523</u>

(a) As at 31 December 2009, the majority of trade payables are aged within one year.

(b) Advances comprise:

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
For pipeline connection	194,024	167,586	—	—
Received from project of Han Gu	110,504	32,220	110,504	32,220
Received from TSC	—	27,385	—	27,385
Other advances	557	1,525	404	1,525
	<u>305,085</u>	<u>228,716</u>	<u>110,908</u>	<u>61,130</u>

As at 31 December 2009, advances of Rmb150 million (31 December 2008: Rmb127 million) are aged over one year, which mainly represent advances in relation to those projects of recycled water pipeline connection. The balances are yet to be settled as those projects have not been completed.

(c) Other payables comprise:

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Construction costs payable	116,715	53,708	97,553	34,823
Payable for purchase of fixed assets and concession rights of plants	83,389	26,610	—	—
Others	31,322	19,530	134,717	98,105
	<u>231,426</u>	<u>99,848</u>	<u>232,270</u>	<u>132,928</u>

As at 31 December 2009, other payables of Rmb70 million (31 December 2008: Rmb82 million) are aged over one year, which mainly represent unsettled payables for assets acquisition of Hanzhou Tianchuang Water Co., Ltd.

As at 31 December 2009, there were no trade payables, advances and other payables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2008: Nil).



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(12) TRADE PAYABLES, ADVANCES, TAXES PAYABLE AND OTHER PAYABLES (Continued)

(d) The balances of taxes payable mainly represent income tax payable and business tax payable.

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Business tax payable	3,172	4,307	2,536	4,028
Income tax payable	6,082	18,783	(665)	17,160
Others	746	588	—	—
	<u>10,000</u>	<u>23,678</u>	<u>1,871</u>	<u>21,188</u>

(13) LONG-TERM BORROWINGS, SHORT-TERM BORROWINGS, SHORT-TERM DEBENTURE AND OTHER LIABILITIES

	Note	Group		Company	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
Non-current:					
Long-term bank borrowings	(a)	2,262,460	2,812,950	833,000	1,693,000
Less: Current portion	(a)	<u>(98,530)</u>	<u>(494,790)</u>	<u>(9,000)</u>	<u>(434,000)</u>
		2,163,930	2,318,160	824,000	1,259,000
Other non-current liabilities	(d)	<u>291,894</u>	<u>278,340</u>	<u>182,645</u>	<u>178,909</u>
		<u>2,455,824</u>	<u>2,596,500</u>	<u>1,006,645</u>	<u>1,437,909</u>
Current:					
Current portion of long-term bank borrowings	(a)	98,530	494,790	9,000	434,000
Short-term bank borrowings	(b)	100,000	821,890	100,000	776,890
Short-term debenture	(c)	500,000	—	500,000	—
Other current liabilities	(d)	<u>20,260</u>	<u>20,060</u>	<u>16,364</u>	<u>16,364</u>
		<u>718,790</u>	<u>1,336,740</u>	<u>625,364</u>	<u>1,227,254</u>

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(13) LONG-TERM BORROWINGS, SHORT-TERM BORROWINGS, SHORT-TERM DEBENTURE AND OTHER LIABILITIES (Continued)

(a) Long-term bank borrowings:

	Note	Group		Company	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
Borrowings from:					
State Development Bank	(i)	218,000	337,000	72,000	337,000
Industrial and Commercial Bank of China	(ii)	494,000	683,000	—	158,000
Shanghai Pudong Development Bank	(iii)	76,000	320,000	38,000	300,000
Agricultural Bank of China	(iv)	309,460	668,000	198,000	548,000
China Construction Bank	(v)	970,000	704,950	375,000	300,000
China CITIC Bank	(vi)	100,000	—	100,000	—
China Everbright Bank	(vii)	50,000	50,000	50,000	50,000
Bank of China	(viii)	45,000	50,000	—	—
		2,262,460	2,812,950	833,000	1,693,000

- (i) Includes Rmb146 million secured by the Company's guarantee and the remaining Rmb72 million is unsecured.
- (ii) Secured by the Company's guarantee (31 December 2008: Rmb525 million).
- (iii) Includes Rmb38 million (31 December 2008: Rmb20 million) secured by the Company's holding company's guarantee and the remaining Rmb38 million (31 December 2008: Rmb300 million) is unsecured.
- (iv) Includes Rmb198 million and Rmb50 million (31 December 2008: Rmb548 million and Rmb55 million) secured by the guarantee of TICIG and the Company, respectively. The remaining balance of about Rmb61.46 million (31 December 2008: Rmb65 million) is secured by the Company's guarantee during the construction period of a subsidiary together with certain of the subsidiary's concession right.
- (v) Includes Rmb175 million (31 December 2008: Rmb180 million) secured by the right to receive tap water and sewage processing fees (Note 6(10)(a)). Includes Rmb395 million (31 December 2008: Rmb150 million) and Rmb25 million (31 December 2008: Rmb31.25 million) secured by the guarantee of TICIG and the Company, respectively. The remaining balance of about Rmb375 million (31 December 2008: Rmb343.7 million) is unsecured.
- (vi) The borrowing is unsecured.
- (vii) Secured by TSC's right to receive sewage water processing fees.
- (viii) Secured by the Company's guarantee.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(13) LONG-TERM BORROWINGS, SHORT-TERM BORROWINGS, SHORT-TERM DEBENTURE AND OTHER LIABILITIES (Continued)

(a) Long-term bank borrowings: (Continued)

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

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Secured				
- Pledge	175,000	180,000	—	—
- Guarantee	1,502,460	1,831,250	248,000	935,000
Unsecured	585,000	801,700	585,000	758,000
	<u>2,262,460</u>	<u>2,812,950</u>	<u>833,000</u>	<u>1,693,000</u>

(x) These long term bank borrowings are all interest bearing with weighted average effective interest rate in 2009 of 5.6% (2008: 6.9%).

(xi) These borrowings mature as follows:

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Within one year	98,530	494,790	9,000	434,000
In the second year	488,470	627,030	368,000	541,000
In the third to fifth year	976,150	1,115,070	456,000	718,000
After the fifth year	699,310	576,060	—	—
	<u>2,262,460</u>	<u>2,812,950</u>	<u>833,000</u>	<u>1,693,000</u>

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(13) LONG-TERM BORROWINGS, SHORT-TERM BORROWINGS, SHORT-TERM DEBENTURE AND OTHER LIABILITIES (Continued)

(b) Short-term bank borrowings

	Note	Group		Company	
		31 December 2009	31 December 2008	31 December 2009	31 December 2008
Borrowings from:					
China Minsheng Bank	(i)	100,000	187,000	100,000	187,000
Huaxia Bank		—	90,000	—	90,000
Jin Gang Entrust Company		—	299,890	—	299,890
China CITIC Bank		—	200,000	—	200,000
China Zheshang Bank		—	45,000	—	—
		100,000	821,890	100,000	776,890
		100,000	821,890	100,000	776,890

(i) The borrowing is unsecured. The weighted average interest rate of short-term bank borrowings in 2009 is 4.78% (2008: 5.95%) per annum.

(ii) Summary of terms of short-term bank borrowings:

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Secured				
- Guarantee	—	45,000	—	—
Unsecured	100,000	776,890	100,000	776,890
	100,000	821,890	100,000	776,890
	100,000	821,890	100,000	776,890

(c) Short-term debenture

	Par value	Issuance date	Maturity	Balance
Short-term debenture	500,000	2009-7-28	1 year	500,000
	500,000			500,000

On 28 July 2009, the Company issued a short-term debenture of Rmb500 million at par with maturity period of one year. The debenture bears interest rate at 2.8% per annum. Both the principal and interest will be repaid upon maturity of the debenture.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(13) LONG-TERM BORROWINGS, SHORT-TERM BORROWINGS, SHORT-TERM DEBENTURE AND OTHER LIABILITIES (Continued)

(d) Other liabilities

	Group		Company	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Non-current:				
-Tianjin Municipal Engineering Bureau ("TMEB") (note(i))	114,545	130,909	114,545	130,909
-Deferred revenue (note(ii))	143,100	110,000	68,100	48,000
-Others	34,249	37,431	—	—
	<u>291,894</u>	<u>278,340</u>	<u>182,645</u>	<u>178,909</u>
Current:				
-TMEB				
• Current portion of long-term loan (note(i))	16,364	16,364	16,364	16,364
-Others	3,896	3,696	—	—
	<u>20,260</u>	<u>20,060</u>	<u>16,364</u>	<u>16,364</u>

- (i) A loan was taken from TMEB during 2005 specifically for construction of sewage water processing plants. The current portion of the long-term loan is Rmb16 million at the end of year 2009 (2008: Rmb16 million). The loan is repayable in equal instalments over eleven years from 2007. The loan bears interest at 5% per annum for the first six years. From the seventh year to maturity, the interest will be based on the one-year deposit plus 0.3% premium.
- (ii) Deferred revenue represents the subsidies received which were granted from governmental bodies in relation to certain construction projects invested by the Group.

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(14) DEFERRED INCOME TAX LIABILITIES

	31 December 2009		31 December 2008	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	30,198	120,792	23,640	94,560

(15) SHARE CAPITAL

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

	A shares			H shares	
	Restricted circulating shares	Circulating shares	Subtotal	Circulating shares	Total
At 1 January 2008	730,620	356,608	1,087,228	340,000	1,427,228
Release of restricted circulating shares	(66,533)	66,533	—	—	—
At 31 December 2008	664,087	423,141	1,087,228	340,000	1,427,228
Release of restricted circulating shares (Note 1)	(664,087)	664,087	—	—	—
At 31 December 2009	—	1,087,228	1,087,228	340,000	1,427,228

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



6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) RESERVES AND DIVIDEND

- (a) Capital reserve principally comprises share premium arising from the issuance of shares. This reserve can be utilised to offset prior years' losses or for issuance of bonus shares.
- (b) According to the PRC Companies Law and the Company's Articles of Association, a company is required to transfer 10% of its net profit for the year to the statutory common reserve, which can be ceased till the reserve reaches 50% of the registered capital. This reserve shall only be used to make up losses; or to increase the capital of the Company upon approval from the shareholders.

As at 31 December 2009, undistributed profits include Rmb6,208 thousand subsidiaries' common reserve attributable to the Company (31 December 2008: Rmb4,598 thousand), of which Rmb1,610 thousand has been appropriated for the current year (31 December 2008: Rmb1,600 thousand).

- (c) Dividends

Dividends declared:

A dividend in respect of year ended 31 December 2008 of Rmb0.4 (gross tax) every 10 shares, total shares of 1,427 million shares on 5 August 2009, amounting to a total dividend of Rmb57 million, was approved by the Annual General Meeting on 17 June 2009 (2008: Rmb0.4 (gross tax) every 10 shares, amounting to a total dividend of Rmb57 million).

Dividends proposed:

On 25 March 2010, the Directors proposed a dividend of Rmb0.8 for every 10 shares held. This proposed dividend is not reflected as a dividend payable in these financial statements, but is reflected as an appropriation of retained earnings for the year ending 31 December 2010.

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(17) MINORITY INTERESTS

Minority interests attributable to respective subsidiaries' minority shareholders are set out as below:

	Group	
	31 December 2009	31 December 2008
Hangzhou Tianchuang Capital Water Co., Ltd.	87,811	83,088
Baoying Capital Water Co., Ltd.	12,583	12,569
Qijing Capital Water Co., Ltd.	11,514	11,536
Guizhou Capital Water Co., Ltd.	6,715	6,299
Honghu Capital Water Co., Ltd.	1,983	1,944
Tianjin Water Recycling Co., Ltd.	1,218	1,149
Chibi Capital Water Co., Ltd.	82	64
Fuyang Capital Water Co., Ltd.	14	9
Tianjin Capital New Materials Co., Ltd.	—	1,838
	<u>121,920</u>	<u>118,496</u>

(18) INCOME FROM AND COST FOR OPERATIONS

	Group			
	2009		2008	
	Income from operations	Cost for operations	Income from operations	Cost for operations
Income from principal operations (Note 7)	1,226,466	561,983	1,135,101	497,541
Other operating income	30,327	16,944	24,206	12,534
	<u>1,256,793</u>	<u>578,927</u>	<u>1,159,307</u>	<u>510,075</u>

	Company			
	2009		2008	
	Income from operations	Cost for operations	Income from operations	Cost for operations
Income from principal operations	788,356	278,694	770,285	260,234
Other operating income	27,763	15,362	20,010	9,666
	<u>816,119</u>	<u>294,056</u>	<u>790,295</u>	<u>269,900</u>

- (a) The Company's principal operations are substantially from processing of sewage, toll road collection, water recycling and tap water supply.
- (b) The total revenue of the Group's top 5 customers are amounting to Rmb1,039,493 thousand for the year ended 31 December 2009, which are accounting for about 83% of the Group's total revenue (2008: Rmb988,982 thousand and 85%).



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(19) BUSINESS TAX AND SURCHARGES

	Group		Company	
	2009	2008	2009	2008
Business tax	42,662	39,957	40,199	39,346
City construction and maintenance fee	202	1,477	—	1,256
Education fee surcharge	109	663	—	538
	<u>42,973</u>	<u>42,097</u>	<u>40,199</u>	<u>41,140</u>

(20) FINANCIAL EXPENSES – NET

	Group		Company	
	2009	2008	2009	2008
Interest expenses of borrowings	213,812	233,751	122,220	157,972
Less: Capitalised interest	(4,185)	(6,699)	(773)	—
Net interest expenses	209,627	227,052	121,447	157,972
Less: Interest income	(28,016)	(17,734)	(18,644)	(12,340)
– long-term receivables	(11,263)	(11,118)	(11,263)	(11,118)
– bank deposits	(16,753)	(6,616)	(7,381)	(1,222)
Others	5,132	5,171	2,065	5,072
	<u>186,743</u>	<u>214,489</u>	<u>104,868</u>	<u>150,704</u>

(21) ASSETS IMPAIRMENT LOSS

	Group		Company	
	2009	2008	2009	2008
Impairment provision for long-term investment (Note 6(7)(c))	—	—	4,500	—
Impairment provision for fixed assets (Note 6(9)(a))	6,000	—	—	—
	<u>6,000</u>	<u>—</u>	<u>4,500</u>	<u>—</u>

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) INCOME TAX

	Group		Company	
	2009	2008	2009	2008
Current income tax	84,761	67,461	76,170	63,189
Deferred income tax	6,558	9,292	2,017	4,027
	<u>91,319</u>	<u>76,753</u>	<u>78,187</u>	<u>67,216</u>

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

	Group		Company	
	2009	2008	2009	2008
Profit before income tax	337,721	310,238	308,492	274,787
Calculated at applicable income tax rates	84,430	76,011	77,123	68,697
Income not subject to tax	(50)	(1,532)	(50)	(1,481)
Expenses not deductible for taxation purposes	2,061	1,111	1,114	—
Utilisation of previously deductible tax for which no deferred income tax was recognised	(184)	(510)	—	—
Current year tax losses for which no deferred income tax asset was recognised	5,062	1,673	—	—
Income tax expenses	<u>91,319</u>	<u>76,753</u>	<u>78,187</u>	<u>67,216</u>

(23) EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to equity holders of the Company of Rmb243 million (2008: Rmb231 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2008: 1,427 million shares).

Diluted earnings per share is calculated using the same bases as described above for calculating basic earnings per share.

	Group	
	2009	2009
Profit attributable to equity holders of the Company	242,978	231,065
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic earnings per share (Rmb Yuan)	<u>0.17</u>	<u>0.16</u>



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(24) NOTES TO THE CASH FLOW STATEMENTS AND SUPPLEMENTARY INFORMATION

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

	Group		Company	
	2009	2008	2009	2008
Net profit	246,402	233,485	230,305	207,571
Adjustments for:				
Provision for assets impairment	6,000	—	4,500	—
Depreciation of fixed assets and investment properties	111,739	110,896	98,280	101,570
Amortisation of intangible assets	89,469	73,841	9,795	10,364
Losses on disposal of fixed assets	12,834	934	9,160	317
Financial expenses-net	209,627	221,105	121,447	151,926
Investment income	(457)	(6,129)	(200)	(5,913)
Increase in deferred tax liabilities	6,558	9,292	2,017	4,027
Increase in inventories	(205)	(2,814)	(196)	(326)
Decrease/(increase) in operating receivables	760,346	(342,370)	576,534	(337,645)
Increase/(decrease) in operating payables	(52,000)	6,360	127,106	(6,714)
Net cash flows from operating activities	<u>1,390,313</u>	<u>304,600</u>	<u>1,178,748</u>	<u>125,177</u>
Net increase/(decrease) in cash and bank balances				
Cash at end of year	592,261	887,047	224,354	262,440
Less: cash at beginning of year	<u>(887,047)</u>	<u>(324,971)</u>	<u>(262,440)</u>	<u>(80,633)</u>
Net increase/(decrease) in cash and bank balances	<u>(294,786)</u>	<u>562,076</u>	<u>(38,086)</u>	<u>181,807</u>

(b) Cash and bank balances include the following for the purposes of the cash flow statement:

	Group		Company	
	2009	2008	2009	2008
Cash and bank balances	603,161	909,047	234,354	275,440
Less: Restricted bank deposit	<u>(10,900)</u>	<u>(22,000)</u>	<u>(10,000)</u>	<u>(13,000)</u>
Cash and bank balances shown in the cash flow statements	<u>592,261</u>	<u>887,047</u>	<u>224,354</u>	<u>262,440</u>

14. Financial statements prepared in accordance with PRC Accounting
Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(24) NOTES TO THE CASH FLOW STATEMENTS AND SUPPLEMENTARY INFORMATION (Continued)

(c) Cash received relating to other operating activities in the cash flow statement mainly includes:

	Group		Company	
	2009	2008	2009	2008
Interest income from bank deposits	16,753	6,616	7,381	1,222
Collection of sewage processing charge payment on behalf of customers	—	11,968	—	10,810
Release of deposit on project bids	3,000	12,500	—	10,500
Subsidies received	6,584	4,124	—	—
Others	8,055	8,935	2,352	7,071
	<u>34,392</u>	<u>44,143</u>	<u>9,733</u>	<u>29,603</u>

(d) Cash paid relating to other operating activities in the cash flow statement mainly includes:

	Group		Company	
	2009	2008	2009	2008
Sewage processing charge payment on behalf of customers	1,706	3,334	—	2,016
Expenses of board of directors	4,800	5,882	4,800	5,882
Audit and consulting fee	11,546	6,654	7,898	5,698
Travelling, meeting and entertainment expenses	8,929	5,743	2,502	2,665
Others	19,548	14,445	10,434	5,395
	<u>46,529</u>	<u>36,058</u>	<u>25,634</u>	<u>21,656</u>



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT REPORTING

The management of the Company assesses the performance of processing of sewage water, recycled water and pipeline connection and tap water operation. The operation performance of processing of sewage water is further evaluated on a geographical basis.

(a) For the year ended 31 December 2009

	Sewage processing services			Recycle water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Income from operations (Note 6(18))	721,319	128,678	216,340	56,494	36,598	97,364	1,256,793
Cost for operations (Note 6(18))	(269,423)	(76,249)	(142,484)	(39,043)	(27,664)	(24,064)	(578,927)
Other expenses	(84,324)	(8,657)	(20,323)	(7,811)	(3,216)	(18,472)	(142,803)
Segment profit	367,572	43,772	53,533	9,640	5,718	54,828	535,063
Operating profit	247,140	18,049	20,716	6,936	(4,508)	54,444	342,777
Segment assets	3,282,014	837,823	1,593,393	540,010	290,527	651,881	7,195,648
Segment liabilities	1,941,867	545,119	627,910	487,266	149,691	28,284	3,780,137
Depreciation	94,618	—	1,351	9,858	—	5,912	111,739
Amortisation	9,795	21,957	48,756	25	8,683	253	89,469
Capital expenditures	199,777	341,926	205,257	73,347	22,114	407	842,828

(b) For the year ended 31 December 2008

	Sewage processing services			Recycle water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Income from operations (Note 6(18))	703,268	119,595	153,133	48,414	43,675	91,222	1,159,307
Cost for operations (Note 6(18))	(249,408)	(75,248)	(94,535)	(35,512)	(32,011)	(23,361)	(510,075)
Other expenses	(89,391)	(2,831)	(16,232)	(5,489)	(3,631)	(14,806)	(132,380)
Segment profit	364,469	41,516	42,366	7,413	8,033	53,055	516,852
Operating profit	208,554	9,188	18,939	4,494	(3,130)	70,447	308,492
Segment assets	3,994,517	835,239	1,381,302	493,689	283,811	571,705	7,560,263
Segment liabilities	2,658,044	558,279	513,256	404,792	148,593	51,101	4,334,065
Depreciation	98,033	—	520	8,348	77	3,918	110,896
Amortisation	10,360	20,658	34,770	—	8,053	—	73,841
Capital expenditures	10,461	—	778,966	83,406	44	658	873,535

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors:

The Group's activities expose it to a variety of financial risks. The Group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

(i) Foreign currency risk:

The Group has no significant foreign currency risk as the operations and customers of the Group's subsidiaries are located in the PRC with most of the operating assets and transactions denominated and settled in Renminbi. All of the Group's borrowings are denominated in Renminbi.

(ii) Cash flow and fair value interest rate risk:

The Group's interest rate risk arises from long-term borrowings.

The Group has significant bank borrowings. Those taken at variable rates expose the Group to cash flow interest-rate risk, whilst those taken at fixed rates expose the Group to fair value interest-rate risk.

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

	Group				Company			
	Fixed	Floating	Non-interest bearing	Total	Fixed	Floating	Non-interest bearing	Total
At 31 December 2009								
Assets								
Cash and bank balances	10,900	592,261	—	603,161	10,000	224,354	—	234,354
Long-term receivables	331,354	—	—	331,354	331,354	—	—	331,354
Liabilities								
Current borrowings/ debenture	516,364	201,712	714	718,790	516,364	109,000	—	625,364
Non-current borrowings	164,545	2,137,566	10,613	2,312,724	164,545	774,000	—	938,545
At 31 December 2008								
Assets								
Cash and bank balances	22,000	887,047	—	909,047	13,000	262,440	—	275,440
Long-term receivables	331,254	—	—	331,254	331,254	—	—	331,254
Liabilities								
Current borrowings	606,254	729,972	514	1,336,740	606,254	621,000	—	1,227,254
Non-current borrowings	332,609	2,143,278	10,613	2,486,500	288,909	1,101,000	—	1,389,909

At 31 December 2009, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, profit for the year would have been lower/higher by Rmb30 million (2008: Rmb26 million).

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

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors: (Continued)

(iii) Credit risk:

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

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

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

The maximum credit risk of the Company includes the carrying value of its financial assets on books and is increased by the notional amount of financial guarantees issued for its subsidiaries.

(iv) Liquidity risk:

The Group manages its liquidity risk based on a rolling working capital forecast which comprises a 3-5 year long-term plan and a 12 month's monthly working capital forecast. The long-term plan is reviewed annually and the monthly working capital forecast is prepared based on daily operating needs and capital expenditure requirement from new and existing projects.

Generally, approximately 60% of budgeted capital expenditure for new projects is projected for external financing. One of the considerations for management to assess the feasibility of new projects is whether the return can cover the cost of the project external financing and provide a reasonable return to the shareholders.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2009					
Long-term bank borrowings	219,813	593,669	1,171,356	787,451	2,772,289
Other non-current liabilities	22,910	22,091	54,725	92,245	191,971
Trade and other payables	254,378	—	—	—	254,378
At 31 December 2008					
Long-term bank borrowings	670,531	764,348	1,348,024	674,710	3,457,613
Other non-current liabilities	23,728	22,909	55,977	114,252	216,866
Trade and other payables	117,689	—	—	—	117,689

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL RISK MANAGEMENT (Continued)

(b) Capital risk management

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

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

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

The Group's strategy is to maintain a gearing ratio of about 40% - 60%. The gearing ratio of the Group is as follows:

	31 December 2009	31 December 2008
Total borrowings	3,031,514	3,823,240
Less: Cash and cash equivalents	(592,261)	(887,047)
Net debt	<u>2,439,253</u>	<u>2,936,193</u>
Total equity	<u>3,415,511</u>	<u>3,226,198</u>
Total capital	<u><u>5,854,764</u></u>	<u><u>6,162,391</u></u>
Gearing ratio	<u>42%</u>	<u>48%</u>

The decrease in gearing ratio of the Group during 2009 primarily resulted from the repayment of significant bank borrowings to reduce its finance cost upon collection of trade receivables.

(c) Fair value estimation

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties that have controlling relationship

Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Tianjin Municipal Investment Company Limited ("TMICL")	Tianjin, the PRC	Development, construction and management of municipal infrastructures	Controlling shareholder of the Company	Limited company	Xiong Guang Yu
Tianjin Infrastructure Construction Investment Group Co., Ltd. ("TICIG")	Tianjin, the PRC	Investment and construction of urban environmental infrastructure, market establishment and development services, lease of private properties, lease of infrastructures, and development and operation of public facilities projects	Ultimate holding company	Limited company	Wang Zhou Xi
Qu Jing Capital Water Co., Ltd.	Qijing, the PRC	Sewage processing, tap water supply	Subsidiary of the Company	Limited company	Zhang Wen Hui
Gui Zhou Capital Water Co., Ltd.	Guizhou, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Lin Wen Bo
Fu Yang Capital Water Co., Ltd.	Fuyang, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhang Wen Hui
Bao Ying Capital Water Co., Ltd.	Baoying, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Lin Wen Bo
Chi Bi Capital Water Co., Ltd.	Chibi, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhang Wen Hui
Hong Hu Capital Water Co., Ltd.	Honghu, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhang Wen Hui
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Hong Kong, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Ma Bai Yu
Hang Zhou Tianchuang Capital Water Co., Ltd.	Hangzhou, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Gu Qi Feng
Wen Deng Capital Water Co., Ltd.	Wendeng, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Lin Wen Bo
Tianjin Jing Hai Capital Water Co., Ltd.	Tianjin, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Gu Qi Feng
Tianjin Water Recycling Co., Ltd.	Tianjin, the PRC	Production and sales of recycled water and technical consulting for water recycling business	Subsidiary of the Company	Limited company	Gu Qi Feng
Xi'an Capital Water Co., Ltd.	Xi'an, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhang Wen Hui
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	Tianjin, the PRC	Environmental engineering, protection and technical consultation	Subsidiary of the Company	Limited company	Gu Qi Feng
Anguo Capital Water Co., Ltd.	Anguo, the PRC	Sewage and tap water	Subsidiary of the Company	Limited company	Zhang Wen Hui
Wuhan Tianchuang Environmental Protection Co., Ltd.	Wuhan, the PRC	Sewage and tap water processing	Subsidiary of the Company	Limited company	Zhang Wen Hui
Tianjin Capital New Materials Co., Ltd.	Tianjin, the PRC	Production and sales of new types of construction	Subsidiary of the Company	Limited company	Fu Ya Na

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(b) Registered capital of related parties that has controlling relationship and their movements

	31 December 2008	Additions	31 December 2009
TMICL	1,820,000	—	1,820,000
TICIG	67,700,000	—	67,700,000
Qu Jing Capital Water Co., Ltd.	120,000	—	120,000
Gui Zhou Capital Water Co., Ltd.	100,000	—	100,000
Tianjin Water Recycling Co., Ltd.	100,000	—	100,000
Tianjin Capital New Materials Co., Ltd.	37,500	—	37,500
Fu Yang Capital Water Co., Ltd.	45,000	18,000	63,000
Bao Ying Capital Water Co., Ltd.	38,000	—	38,000
Chi Bi Capital Water Co., Ltd.	35,000	—	35,000
Hong Hu Capital Water Co., Ltd.	20,000	—	20,000
Hang Zhou Tianchuang Capital Water Co., Ltd.	257,445	—	257,445
Wen Deng Capital Water Co., Ltd.	48,000	—	48,000
Tianjin Jing Hai Capital Water Co., Ltd.	12,000	—	12,000
Xi'an Capital Water Co., Ltd.	270,000	—	270,000
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	2,000	—	2,000
Anguo Capital Water Co., Ltd.	41,000	—	41,000
Wuhan Tianchuang Environmental Protection Co., Ltd	47,230	56,010	103,240
	USD'000	USD'000	USD'000
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	7,840	—	7,840

(c) Share or equity of the Company held by a related party and its movements

	31 December 2008		Reduction for the year		31 December 2009	
	Amount	%	Amount	%	Amount	%
TMICL	774,985	54.30	(17,652)	(1.24)	757,333	53.06

(d) Related party transactions

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

(i) Income

Related party	Nature of transaction	2009	2008
TICIG	Rental income	4,854	6,853

(ii) Key management compensation

10,232	6,439
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14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Notes to the Financial Statements

For the year ended 31 December 2009
(All amounts in RMB thousand unless otherwise stated)

10 COMMITMENTS

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

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2009 Rmb' million	31 December 2008 Rmb' million	31 December 2009 Rmb' million	31 December 2008 Rmb' million
Sewage water processing plants in:				
– Hang Zhou	—	341	—	—
– Wen Deng	—	60	—	—
– Jing Hai	16	22	—	—
– Wu Han	162	108	24	—
– An Guo	—	24	—	—
– Qu Jing	30	—	45	—
– Ji Zhuang Zi (upgrade project)	115	—	120	—
– Xian Yang Lu (upgrade project)	50	—	154	—
– Bei Cang (upgrade project)	53	—	90	—
– Dong Jiao (upgrade project)	96	—	138	—
Tap water plants in:				
– An Guo	—	15	—	33
– E Zhou	—	—	—	95
Water recycling plants in:				
– Dong Jiao	1	8	48	48
– Bei Chen	—	11	51	51
– Xian Yang Lu	—	—	—	48
– Ji Zhuang Zi (expansion project)	18	—	36	—
	<u>541</u>	<u>589</u>	<u>706</u>	<u>275</u>

11 EVENT AFTER THE REPORTING PERIOD

Pursuant to related regulations, toll fee collection in Tianjin city was terminated with effect from 1 January 2010. Accordingly toll fee collection for the six toll stations owned by the Company (Note 6(2)(b)) was terminated. At the date of approval of the consolidated financial statements, the new toll fee collection model and the new concession arrangement has not been announced yet. Once the government announces the new arrangement, the Company will make announcement timely.

15. Independent Auditor's Report

To the shareholders of

Tianjin Capital Environmental Protection Group Company Limited

(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Tianjin Capital Environmental Protection Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 144 to 199, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 March 2010

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Balance Sheet

As at 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,335,198	2,192,537
Intangible assets	7	2,367,696	1,884,264
Land use rights	8	383,203	393,135
Investment properties	9	123,301	118,692
Investment in an associate	11	40,135	39,878
Available-for-sale financial assets	12	4,000	4,000
Long-term receivables	13	331,354	331,254
Trade receivables due after one year	16	241,792	697,763
Other non-current assets	14	3,230	47,252
		<u>5,829,909</u>	<u>5,708,775</u>
Current assets			
Inventories	15	9,653	9,448
Trade receivables	16	503,466	798,869
Prepayments	17	194,160	81,987
Other receivables	18	55,299	52,137
Cash and bank balances	19	603,161	909,047
		<u>1,365,739</u>	<u>1,851,488</u>
Total assets		<u><u>7,195,648</u></u>	<u><u>7,560,263</u></u>

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Consolidated Balance Sheet (Continued)**

As at 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

	Note	2009	2008
EQUITY			
Equity attributable to owners of the Company			
Share capital	20	1,427,228	1,427,228
Other reserves	21	659,462	636,431
Retained earnings	21	1,206,901	1,044,043
– Proposed final dividends		114,178	57,089
– Undistributed		1,092,723	986,954
		3,293,591	3,107,702
Minority interests		121,920	118,496
Total equity		3,415,511	3,226,198
LIABILITIES			
Non-current liabilities			
Borrowings	22	2,455,824	2,596,500
Deferred income tax liabilities		30,198	23,640
		2,486,022	2,620,140
Current liabilities			
Trade payables	23	22,952	17,841
Advances from customers	23	305,085	228,716
Wages payables		3,848	5,054
Income tax payable		6,082	18,783
Other taxes payable		3,918	4,895
Dividend payable		2,014	2,048
Other payables	23	231,426	99,848
Borrowings	22	718,790	1,336,740
		1,294,115	1,713,925
Total liabilities		3,780,137	4,334,065
Total equity and liabilities		7,195,648	7,560,263
Net current assets		71,624	137,563
Total assets less current liabilities		5,901,533	5,846,338

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

Zhang Wenhui
Director

Lin Wenbo
Director



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Balance Sheet-Company

As At 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,052,827	1,949,511
Land use rights	8	370,936	389,561
Investment properties	9	97,995	92,876
Investments in subsidiaries	10	1,104,481	1,090,981
Available-for-sale financial assets	12	4,000	4,000
Long-term receivables	13	331,354	331,254
Trade receivables due after one year	16	241,792	697,763
Other non-current assets	14	19,290	43,700
		<u>4,222,675</u>	<u>4,599,646</u>
Current assets			
Inventories	15	3,556	3,360
Trade receivables	16	429,063	742,879
Prepayments	17	142,623	33,813
Other receivables	18	169,464	300,769
Other current assets		25,000	—
Cash and bank balances	19	234,354	275,440
		<u>1,004,060</u>	<u>1,356,261</u>
Total assets		<u><u>5,226,735</u></u>	<u><u>5,955,907</u></u>

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Balance Sheet-Company (Continued)**

As at 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

	Note	2009	2008
EQUITY			
Equity attributable to owners of the Company			
Share capital	20	1,427,228	1,427,228
Other reserves	21	656,912	633,881
Retained earnings	21	1,140,686	990,501
- Proposed final dividends		114,178	57,089
- Undistributed		1,026,508	933,412
Total equity		3,224,826	3,051,610
LIABILITIES			
Non-current liabilities			
Borrowings	22	1,006,645	1,437,909
Deferred income tax liabilities		14,275	12,258
		1,020,920	1,450,167
Current liabilities			
Trade payables	23	8,362	7,277
Advances from customers	23	110,908	61,130
Wages payables		1,481	3,587
Income tax payable		(665)	17,160
Other taxes payable		2,536	4,028
Dividend payable		733	766
Other payables	23	232,270	132,928
Borrowings	22	625,364	1,227,254
		980,989	1,454,130
Total liabilities		2,001,909	2,904,297
Total equity and liabilities		5,226,735	5,955,907
Net current assets/(liabilities)		23,071	(97,869)
Total assets less current liabilities		4,245,746	4,501,777

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

Zhang Wenhui
Director

Lin Wenbo
Director



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

	Note	2009	2008
Revenue	5(a)	1,226,466	1,135,101
Business tax		(42,973)	(42,097)
Cost of sales	24	(561,983)	(497,541)
Gross profit		621,510	595,463
Other income	5(a)	21,517	18,767
Administrative expenses	24	(118,820)	(90,283)
Operating profit		524,207	523,947
Finance costs - net	26	(186,743)	(214,489)
Share of profits of an associate		257	780
Profit before income tax		337,721	310,238
Income tax expense	27	(91,319)	(76,753)
Profit for the year		246,402	233,485
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		246,402	233,485
Attributable to:			
Equity holders of the Company		242,978	231,065
Minority interests		3,424	2,420
		246,402	233,485
Earnings per share for profit attributable to the equity holders of the Company (in Rmb Yuan)			
- basic	29	0.17	0.16
- diluted		0.17	0.16
Proposed final dividends	30	114,178	57,089

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

Zhang Wenhui

Director

Lin Wenbo

Director

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Statement of Changes in Equity

For the Year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

	Note	Attributable to equity holders of the Company			Minority Interests	Total	
		Share capital	Other reserves	Retained earnings			Sub-total
Balance at 1 January 2008		1,427,228	615,674	890,824	2,933,726	117,358	3,051,084
Comprehensive income							
- Profit for the year		—	—	231,065	231,065	2,420	233,485
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income		—	—	231,065	231,065	2,420	233,485
Transactions with owners							
Profit appropriation to statutory common reserves, net	21(a)	—	20,757	(20,757)	—	—	—
Dividends declared		—	—	(57,089)	(57,089)	(1,282)	(58,371)
Total transactions with owners		—	20,757	(77,846)	(57,089)	(1,282)	(58,371)
Balance at 31 December 2008		1,427,228	636,431	1,044,043	3,107,702	118,496	3,226,198
Comprehensive income							
- Profit for the year		—	—	242,978	242,978	3,424	246,402
Other comprehensive income		—	—	—	—	—	—
Total comprehensive income		—	—	242,978	242,978	3,424	246,402
Transactions with owners							
Profit appropriation to statutory common reserves, net	21(a)	—	23,031	(23,031)	—	—	—
Dividends declared		—	—	(57,089)	(57,089)	—	(57,089)
Total transactions with owners		—	23,031	(80,120)	(57,089)	—	(57,089)
Balance at 31 December 2009		1,427,228	659,462	1,206,901	3,293,591	121,920	3,415,511

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

Zhang Wenhui
Director

Lin Wenbo
Director



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Cash Flow Statement

For the Year Ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

	Note	2009	2008
Cash flows from operating activities			
Cash generated from operations	31	1,467,555	408,961
PRC income tax paid		(93,995)	(110,977)
Interest received		16,753	6,616
		<u>1,390,313</u>	<u>304,600</u>
Net cash generated from operating activities			
		<u>1,390,313</u>	<u>304,600</u>
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(714,467)	(884,747)
Deposits for new project bids		(10,900)	(10,000)
Release of deposit on project bids		22,000	22,770
Proceeds from sale of property, plant and equipment	31	2,016	520
Proceeds from partial disposal of an associate		—	30,230
Dividends received		200	—
		<u>(701,151)</u>	<u>(841,227)</u>
Net cash used in investing activities			
		<u>(701,151)</u>	<u>(841,227)</u>
Cash flows from financing activities			
Release of deposits for entrusted loans		31,000	—
Deposits for entrusted loan		—	(43,700)
Government grant received		33,100	48,000
Proceeds from borrowings		1,849,000	2,338,590
Repayment of borrowings		(2,628,226)	(956,985)
Interest paid		(211,699)	(224,980)
Dividends paid		(57,123)	(57,165)
Payment of service fee in respect of bank borrowing		—	(5,057)
		<u>(983,948)</u>	<u>1,098,703</u>
Net cash (used in)/generated from financing activities			
		<u>(983,948)</u>	<u>1,098,703</u>
Net (decrease)/increase in cash and bank balances			
		<u>(294,786)</u>	<u>562,076</u>
Cash and bank balances at beginning of the year		<u>887,047</u>	<u>324,971</u>
Cash and bank balances at end of the year	19(b)	<u><u>592,261</u></u>	<u><u>887,047</u></u>

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

Zhang Wenhui
Director

Lin Wenbo
Director

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

1 Company profile and principal activities

Tianjin Capital Environmental Protection Group Company Limited (the “Company”) was established on 8 June 1993 in the People’s Republic of China (the “PRC”) as a joint stock limited liability company.

Pursuant to the approval of “Jin Guo Zi Chan Quan [2006] No.13” in relation to “the Approval of Related Questions of the Stock Reform Plan of Tianjin Capital Environmental Protection Company Limited” from State-owned Assets Supervision and Administration Commission of Tianjin Municipal Government, the Company proceeded its stock reform plan on 20 April 2006. As at 31 December 2009, all of the non-circulating shares held by enterprise legal person shareholders had become circulating shares.

The principal activities of the Company and its subsidiaries (the “Group”) include processing of sewage water, tap water and recycled water as described below:

(a) Processing of sewage

Pursuant to relevant agreements (“Sewage Water Processing Agreements”), the Group currently provides sewage processing services via the following plants:

Plant Location	Agreement date	Customer
Dong Jiao, Tianjin	10 October 2000	Tianjin Sewage Company(“TSC”)
Ji Zhuang Zi, Tianjin	10 October 2000	TSC
Xian Yang Lu, Tianjin	10 October 2000	TSC
Bei Cang, Tianjin	10 October 2000	TSC
Gui Yang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Bao Ying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chi Bi, Hubei	15 July 2005	Chibi Construction Bureau
Fu Yang, Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qu Jing, Yunnan	25 December 2005	Qujing City Water General Company
Hong Hu, Hubei	29 December 2005	Honghu Construction Bureau
Hang Zhou, Zhejiang	20 November 2006	Hangzhou Sewage Company
Jing Hai, Tianjin	12 September 2007	Tianyu Science Technology Park
Wen Deng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi An, Shanxi	18 March 2008	Xi’an Infrastructure Investment Group
An Guo, Hebei	14 October 2008	An Guo Municipal Government

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

1 Company profile and principal activities (Continued)

(a) Processing of sewage (Continued)

The principal terms and the pricing formula as set out in the relevant agreements are briefly summarised below:

Dong Jiao:

The Group will have full recovery of actual operating costs, including depreciation of property, plant and equipment, excluding interest expenses and foreign exchange gains or losses and at minimum:

- (i) earn a return of 15% per annum of the average balances of the monthly net book value of property, plant and equipment (as defined in the agreement) of the plants; and
- (ii) incentive pricing adjustments will be made for cost saving and/or when actual processing volume exceeds the minimum processing volume stipulated in the agreement.

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

Based on the supplementary agreement reached with TSC on 10 March 2006, the Company is entitled to a pre-determined sewage processing fee from the completion date of construction to the completion date of inspection of the Ji Zhuang Zi, Xian Yang Lu and Bei Cang plants. After the inspection of these three plants is completed, processing fee will be collected from TSC using the same principle as for Dong Jiao plant as described above.

All other sewage processing plants:

Initial sewage water processing prices are predetermined, thereafter processing prices may be revised after considering various factors including renovation of equipment, additional investment, power and energy and labour force, and other significant changes of government policy.

All sewage processing plants outside Tianjin, except for the one in Guiyang, are guaranteed a minimum processing volume by their respective customers. If the actual volume is lower than the guaranteed volume, processing fee will be settled using the guaranteed volume.

Pursuant to the relevant agreement, Guiyang Price Bureau adjusts the sewage water processing price periodically, which will allow full recovery of all actual costs, including operating cost, depreciation, income tax and a return of 8% on budgeted net assets of the plant.

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

1 Company profile and principal activities (Continued)

(b) Processing of tap water

Pursuant to relevant agreements, the Group provides tap water supply service initially at pre-determined price and the processing prices as pre-determined may be revised after considering various cost factors based on contract terms.

(c) Recycled water and pipeline connection

The Group's recycled water business includes developing, constructing and operating of recycled water projects, production and sale of recycled water and research, development and technical consultation of processing technology and equipment of recycled water.

These consolidated financial statements were approved by the Directors of the Company on 25 March 2010.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- (a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

HKAS 1 (revised), Presentation of financial statements

The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present one statement: a statement of comprehensive income. These consolidated financial statements have been prepared under the revised disclosure requirements.

HKFRS 8, Operating segments

HKFRS 8 replaces HKAS 14, Segment reporting. It requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a change in reportable segments presented, as the previously reported sewage water processing services segment has been split into Tianjin plants, Hangzhou plant and other plants segments, in addition, toll road collection segment has been combined into other segments. There has been no impact on the Group’s financial position or operating results except for disclosure. Comparatives for 2008 have been reclassified accordingly.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the managers operating meeting that makes strategic decisions.

HKAS 23 (revised), Borrowing costs

The revised standard requires borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, there has been no significant impact on the Group’s consolidated financial statements, as the Group consistently capitalised borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset in prior years.

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- (b) The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group:

HKAS 32 and HKAS 1(amendment)	Puttable financial instruments and obligations arising on liquidation
HKFRS1 and HKAS 27 (amendment)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (amendment)	Share-based payment - Vesting conditions and cancellations
HKFRS 7 (amendment)	Improving disclosures about financial instruments – Fair value measurements and liquidity risk of financial instruments.
HK(IFRIC) - Int 15	Agreements for the construction of real estate

- (c) The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

HKFRS 1 (revised)	First-time Adoption of HKFRSs (effective from 1 July 2009)
HKFRS 3 (revised)	Business combinations (effective from 1 July 2009)
HKAS 27(revised)	Consolidated and separate financial statements (effective from 1 July 2009)
HKAS 39 (amendment)	Eligible hedge items (effective from 1 July 2009)
HK(IFRIC) - Int 17	Distribution of non-cash assets to owners (effective from 1 July 2009)
HKFRS 1 (amendment)	Additional exemptions for first-time adopters (effective from 1 January 2010)
HKFRS 2 (amendment)	Group cash-settled share-based payment transaction (effective from 1 January 2010)
HKAS 32 (amendment)	Classification of rights issue (effective from 1 January 2010)
HKAS 24 (revised)	Related party disclosures (effective from 1 January 2011)
HKFRS 9	Financial Instruments (effective from 1 January 2013)

The Group is in the process of assessing the impact of these standards, amendments and interpretations on the financial statements of the Group in the initial application.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed, where necessary, in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the consolidated statement of comprehensive income. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.2 Consolidation(Continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of comprehensive income.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the managers operating meeting that makes strategic decisions.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.4 Translation of foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any.

Depreciation of buildings and structures is calculated to write-off their cost less estimated net residual value and accumulated impairment losses, if any, on a straight-line basis over their expected useful lives ranging from 10 to 50 years. Included in structures are pipelines network laid outside the plant which are depreciated over their estimated useful lives of 25 years.

Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their cost and accumulated impairment losses, if any, to their residual values over their estimated useful lives, as follows:

Machinery and equipment	10-20 years
Motor vehicles and others	5-10 years

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

Construction in progress represents property, plant and equipment under construction or installation and is stated at cost. Cost comprises all direct costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction. Construction in progress is transferred to property, plant and equipment upon completion.

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the statement of comprehensive income. The expenses relating to improvements of property, plant and equipment are capitalised over their expected useful lives to the Group.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the statement of comprehensive income.

2.6 Intangible assets

Intangible assets represent the rights to charge users of public service that the Group obtained under service concession arrangements. Intangible assets are recognised at cost less accumulated amortisation and any impairment losses.

Amortisation of intangible assets is calculated to write off their costs on a straight-line basis over the terms of operation ranging from 25 to 30 years under the respective service concession arrangements.

2.7 Land use rights

Land use rights acquired are classified as operating lease, recorded at cost and presented net of accumulated amortisation and impairment provision. The prepaid lease payments are amortised on a straight-line basis over the lease period from 25 to 50 years.

2.8 Investment properties

Property that is held for long-term rental yields and that is not occupied by any of the companies within the Group, is classified as investment property.

Investment properties are stated at cost less accumulated depreciation and impairment. Depreciation of investment properties are calculated to write-off that cost, less estimated net residual value and accumulated impairment losses, if any, on a straight-line basis over estimated useful lives ranging from 40 to 50 years.

If an item of property, plant and equipment becomes an investment property because its use has changed (other than that of temporary nature), it is reclassified as investment property at net book value and vice versa.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.9 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'long-term receivables', 'trade and other receivables' and 'cash and cash equivalents'.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as 'gains and losses from investment securities'.

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.11 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.11 Impairment of financial assets (Continued)

(a) *Assets carried at amortised cost (Continued)*

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated statement of comprehensive income. Impairment losses recognised in the separate consolidated statement of comprehensive income on equity instruments are not reversed through the separate consolidated statement of comprehensive income.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.19 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.19 Current and deferred income tax (Continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

- Retirement benefit obligation

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligation of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred.

- Housing fund

The Group provides housing fund based on certain percentage of the wages and with no more than the upper limit of the requirement. The housing fund is paid to government social security organisation and corresponding costs are expensed or included in the cost of sales for the current year. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods.

2.21 Revenue recognition

Revenue from sewage water processing, provision of tap water and toll fee income is recognised when services are rendered.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.22 Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the shareholders of the Company.

2.23 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the statement of comprehensive income in the year in which they are incurred.

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

3 Financial risk management

(a) Financial risk factors:

The Group's activities expose it to a variety of financial risks. The Group's overall risk management programme seeks to minimise potential adverse effects on the financial performance of the Group.

Foreign currency risk:

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in Renminbi. All of the Group's borrowings are denominated in Renminbi.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

3 Financial risk management (Continued)

(a) Financial risk factors: (Continued)

Cash flow and fair value interest rate risk:

The Group's interest rate risk arises from long-term borrowings.

The Group has significant bank borrowings. Those taken at variable rates expose the Group to cash flow interest-rate risk, whilst those taken at fixed rates expose the Group to fair value interest-rate risk.

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

	Group				Company			
	Fixed	Floating	Non-interest bearing	Total	Fixed	Floating	Non-interest bearing	Total
At 31 December 2009								
Assets								
Cash and bank balances	10,900	592,261	—	603,161	10,000	224,354	—	234,354
Long-term receivables	331,354	—	—	331,354	331,354	—	—	331,354
Liabilities								
Current borrowings	516,364	201,712	714	718,790	516,364	109,000	—	625,364
Non-current borrowings	164,545	2,137,566	10,613	2,312,724	164,545	774,000	—	938,545
At 31 December 2008								
Assets								
Cash and bank balances	22,000	887,047	—	909,047	13,000	262,440	—	275,440
Long-term receivables	331,254	—	—	331,254	331,254	—	—	331,254
Liabilities								
Current borrowings	606,254	729,972	514	1,336,740	606,254	621,000	—	1,227,254
Non-current borrowings	332,609	2,143,278	10,613	2,486,500	288,909	1,101,000	—	1,389,909

At 31 December 2009, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, profit for the year would have been lower/higher by Rmb30 million (2008: Rmb26 million).

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

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

3 Financial risk management (Continued)

(a) Financial risk factors: (Continued)

Credit risk:

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

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

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

The maximum credit risk of the Company includes the carrying value of its financial assets on books and is increased by the notional amount of financial guarantees issued for its subsidiaries.

Liquidity risk:

The Group manages its liquidity risk based on a rolling working capital forecast which comprises a 3-5 year long-term plan and a 12 month's monthly working capital forecast. The long-term plan is reviewed annually and the monthly working capital forecast is prepared based on daily operating needs and capital expenditure requirement from new and existing projects.

Generally, approximately 60% of budgeted capital expenditure for new projects is projected for external financing. One of the considerations for management to assess the feasibility of new projects is whether the return can cover the cost of the project external financing and provide a reasonable return to the shareholders.



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

3 Financial risk management (Continued)

(a) Financial risk factors: (Continued)

Liquidity risk: (Continued)

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2009					
Long-term bank borrowings	219,813	593,669	1,171,356	787,451	2,772,289
Other non-current liabilities	22,910	22,091	54,725	92,245	191,971
Trade and other payables	254,378	—	—	—	254,378
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2008					
Long-term bank borrowings	670,531	764,348	1,348,024	674,710	3,457,613
Other non-current liabilities	23,728	22,909	55,977	114,252	216,866
Trade and other payables	117,689	—	—	—	117,689
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) Capital risk management

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

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

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

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

3 Financial risk management (Continued)

(b) Capital risk management (Continued)

The Group's strategy is to maintain a gearing ratio of about 40% - 60%. The gearing ratio of the Group is as follows:

	As at 31 December	
	2009	2008
Total borrowings	3,031,514	3,823,240
Less: Cash and cash equivalents	(592,261)	(887,047)
	2,439,253	2,936,193
Net debt	2,439,253	2,936,193
Total equity	3,415,511	3,226,198
Total capital	5,854,764	6,162,391
Gearing ratio	42%	48%

The decrease in gearing ratio of the Group during 2009 primarily resulted from the repayment of significant bank borrowings to reduce its finance cost upon collection of trade receivables.

(c) Fair value estimation

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimate and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Group's principal estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year is in relation to impairment of trade and other receivables.

The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 31 December 2009 are not impaired.



16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

5 Revenue and segment information

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

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

	2009	2008
Sales turnover	1,226,466	1,135,101
Other income – net	21,517	18,767
	<hr/>	<hr/>
Total revenues	<u>1,247,983</u>	<u>1,153,868</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.

The meeting considers the business from both service and geographical perspective. From a service perspective, management assesses the performance of processing of sewage water, recycled water and pipeline connection and tap water operation. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). Tianjin plants represent sewage water processing plants of downtown Tianjin located at Dong Jiao, Ji Zhuang Zi, Xian Yang Lu and Bei Cang respectively.

Other services include tolls collection, lease of office building or apartments and other services. These are not included within the reportable operating segments, as they are not individually included in the reports provided to the managers operating meeting. The results of these operations are 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 a manner consistent with that in the financial statements.

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2009 and 2008 respectively is as follows:

16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

5 Revenue and segment information (Continued)

(b) Operating segment analysis (Continued)

(i) For the year ended 31 December 2009

	Sewage	processing	services	Recycled water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Segment revenue	721,319	128,678	216,340	56,494	36,598	88,554	1,247,983
Segment expenses	(474,179)	(110,629)	(195,624)	(49,558)	(41,106)	(39,423)	(910,519)
Results before share of profits of an associate	247,140	18,049	20,716	6,936	(4,508)	49,131	337,464
Share of profits of an associate							257
Profit before tax							337,721
Income tax expense							(91,319)
Profit for the year							<u>246,402</u>
Segment assets	3,282,014	837,823	1,593,393	540,010	290,527	611,746	7,155,513
Investment in an associate	—	—	—	—	—	40,135	40,135
Total assets	3,282,014	837,823	1,593,393	540,010	290,527	651,881	7,195,648
Total liabilities	1,941,867	545,119	627,910	487,266	149,691	28,284	3,780,137
Other information							
-Interest income	7,381	5,787	1,311	2,140	—	11,397	28,016
-Interest expenses	121,447	31,487	51,464	5,229	—	—	209,627
-Depreciation	94,618	—	1,351	9,858	—	5,912	111,739
-Amortisation	9,795	21,957	48,756	25	8,683	253	89,469
-Capital expenditures	199,777	341,926	205,257	73,347	22,114	407	842,828



16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

5 Revenue and segment information (Continued)

(b) Operating segment analysis (Continued)

(ii) For the year ended 31 December 2008

	Sewage	processing	services	Recycled		All	
	Tianjin	Hangzhou	Other	water and	Tap	other	Group
	plants	plant	plants	pipeline	water	segments	
				connection			
Segment revenue	703,268	119,595	153,133	48,414	43,675	85,783	1,153,868
Segment expenses	(494,714)	(110,407)	(134,194)	(43,920)	(46,805)	(14,370)	(844,410)
Results before share of profits of an associate	208,554	9,188	18,939	4,494	(3,130)	71,413	309,458
Share of profits of an associate							780
Profit before tax							310,238
Income tax expense							(76,753)
Profit for the year							233,485
Segment assets	3,994,517	835,239	1,381,302	493,689	283,811	531,827	7,520,385
Investment in an associate	—	—	—	—	—	39,878	39,878
Total assets	3,994,517	835,239	1,381,302	493,689	283,811	571,705	7,560,263
Total liabilities	2,658,044	558,279	513,256	404,792	148,593	51,101	4,334,065
Other information							
-Interest income	1,223	2,573	1,096	1,581	—	11,262	17,735
-Interest expenses	157,972	34,880	29,712	4,488	—	—	227,052
-Depreciation	98,033	—	520	8,348	77	3,918	110,896
-Amortisation	10,360	20,658	34,770	—	8,053	—	73,841
-Capital expenditures	10,461	—	778,966	83,406	44	658	873,535

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

6 Property, plant and equipment

(a) Group

	Buildings and structures (Note (i))	Machinery and equipment	Motor vehicles and others	Construction in progress ("CIP") (Note (c))	Total
Cost					
At 1 January 2008	2,409,620	250,947	105,257	116,187	2,882,011
Additions	—	11	6,480	93,674	100,165
Transfer from investment properties (Note 9)	23,746	—	—	—	23,746
Transfers	105	1,119	1,515	(2,739)	—
Disposals	(358)	(713)	(1,381)	—	(2,452)
At 31 December 2008	2,433,113	251,364	111,871	207,122	3,003,470
Additions	903	11,637	4,786	262,533	279,859
Transfer to investment properties (Note 9)	(8,369)	—	—	—	(8,369)
Transfers	—	94,445	406	(94,851)	—
Disposals	(4,373)	(17,939)	(17,956)	—	(40,268)
At 31 December 2009	2,421,274	339,507	99,107	374,804	3,234,692
Accumulated depreciation					
At 1 January 2008	(465,442)	(172,453)	(53,290)	—	(691,185)
Charge for the year	(86,100)	(11,949)	(9,905)	—	(107,954)
Transfer from investment properties (Note 9)	(2,792)	—	—	—	(2,792)
Disposals	—	446	552	—	998
At 31 December 2008	(554,334)	(183,956)	(62,643)	—	(800,933)
Charge for the year	(87,360)	(12,794)	(8,447)	—	(108,601)
Transfer to investment properties (Note 9)	622	—	—	—	622
Disposals	1,833	8,041	15,544	—	25,418
At 31 December 2009	(639,239)	(188,709)	(55,546)	—	(883,494)
Impairment					
At 1 January 2008	—	(4,068)	(932)	—	(5,000)
Transfer from investment properties (Note 9)	(5,000)	—	—	—	(5,000)
At 31 December 2008	(5,000)	(4,068)	(932)	—	(10,000)
Charge for the year	(6,000)	—	—	—	(6,000)
At 31 December 2009	(11,000)	(4,068)	(932)	—	(16,000)
Net book value					
At 31 December 2009	1,771,035	146,730	42,629	374,804	2,335,198
At 31 December 2008	1,873,779	63,340	48,296	207,122	2,192,537

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

6 Property, plant and equipment (Continued)

b) Company

	Buildings and structures (Note (i))	Machinery and equipment	Motor vehicles and others	Construction in progress ("CIP") (Note (c))	Total
Cost					
At 1 January 2008	2,314,482	204,987	80,001	30,257	2,629,727
Additions	—	198	2,977	81,647	84,822
Transfers	105	—	32	(137)	—
Disposals	—	(525)	(795)	—	(1,320)
At 31 December 2008	2,314,587	204,660	82,215	111,767	2,713,229
Additions	—	3,371	956	212,027	216,354
Transfers	—	—	406	(406)	—
Disposals	(2,066)	(15,081)	(15,347)	—	(32,494)
Transfer to investment properties (Note 9)	(8,369)	—	—	—	(8,369)
At 31 December 2009	2,304,152	192,950	68,230	323,388	2,888,720
Accumulated depreciation					
At 1 January 2008	(457,343)	(159,214)	(48,643)	—	(665,200)
Charge for the year	(82,893)	(7,736)	(8,512)	—	(99,141)
Disposals	—	444	179	—	623
At 31 December 2008	(540,236)	(166,506)	(56,976)	—	(763,718)
Charge for the year	(82,701)	(6,655)	(6,296)	—	(95,652)
Disposals	1,102	7,004	14,749	—	22,855
Transfer to investment properties (Note 9)	622	—	—	—	622
At 31 December 2009	(621,213)	(166,157)	(48,523)	—	(835,893)
Net book value					
At 31 December 2009	1,682,939	26,793	19,707	323,388	2,052,827
At 31 December 2008	1,774,351	38,154	25,239	111,767	1,949,511

Note

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) The Group's depreciation expense of Rmb98 million (2008:Rmb99 million) has been included in cost of revenue and Rmb11 million (2008: Rmb9 million) in administrative expenses.
- (iii) Ownership of certain land and buildings included in property, plant and equipment, investment properties (Note 9) and land use rights (Note 8) with cost of Rmb311 million (31 December 2008: Rmb311 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the Directors believe that the titles will be received in due course without additional significant cost to the Group, if any.

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

6 Property, plant and equipment (Continued)

(c) Construction in progress comprised the following projects:

	Budget	As at 31 December 2008	Additions	Transfer to property, plant and equipment	As at 31 December 2009	Sources of fund	Incurred cost to budget cost ratio (%)
Water recycling plants:							
— Dong Jiao	129,702	70,037	7,152	—	77,189	Self-raised fund	60
— Bei Chen	97,000	34,193	9,374	—	43,567	Self-raised fund	45
Sewage water processing plants:							
— XianYang Lu	6,873	4,970	270	—	5,240	Self-raised fund	76
— Dong Jiao (upgrade project)	271,944	412	40,149	—	40,561	Self-raised fund	15
— XianYang Lu (upgrade project)	301,128	—	70,271	—	70,271	Self-raised fund	23
— Bei Cang (upgrade project)	199,370	—	55,132	—	55,132	Self-raised fund	28
— Ji Zhuang Zi (upgrade project)	267,806	—	28,166	—	28,166	Self-raised fund	11
Others		2,155	1,513	(406)	3,262	Self-raised fund	
Total –Company		111,767	212,027	(406)	323,388		
Water recycling plants:							
— Xian Yang Lu	141,000	93,773	—	(93,773)	—	Self-raised fund	
— Ji Zhuang Zi (expansion project)	87,573	—	18,565	—	18,565	Self-raised fund	21
— Office buildings		—	31,618	—	31,618	Self-raised fund	
Others		1,582	323	(672)	1,233	Self-raised fund	
Total –Group		207,122	262,533	(94,851)	374,804		
Including: Capitalised borrowing costs							
—Group		2,445	1,670	(3,158)	957		

16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

7 Intangible assets

The movements of the Group's concession rights are as follows:

Cost	
At 1 January 2008	1,250,719
Addition	771,855
	<hr/>
At 31 December 2008	2,022,574
Addition	562,969
	<hr/>
At 31 December 2009	2,585,543
	<hr/>
Amortisation	
At 1 January 2008	(76,378)
Amortisation charge for the year	(61,932)
	<hr/>
At 31 December 2008	(138,310)
Amortisation charge for the year	(79,537)
	<hr/>
At 31 December 2009	(217,847)
	<hr/>
Net book value	
At 31 December 2009	2,367,696
	<hr/> <hr/>
At 31 December 2008	1,884,264
	<hr/> <hr/>

- (a) Certain of concession rights with net book value of Rmb262 million (2008: Rmb272 million) have been secured against loan facilities (Note 22(a)(v)).
- (b) In 2009, borrowing cost of Rmb2,515 thousand (2008: Rmb5,326 thousand) have been capitalised in concession right at an average interest of 5.35% (2008: 7.7%).
- (c) The remaining amortisation period of concession rights range from 19 to 30 years.

16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

8 Land use rights

All the Group's and Company's land use rights are located in the PRC and are held on medium term leases of 25 to 50 years. The Group's and Company's interests in land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

	Group	Company
Cost		
At 1 January 2008	494,412	485,454
Addition	1,515	—
At 31 December 2008	495,927	485,454
Transfer to subsidiaries	—	(11,038)
At 31 December 2009	495,927	474,416
Amortisation		
At 1 January 2008	(90,883)	(85,529)
Amortisation charge for the year	(11,909)	(10,364)
At 31 December 2008	(102,792)	(95,893)
Amortisation charge for the year	(9,932)	(9,795)
Transfer to subsidiaries	—	2,208
At 31 December 2009	(112,724)	(103,480)
Net book value		
At 31 December 2009	<u>383,203</u>	<u>370,936</u>
At 31 December 2008	<u>393,135</u>	<u>389,561</u>



16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

9 Investment properties

	Group	Company
Cost		
At 1 January 2008	152,751	102,279
Transfer to property, plant and equipment (Note 6)	(23,746)	—
	<hr/>	<hr/>
At 31 December 2008	129,005	102,279
Transfer from property, plant and equipment (Note 6)	8,369	8,369
	<hr/>	<hr/>
At 31 December 2009	137,374	110,648
	<hr/>	<hr/>
Accumulated depreciation		
At 1 January 2008	(10,163)	(6,974)
Charge for the year	(2,942)	(2,429)
Transfer to property, plant and equipment (Note 6)	2,792	—
	<hr/>	<hr/>
At 31 December 2008	(10,313)	(9,403)
Transfer from property, plant and equipment (Note 6)	(622)	(622)
Charge for the year	(3,138)	(2,628)
	<hr/>	<hr/>
At 31 December 2009	(14,073)	(12,653)
	<hr/>	<hr/>
Net book value		
At 31 December 2009	<u>123,301</u>	<u>97,995</u>
At 31 December 2008	<u>118,692</u>	<u>92,876</u>

The Company's investment properties represent the apportioned cost of its office building located in Tianjin leased to third parties. The fair value of the entire office building at 31 December 2009 based on the Directors' assessment was approximately Rmb169 million (2008: Rmb169 million) against cost of Rmb167 million.

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

10 Investments in subsidiaries- Company

All of the Company's subsidiaries are registered and established in China other than Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd, which is registered in Hong Kong.

All subsidiaries are limited liability companies.

	Investment cost	Carrying Value			Interest held %
		2008	Additions/ (disposal)	2009	
Xi'an Capital Water Co., Ltd.	270,000	270,000	—	270,000	100
Hangzhou Tianchuang Water Co., Ltd	180,212	180,212	—	180,212	70
Qijing Capital Water Co., Ltd.	108,081	108,081	—	108,081	90
Tianjin Water Recycling Co., Ltd.	98,000	98,000	—	98,000	98
Guizhou Capital Water Co., Ltd.	95,000	95,000	—	95,000	95
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,988	62,988	—	62,988	100
Wendeng Capital Water Co., Ltd.	48,000	48,000	—	48,000	100
Wuhan Tianchuang Environmental Protection Co.,Ltd (note (i))	47,230	47,230	51,270	98,500	100
Fuyang Capital Water Co., Ltd.	44,100	44,100	18,000	62,100	99.9
Anguo Capital Water Co., Ltd.	41,000	41,000	—	41,000	100
Chibi Capital Water Co., Ltd. (note (i))	33,250	33,250	(33,250)	—	—
Baoying Capital Water Co., Ltd.	26,600	26,600	—	26,600	70
Tianjin Capital New Materials Co., Ltd. (note (ii))	26,500	26,500	—	26,500	71
Honghu Capital Water Co., Ltd. (note (i))	18,020	18,020	(18,020)	—	—
Tianjin Jinghai Capital Water Co., Ltd	12,000	12,000	—	12,000	100
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	2,000	2,000	—	2,000	100
		<u>1,112,981</u>	<u>18,000</u>	<u>1,130,981</u>	

- (i) During the year, the Company increased the registered capital of its wholly owned subsidiary, Wuhan Tianchuang Environmental Protection Co., Ltd., using its interest held in Honghu Capital Water Co., Ltd. and Chibi Capital Water Co., Ltd. of 90.01% and 95% respectively. Consequently, Honghu Capital Water Co., Ltd. and Chibi Capital Water Co., Ltd. became subsidiaries of Wuhan Tianchuang Environmental Protection Co., Ltd thereafter.
- (ii) Full provision has been made for investment in this subsidiary of approximately Rmb26.5 million as at 31 December 2009 (31 December 2008: Rmb22 million).
- (iii) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.

16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

11 Investment in an associate - Group

	2009	2008
Beginning of the year	39,878	63,979
Partial disposal	—	(24,881)
Share of profit	257	780
End of the year	<u>40,135</u>	<u>39,878</u>

(a) Tianjin International Machinery Co., Ltd. (TIMC) is a sino-foreign joint venture registered in the Tianjin Economics Development Area. The principal activities of TIMC include research and development, production and sale of environment protection equipment; engineering technical consultation; trading; manufacturing and sale of general equipment.

(b) The Group's share of the results, assets and liabilities of its unlisted associate are as follows:

	2009	2008
Total assets	155,843	123,805
Total liabilities	112,065	81,109
Revenue	317,754	311,774
Net profit	<u>257</u>	<u>780</u>

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

12 Available-for-sale financial assets

	Group		Company	
	2009	2008	2009	2008
Unquoted equity investments, at cost	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>

13 Long-term receivables

	Group		Company	
	2009	2008	2009	2008
Receivables from toll road concession (Note 36)	<u>331,354</u>	<u>331,254</u>	<u>331,354</u>	<u>331,254</u>

Receivables from toll road concession represent amortised cost using effective interest method, calculated with reference to a traffic flow forecast over the concession period.

14 Other non-current assets

	Group		Company	
	2009	2008	2009	2008
Restricted bank deposits	10,900	65,700	10,000	56,700
Entrusted loans	—	—	44,290	—
	<u>10,900</u>	<u>65,700</u>	<u>54,290</u>	<u>56,700</u>
Less: Included in cash and bank balance (Note 19)	(10,900)	(22,000)	(10,000)	(13,000)
Included in other current assets	—	—	(25,000)	—
	<u>—</u>	<u>43,700</u>	<u>19,290</u>	<u>43,700</u>
Others	3,230	3,552	—	—
	<u>3,230</u>	<u>47,252</u>	<u>19,290</u>	<u>43,700</u>

15 Inventories

	Group		Company	
	2009	2008	2009	2008
Raw materials	8,526	8,458	3,423	3,257
Finished goods	3,768	3,768	—	—
Spare parts and low value consumables	359	222	133	103
	<u>12,653</u>	<u>12,448</u>	<u>3,556</u>	<u>3,360</u>
Less: Write-down to net realisable value	(3,000)	(3,000)	—	—
	<u>9,653</u>	<u>9,448</u>	<u>3,556</u>	<u>3,360</u>



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

16 Trade receivables

	Group		Company	
	2009	2008	2009	2008
Due from TSC for (note (a))				
- Sewage processing service	350,863	955,992	350,863	955,992
- Construction of sewage processing plants	241,792	466,185	241,792	466,185
	<u>592,655</u>	<u>1,422,177</u>	<u>592,655</u>	<u>1,422,177</u>
Toll road fee receivable (note (b) and Note 36)	78,200	18,465	78,200	18,465
Less: Non-current portion	(241,792)	(697,763)	(241,792)	(697,763)
	<u>429,063</u>	<u>742,879</u>	<u>429,063</u>	<u>742,879</u>
Due from others – current	74,403	55,990	—	—
	<u>503,466</u>	<u>798,869</u>	<u>429,063</u>	<u>742,879</u>

- (a) Total settlement of receivables (including long-term receivables) in cash of approximately Rmb1,524 million was received from TSC during 2009. As at 31 December 2009, the non-current portion of receivables from TSC was reduced to about Rmb242 million and TSC plans to settle the amount by cash.

The acquisition of sewage processing assets of TSC as funded by foreign loans is estimated to be completed in 2010.

- (b) Pursuant to an agreement (“Toll collection Agreement”) with Tianjin Toll Collection Office (“the Office”) on 24 July 2003, the Office is to collect the tolls on behalf of the Company for the six toll stations of which collection right were granted to the Company. The collected tolls will be paid to the Company periodically. The receivable balance at 31 December 2009 represents the tolls for 2009.

- (c) Aging of trade receivables prior to the classification to non-current described in (a) above is as follows:

	Group		Company	
	2009	2008	2009	2008
Within one year	497,119	771,614	429,063	721,733
One to two years	1,361	27,255	—	21,146
Over two years	246,778	697,763	241,792	697,763
	<u>745,258</u>	<u>1,496,632</u>	<u>670,855</u>	<u>1,440,642</u>

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

17 Prepayments

The aging of prepayments is analysed below:

	Group		Company	
	2009	2008	2009	2008
Within 1 year	152,798	59,303	113,583	30,391
1 to 2 years	37,568	22,684	28,899	3,422
Over 2 years	3,794	—	141	—
	<u>194,160</u>	<u>81,987</u>	<u>142,623</u>	<u>33,813</u>

The prepayments aged over one year were mainly for construction project of Han Gu and recycled water pipeline connection for which the projects have not been completed and hence balance remains outstanding.

18 Other receivables

	Group		Company	
	2009	2008	2009	2008
Project deposits	29,650	29,893	27,300	25,550
Other receivables from customers	7,971	8,914	—	—
Receivables from subsidiaries	—	—	127,136	262,000
Others	17,678	13,330	15,028	13,219
	<u>55,299</u>	<u>52,137</u>	<u>169,464</u>	<u>300,769</u>

The aging of the Group's other receivables is analysed below:

	2009		2008	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	14,747	27	14,060	27
1 to 2 years	5,403	10	32,067	61
2 to 3 years	30,260	55	5,677	11
Over 3 years	4,889	8	333	1
	<u>55,299</u>	<u>100</u>	<u>52,137</u>	<u>100</u>



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

19 Cash and bank balances

Majority of the bank balances as at 31 December 2009 were deposited with state owned banks.

	Group		Company	
	2009	2008	2009	2008
Cash on hand and in bank	<u>603,161</u>	<u>909,047</u>	<u>234,354</u>	<u>275,440</u>
Including:				
Special funds for construction in progress (note (a))	67,647	38,609	65,540	38,609
Restricted bank deposits due within one year (note (b))	<u>10,900</u>	<u>22,000</u>	<u>10,000</u>	<u>13,000</u>

- (a) The special funds for construction in progress represent the unutilised balances of the special loans for sewage processing projects.
- (b) The bank deposits represented deposits for project bids due within one year.

Cash and bank balances comprise the following for the purposes of the cash flow statement:

	Group	
	2009	2008
Cash and bank balances	603,161	909,047
Restricted bank deposits	<u>(10,900)</u>	<u>(22,000)</u>
	<u>592,261</u>	<u>887,047</u>

20 Share capital

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

	A shares			H shares	
	Restricted circulating shares	Circulating shares	Subtotal	Circulating shares	Total
At 1 January 2008	730,620	356,608	1,087,228	340,000	1,427,228
Release of restricted circulating shares	<u>(66,533)</u>	<u>66,533</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2008	664,087	423,141	1,087,228	340,000	1,427,228
Release of restricted circulating shares (Note 1)	<u>(664,087)</u>	<u>664,087</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2009	<u>—</u>	<u>1,087,228</u>	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>

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

16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

21 Reserves

The reconciliation and movement of other reserves are as follows:

(a) Group

	Capital reserve (Note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2008	383,338	232,336	615,674	890,824	1,506,498
Profit for the year	—	—	—	231,065	231,065
Other comprehensive income	—	—	—	—	—
Profit appropriation to statutory common reserves, net (Note (ii))	—	20,757	20,757	(20,757)	—
Dividends declared for 2007	—	—	—	(57,089)	(57,089)
Balance at 31 December 2008	383,338	253,093	636,431	1,044,043	1,680,474
Profit for the year	—	—	—	242,978	242,978
Other comprehensive income	—	—	—	—	—
Profit appropriation to statutory common reserve, net (Note (ii))	—	23,031	23,031	(23,031)	—
Dividends declared for 2008	—	—	—	(57,089)	(57,089)
Balance at 31 December 2009	383,338	276,124	659,462	1,206,901	1,866,363

(b) Company

	Capital reserve (Note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2008	380,788	232,336	613,124	860,776	1,473,900
Profit for the year	—	—	—	207,571	207,571
Other comprehensive income	—	—	—	—	—
Profit appropriation to statutory common reserves, net (Note (ii))	—	20,757	20,757	(20,757)	—
Dividends declared for 2007	—	—	—	(57,089)	(57,089)
Balance at 31 December 2008	380,788	253,093	633,881	990,501	1,624,382
Profit for the year	—	—	—	230,305	230,305
Other comprehensive income	—	—	—	—	—
Profit appropriation to statutory common reserve, net (Note (ii))	—	23,031	23,031	(23,031)	—
Dividends declared for 2008	—	—	—	(57,089)	(57,089)
Balance at 31 December 2009	380,788	276,124	656,912	1,140,686	1,797,598

Notes:

- (i) Capital reserve principally comprises share premium arising from the issuance of shares. This reserve can be utilised to offset prior years' losses or for issuance of bonus shares.
- (ii) General reserve represents the statutory common reserve.

According to the PRC Companies Law and the Company's Articles of Association, a company is required to transfer 10% of its net profit for the year to the statutory common reserve, which can be ceased till the reserve reaches 50% of the registered capital. This reserve shall only be used to make up losses; or to increase the capital of the Company upon approval from the shareholders.

16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

22 Borrowings

	Note	2009	Group 2008	Company 2009	Company 2008
<i>Non-current:</i>					
Long-term bank borrowings	(a)	2,262,460	2,812,950	833,000	1,693,000
Less: Current portion	(a)	(98,530)	(494,790)	(9,000)	(434,000)
		<u>2,163,930</u>	<u>2,318,160</u>	<u>824,000</u>	<u>1,259,000</u>
Other non-current liabilities	(d)	291,894	278,340	182,645	178,909
		<u>2,455,824</u>	<u>2,596,500</u>	<u>1,006,645</u>	<u>1,437,909</u>
<i>Current:</i>					
Current portion of long-term bank borrowings	(a)	98,530	494,790	9,000	434,000
Short-term bank borrowings	(b)	100,000	821,890	100,000	776,890
Short-term debenture	(c)	500,000	—	500,000	—
Other current liabilities	(d)	20,260	20,060	16,364	16,364
		<u>718,790</u>	<u>1,336,740</u>	<u>625,364</u>	<u>1,227,254</u>

(a) Long-term bank borrowings

	Note	2009	Group 2008	Company 2009	Company 2008
Borrowings from:					
State Development Bank	(i)	218,000	337,000	72,000	337,000
Industrial and Commercial Bank of China	(ii)	494,000	683,000	—	158,000
Shanghai Pudong Development Bank	(iii)	76,000	320,000	38,000	300,000
Agricultural Bank of China	(iv)	309,460	668,000	198,000	548,000
China Construction Bank	(v)	970,000	704,950	375,000	300,000
China CITIC Bank		100,000	—	100,000	—
China Everbright Bank	(vi)	50,000	50,000	50,000	50,000
Bank of China	(vii)	45,000	50,000	—	—
		<u>2,262,460</u>	<u>2,812,950</u>	<u>833,000</u>	<u>1,693,000</u>

Notes:

- (i) Includes Rmb146 million secured by the Company's guarantee and the remaining Rmb72 million is unsecured.
- (ii) Secured by the Company's guarantee (2008: Rmb525 million).
- (iii) Includes Rmb38 million (2008: Rmb20 million) secured by the Company's holding company's guarantee and the remaining Rmb38 million (2008: Rmb300 million) is unsecured.
- (iv) Includes Rmb198 million and Rmb50 million (2008: Rmb548 million and Rmb55 million) secured by the guarantee of Tianjin City Infrastructure Construction and Investment Group Company Limited ("TICIG") and the Company, respectively. The remaining balance of about Rmb61.46 million (2008: Rmb65 million) is secured by the Company's guarantee during the construction period of a subsidiary together with certain of the subsidiary's concession right.

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

22 Borrowings (Continued)

(a) Long-term bank borrowings (Continued)

Notes: (Continued)

(v) Includes Rmb175 million (2008: Rmb180 million) secured by the right to receive tap water and sewage processing fees (Note 7(a)). Includes Rmb395 million (2008: Rmb150 million) and Rmb25 million (2008: Rmb31.25 million) secured by the guarantee of TICIG and the Company, respectively. The remaining balance of about Rmb375 million (2008: Rmb343.7 million) is unsecured.

(vi) Secured by TSC's right to receive sewage water processing fees.

(vii) Secured by the Company's guarantee.

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

	Group		Company	
	2009	2008	2009	2008
Secured				
- Pledge	175,000	180,000	—	—
- Guarantee	1,502,460	1,831,250	248,000	935,000
Unsecured	585,000	801,700	585,000	758,000
	<u>2,262,460</u>	<u>2,812,950</u>	<u>833,000</u>	<u>1,693,000</u>

(ix) These long term bank borrowings are all interest bearing with weighted average effective interest rate at the balance sheet date of 5.6% (2008: 6.9%)

(x) These borrowings mature as follows:

	Group		Company	
	2009	2008	2009	2008
Within one year	98,530	494,790	9,000	434,000
In the second year	488,470	627,030	368,000	541,000
In the third to fifth year	976,150	1,115,070	456,000	718,000
After the fifth year	699,310	576,060	—	—
	<u>2,262,460</u>	<u>2,812,950</u>	<u>833,000</u>	<u>1,693,000</u>

(xi) As at 31 December 2009, the fair value of the long-term fixed-rate bank borrowings is Rmb55 million (2008: Rmb199 million).

(xii) Bank borrowings which are exposed to interest-rate changes and the contractual repricing dates are as follows:

	Group		Company	
	2009	2008	2009	2008
6 months or less	1,246,460	1,389,460	598,000	801,000
6- 12 months	966,000	727,000	185,000	300,000
	<u>2,212,460</u>	<u>2,116,460</u>	<u>783,000</u>	<u>1,101,000</u>



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

22 Borrowings (Continued)

(b) Short-term bank borrowings

	Note	Group		Company	
		2009	2008	2009	2008
Borrowings from:					
China Minsheng Bank	(i)	100,000	187,000	100,000	187,000
China CITIC Bank		—	200,000	—	200,000
Jin Gang Entrust Company		—	299,890	—	299,890
China Zheshang Bank		—	45,000	—	—
Huaxia Bank		—	90,000	—	90,000
		<u>100,000</u>	<u>821,890</u>	<u>100,000</u>	<u>776,890</u>

Notes:

- (i) The borrowing is unsecured. The weighted average interest rate of short-term bank borrowings in 2009 is 4.78% (2008: 5.95%) per annum.
- (ii) The carrying amounts of short-term bank borrowings approximate their fair values as at 31 December 2009 either due to their short-term maturity or because they bear interest at prevailing market rates throughout their maturity period.
- (iii) Summary of terms of short-term bank borrowings:

	Group		Company	
	2009	2008	2009	2008
Secured				
- Guarantee	—	45,000	—	—
Unsecured	<u>100,000</u>	<u>776,890</u>	<u>100,000</u>	<u>776,890</u>
	<u>100,000</u>	<u>821,890</u>	<u>100,000</u>	<u>776,890</u>

(c) Short-term debenture

	Par value	Issuance date	Maturity	Balance
Short-term debenture	<u>500,000</u>	2009-7-28	1 year	<u>500,000</u>

On 28 July 2009, the Company issued a short-term debenture of Rmb500 million at par with maturity period of one year. The debenture bears interest rate at 2.8% per annum. Both the principal and interest will be repaid upon maturity of the debenture.

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

22 Borrowings (Continued)

(d) Other liabilities

	Group		Company	
	2009	2008	2009	2008
Non-current:				
- Tianjin Municipal Engineering Bureau ("TMEB") (note(i))	114,545	130,909	114,545	130,909
-Deferred revenue (note(ii))	143,100	110,000	68,100	48,000
-Others	34,249	37,431	—	—
	<u>291,894</u>	<u>278,340</u>	<u>182,645</u>	<u>178,909</u>
Current:				
-TMEB				
• Current portion of long-term loan (note(i))	16,364	16,364	16,364	16,364
-Others	3,896	3,696	—	—
	<u>20,260</u>	<u>20,060</u>	<u>16,364</u>	<u>16,364</u>

notes:

- (i) A loan was taken from TMEB during 2005 specifically for construction of sewage water processing plants. The current portion of the long-term loan is Rmb16 million at the end of year 2009 (2008: Rmb16 million). The loan is repayable in equal instalments over eleven years from 2007. The loan bears interest at 5% per annum for the first six years. From the seventh year to maturity, the interest will be based on the one-year deposit plus 0.3% premium.
- (ii) Deferred revenue represents the subsidies received which were granted from governmental bodies in relation to certain construction projects invested by the Group.

(e) As at year end, the Group has the following committed undrawn banking facilities:

	Group	
	2009	2008
Floating rate expiring within one year	<u>741,000</u>	<u>250,000</u>



16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

23 Trade payables, advances from customers and other payables

	Group		Company	
	2009	2008	2009	2008
Trade payables (note (a))	22,952	17,841	8,362	7,277
Advances from customers (note (b))	305,085	228,716	110,908	61,130
Other payables (note (c))	231,426	99,848	232,270	132,928
	<u>559,463</u>	<u>346,405</u>	<u>351,540</u>	<u>201,335</u>

(a) As at 31 December 2009, the majority of trade payables are aged within one year.

(b) Advances from customers comprise:

	Group		Company	
	2009	2008	2009	2008
For pipeline connection	194,024	167,586	—	—
Received from project Han Gu	110,504	32,220	110,504	32,220
Received from TSC	—	27,385	—	27,385
Other advances	557	1,525	404	1,525
	<u>305,085</u>	<u>228,716</u>	<u>110,908</u>	<u>61,130</u>

(c) Other payables comprise:

	Group		Company	
	2009	2008	2009	2008
Construction costs payable	116,715	53,708	97,553	34,823
Payable for purchase of property, plant and equipment and concession rights of plants	83,389	26,610	—	—
Others	31,322	19,530	134,717	98,105
	<u>231,426</u>	<u>99,848</u>	<u>232,270</u>	<u>132,928</u>

The carrying value of trade and other payables approximates their fair value due to their short-term maturities.

16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

24 Expense by nature

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

	2009	2008
Depreciation of property, plant and equipment and investment properties	111,739	110,896
Amortisation of intangible assets and land use right	89,469	73,841
Utilities	157,127	133,244
Employee benefits (Note 25)	103,440	86,013
Repair and maintenance expenses	45,262	46,364
Raw materials and consumables used	30,851	30,506
Construction for water recycling facilities	17,396	19,426
Management fee to Toll Fee Collection Office	7,122	7,120
Auditors' remuneration	3,500	3,500
Other taxes	8,433	4,757
Outgoings in relation to investment properties	1,222	1,612
Operating lease rentals for land and buildings	564	1,180
Impairment of assets	6,000	—
Loss on sale of property, plant and equipment	12,834	934
Others	85,844	68,431
	<u>680,803</u>	<u>587,824</u>

25 Employee benefits

(a) The analysis of employee benefits is as follows:

	2009	2008
Wages and salaries	76,436	65,866
Social security costs	10,790	8,999
Pension costs – defined contribution plans	10,321	7,589
Other benefits	5,893	3,559
	<u>103,440</u>	<u>86,013</u>

(b) The aggregate amounts of emoluments payable to the Directors during the year are as follows:

	2009	2008
Fees	1,107	1,194
Salaries and other emoluments	1,091	902
Contribution to retirement benefit scheme	37	33
	<u>2,235</u>	<u>2,129</u>

Emoluments paid to the Company's independent non-executive directors amounted to Rmb457,000 during the year have been included in the above balance (2008: Rmb544,000).

16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

25 Employee benefits (Continued)

(c) Details of emoluments of individual directors are set out as below:

	2009	2008
Executive Directors:		
Ma Baiyu	150	150
Gu Qifeng	822	650
Tan Zhaofu	100	100
Wang Zhanying	100	100
An Pindong	100	100
Fu Yana	506	484
Non-executive Directors:		
Gao Baoming	157	177
Gao Zongze	—	52
Wang Xiangfei	—	52
Di Xiaofeng	150	132
Xie Rong	150	132
	<u>2,235</u>	<u>2,129</u>

None of the Directors of the Company received emoluments in excess of HK\$1,000,000 during the year.

(d) The five individuals whose emoluments were the highest in the Group for the year include 2 (2008: 2) Directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2008: 3) individuals during the year are as follows:

	2009	2008
Salaries and other emoluments	1,778	1,463
Contribution to retirement benefit scheme	56	49
	<u>1,834</u>	<u>1,512</u>

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

26 Finance costs – net

	2009	2008
Interest expenses of borrowings	213,812	233,751
Less: Capitalised interest	<u>(4,185)</u>	<u>(6,699)</u>
Net interest expenses	209,627	227,052
Less: Interest income	(28,016)	(17,734)
– long-term receivables	<u>(11,263)</u>	<u>(11,118)</u>
– bank deposits	<u>(16,753)</u>	<u>(6,616)</u>
Others	<u>5,132</u>	<u>5,171</u>
	<u>186,743</u>	<u>214,489</u>
Interest rate per annum at which finance costs were capitalised	<u>5.35%</u>	<u>6.5%</u>

27 Income tax expense

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong (2008: Nil). PRC income tax is calculated at the statutory rate of 25% (2008: 7.5% to 25%).

	2009	2008
Tax charge comprises:		
Current PRC income tax	84,761	67,461
Deferred income tax	<u>6,558</u>	<u>9,292</u>
	<u>91,319</u>	<u>76,753</u>

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

	2009	2008
Profit before income tax	<u>337,721</u>	<u>310,238</u>
Calculated at applicable income tax rates (25%)	84,430	76,011
Income not subject to tax	(50)	(1,532)
Expenses not deductible for taxation purposes	2,061	1,111
Utilisation of previously deductible tax for which no deferred income tax was recognised	(184)	(510)
Current year tax losses for which no deferred income tax asset was recognised	<u>5,062</u>	<u>1,673</u>
Income tax expense	<u>91,319</u>	<u>76,753</u>



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

28 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year is dealt with in the financial statements of the Company to the extent of approximately Rmb230 million (2008: Rmb208 million).

29 Earnings per share

Basic earnings per share is calculated based on the profit attributable to equity holders of the Company of Rmb243 million (2008: Rmb231 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2008: 1,427 million shares).

Diluted earnings per share is calculated using the same bases as described above for calculating basic earnings per share.

	2009	2008
Profit attributable to equity holders of the Company	<u>242,978</u>	<u>231,065</u>
Weighted average number of ordinary shares in issue (million shares)	<u>1,427</u>	<u>1,427</u>
Basic earnings per share (Rmb Yuan)	<u><u>0.17</u></u>	<u><u>0.16</u></u>

30 Dividends

Dividends proposed:

On 25 March 2010, the Directors proposed a dividend of Rmb0.8 for every 10 shares held. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2010.

**16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements**

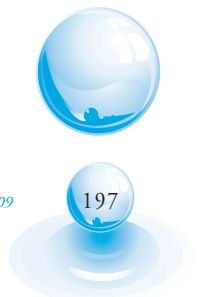
For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

31 Cash generated from operations

	2009	2008
Profit for the year	246,402	233,485
Adjustments for:		
– Taxation	91,319	76,753
– Depreciation and amortisation	201,208	184,737
– Impairment of assets	6,000	—
– Share of profit of an associate	(257)	(780)
– Gain on disposal of share of an associate	—	(4,949)
– Investment income from available-for-sale financial assets	(200)	(400)
– Loss on sale of property, plant and equipment	12,834	934
– Interest income	(16,753)	(6,616)
– Interest expense-net	209,627	221,105
	750,180	704,269
Operating profit before working capital changes	750,180	704,269
Increase in inventories	(205)	(2,814)
Decrease/(increase) in trade receivables, other receivables and prepayments	760,346	(342,370)
(Decrease)/increase in trade payables, advance from customers and other payables	(42,766)	49,876
	1,467,555	408,961
Cash generated from operations		

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2009	2008
Net book amount (Note 6)	14,850	1,454
Loss on sale of property, plant and equipment (Note 24)	(12,834)	(934)
	2,016	520
Proceeds from sale of property, plant and equipment		



16. Financial statements prepared in accordance with Hong Kong
Financial Reporting Standards
Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

32 Commitments

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

	Contracted but not provided for		Authorised but not contracted for	
	2009 Rmb' million	2008 Rmb' million	2009 Rmb' million	2008 Rmb' million
Sewage water processing plants in:				
– Hang Zhou	—	341	—	—
– Wen Deng	—	60	—	—
– Jing Hai	16	22	—	—
– Wu Han	162	108	24	—
– An Guo	—	24	—	—
– Qu Jing	30	—	45	—
– Ji Zhuang Zi (upgrade project)	115	—	120	—
– Xian Yang Lu (upgrade project)	50	—	154	—
– Bei Cang (upgrade project)	53	—	90	—
– Dong Jiao (upgrade project)	96	—	138	—
Tap water plants in:				
– An Guo	—	15	—	33
– E Zhou	—	—	—	95
Water recycling plants in:				
– Dong Jiao	1	8	48	48
– Bei Chen	—	11	51	51
– Xian Yang Lu	—	—	—	48
– Ji Zhuang Zi (expansion project)	18	—	36	—
	<u>541</u>	<u>589</u>	<u>706</u>	<u>275</u>

33 Financial guarantee contracts

As at 31 December 2009, the Company had given guarantees of approximately Rmb915 million (2008: Rmb776 million) to banks of certain subsidiaries in respect of their banking facilities, of which Rmb190 million of the facilities had been drawn by the subsidiaries.

The Directors consider the subsidiaries to be financially resourceful to settle their obligations.

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

For the year ended 31 December 2009
(All amounts in Rmb thousand unless otherwise stated)

34 Related party transactions

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

(i) *Income:*

Related party	Nature of transaction	2009	2008
TICIG	Rental income	<u>4,854</u>	<u>6,583</u>

(ii) *Key management compensation is disclosed in Note 25(d).*

35 Ultimate holding company

The Directors of the Company regard Tianjin Municipal Investment Company Limited as the immediate holding company and Tianjin City Infrastructure Construction and Investment Group Company Limited as the ultimate holding company.

36 Event after the reporting period

Pursuant to related regulations, toll fee collection in Tianjin city was terminated with effect from 1 January 2010. Accordingly toll fee collection for the six toll stations owned by the Company was terminated. At the date of approval of the consolidated financial statements, the new toll fee collection model and the new concession arrangement has not been announced yet. Once the government announces the new arrangement, the Company will make announcement timely.



17. List of Documents Available for Inspection

1. The 2009 Annual Report and its summary signed by the Chairman of the Company;
2. The financial statements signed and sealed by the legal representatives of the Company, the officer-in-charge of the accounting work and the Officer-in-charge of the Accounting Department;
3. Originals of all documents and announcements publicly disclosed in newspapers designated by the CSRC during the reporting period;
4. The Articles of Association of the Company.