



*Interim Report for the six  
months ended 30th June 2010*



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

## I. Important

- (1) The board of directors (the “**Board**”) and supervisory committee (the “**Supervisory Committee**”) of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) and its directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management confirm that the information in this 2010 interim report (the “**Interim 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 contents of this report.
- (2) The interim financial statements of the Company for the six months ended 30 June 2010 are unaudited.
- (3) None of the controlling shareholders of the Company or its connected persons has misappropriated the Company’s funds.
- (4) The Company did not provide external guarantees in violation of any specified decision-making procedures.
- (5) The person in charge of the Company, Mr. Zhang Wenhui, the person in charge of the accounting function and the accounting department of the Company (executive in charge for accounting), Ms. Shi Zhenjuan, have warranted the truthfulness and completeness of the financial statements in this Interim Report.

## II. Company Profile

### (I) Information of the Company

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

## (II) Contact Persons and Contact Details

	<b>Secretary to the Board</b>	<b>Company Secretary in Hong Kong</b>	<b>Securities Affairs Representative</b>
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	86-22-23930128	852-2218-0920	86-22-23930128
Facsimile number	86-22-23930126	852-2501-0028	86-22-23930126
E-mail	fu_yn@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

## (III) Basic Information

Registered Address	No. 45 Guizhou Road, Heping District, Tianjin, the PRC
Postal Code	300051
Office Address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal Code	300381
Website	<a href="http://www.tjcep.com">http://www.tjcep.com</a>
E-mail	<a href="mailto:tjcep@tjcep.com">tjcep@tjcep.com</a>

## (IV) Information Disclosure and Places for Document Inspection

Newspaper designated for information disclosure	Shanghai Securities News
Website designated by China Securities Regulatory Committee ("CSRC") for uploading the Interim Report	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Place where the Interim Report is available for inspection	Office of the Secretary to the Board at 18/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC

## (V) Information of the Shares of the Company

Type of Shares	Place of Listing	Stock Short Name	Stock Code	Stock Short Name Before 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 “HKSE”)	Tianjin Capital	1065	Tianjin Bohai

## (VI) Other Basic Information of the Company

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

**(VII) Principal Accounting Data and Financial Highlights as prepared in accordance with the PRC Accounting Standards**

**1. Major accounting data and financial indicators**

Unit: '000 Currency: RMB

	As at the end of the reporting period	As at the end of the period last year	Comparison between the end of the reporting period and the end of the period last year Increase/Decrease (%)
Total assets	7,593,984.00	7,195,648.00	5.54
Equity interest attributable to the owners of the Company (or shareholder's equity)	3,309,114.00	3,293,591.00	0.47
Net assets value per share attributable to shareholders of the Company (RMB/share)	2.32	2.31	0.43
	Reporting period (January to June)	Corresponding period of last year	Comparison between the reporting period and the corresponding period last year Increase/Decrease (%)
Operating profit	188,528.00	143,222.00	31.63
Total profit	177,434.00	148,807.00	19.24
Net profit attributable to shareholders of the Company	129,701.00	108,013.00	20.08
Net profit after deduction of extraordinary items attributable to shareholders of the Company	138,021.00	103,825.00	32.94
Basic earnings per share (RMB)	0.09	0.08	12.50
Basic earnings per share after deduction of extraordinary profit and loss (RMB)	0.10	0.07	42.86
Diluted earnings per share (RMB)	0.09	0.08	12.50
Return on net assets ratio (%)	3.92	3.42	Increased by 0.50%
Net cash flow from operating activities	56,723.00	740,710.00	-92.34
Net cash flow from operating activities per share	0.04	0.52	-92.31

## 2. Extraordinary profit and loss items and amounts

Unit: '000 Currency: RMB

<b>Extraordinary profit and loss items</b>	<b>Amount</b>
Profit and loss on disposal of non-current assets	-13,117
Other non-operating income and expenses except for those described above	2,023
Amount of income tax effect	2,774
Total	-8,320

## 3. Difference in accounting standards between the PRC and overseas

No differences exist in net profit and net assets.

## III. Changes in Share Capital and Shareholders

### (I) Table of share changes

The total number of shares and share structure of the Company had no change during the reporting period.

## (II) Shareholders and actual controller

### 1. Number of shareholders and their shareholdings

Total number of shareholders as at the end of the reporting period 110,176 shareholders, including 95 shareholders holding H shares

#### Shareholdings of the top ten shareholders

Shareholders	Nature of shareholders	Percentage of shareholding (%)	Total number of shares held (shares)	Increase/Decrease during the reporting period (shares)	Number of restricted circulating shares held (shares)	Number of shares pledged or frozen (shares)
Tianjin Municipal Investment Company Limited ("TMICL")	State-owned	53.06	757,265,766	-67,000	0	Pledged 251,940,000
HKSCC Nominees Limited	Others	23.44	334,504,900	-3,110,000	0	Unknown
Zhou Jun	Others	0.42	5,975,407	32,572	0	Unknown
Shenyang Railway Coal Dealing Co., Ltd.	Others	0.21	3,000,000	0	0	Unknown
Ho Man Ping	Others	0.14	2,014,000	Unknown	0	Unknown
Wang Ming Li	Others	0.13	1,853,816	563,649	0	Unknown
Pan Zhi Hong	Others	0.09	1,235,820	500	0	Unknown
Industrial and Commercial Bank of China Limited - China AMC CSI 300 Index Fund	Others	0.08	1,200,000	-300,000	0	Unknown
Fung Chun Kit	Others	0.08	1,130,000	Unknown	0	Unknown
Agricultural Bank of China - China Southern CSI 500 Index Fund (LOF)	Others	0.07	1,034,900	Unknown	0	Unknown

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

Shareholders	Number of non-restricted circulating shares held	Type of shares
TMICL	757,265,766	RMB Ordinary Shares
HKSCC Nominees Limited	334,504,900	H Shares
Zhou Jun	5,975,407	RMB Ordinary Shares
Shenyang Railway Coal Dealing Co., Ltd.	3,000,000	RMB Ordinary Shares
Ho Man Ping	2,014,000	H Shares
Wang Ming Li	1,853,816	RMB Ordinary Shares
Pan Zhi Hong	1,235,820	RMB Ordinary Shares
Industrial and Commercial Bank of China Limited - China AMC CSI 300 Index Fund	1,200,000	RMB Ordinary Shares
Fung Chun Kit	1,130,000	H Shares
Agricultural Bank of China - China Southern CSI 500 Index Fund (LOF)	1,034,900	RMB Ordinary 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 ten shareholders.

It is not certain whether there is any connected relationship between the top ten non-restricted circulating shares shareholders and the top ten 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.



## 2. Changes in controlling shareholder and actual controller of the Company

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

## 3. Substantial shareholders' and other persons' interests and/or short positions in the shares and underlying shares of the Company

As at 30 June 2010, the following entity, other than the Director, Supervisor or chief executive of the Company, had interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

Name of shareholder	Capacity	Number and class of securities (Note 1)	Approximate percentage in the relevant class of securities	Approximate percentage in the total issued share capital of the Company
TMICL	Beneficial owner	757,265,766 Shares	69.65%	53.06%
Edmond de Rothschild Asset Management	Investment manager	24,400,000 Shares H Shares (L)	7.18%	1.71%
ISIS Asset Management Plc.	Investment manager	17,286,000 Shares H Shares (L)	5.08%	1.21%
HSBC Asset Management (Hong Kong) Limited	Investment manager	20,000,000 Shares H Shares (L)	5.88%	1.40%

*Note:*

1. The letter "L" represents the entity's long positions in the shares.

Save as disclosed above, there is no person (other than the Director, Supervisor or chief executive of the Company) who, as at 30 June 2010, had an interest and/or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

#### IV. Directors, Supervisors and Senior Management

##### (I) Changes in the shareholding of the Directors, Supervisors and senior management

There was no change in the shareholding of the Directors, Supervisors and senior management during the reporting period.

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

As at 30 June 2010, 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 HKSE 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 as set out in the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"), to be notified to the Company and the HKSE 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
<b>Supervisor</b>				
Nie Youzhuang	The Company	Beneficial owner	959 domestic shares (non-restricted circulating shares) (L)	0.00007

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

Save as disclosed above, none of the Directors, Supervisors or chief executives of the Company, who, as at 30 June 2010, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the HKSE 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 HKSE.

**(III) Recruitment or removal of the Directors, Supervisors and senior management of the Company**

- (1) Due to work allocation, Mr. Gu Weihui resigned as the Chief Economist of the Company on 25 March 2010.
- (2) At the second meeting of the Fifth Board of the Company held on 25 March 2010, the appointment of Mr. Lin Wenbo as the General Manager of the Company and the appointment of Mr. Wang Hong and Mr. Tang Fu as Deputy General Managers of the Company were considered and approved and their term of office will be until the 17 December 2012.

**V. Report of the Board**

**(I) The Group's overall operation during the reporting period**

During the reporting period, the Company and its subsidiaries (the “**Group**”) firmly established the corporate philosophy of “focusing on operations, leading by technology” on the basis of corporate structural adjustment as well as unifying thoughts and knowledge. Encircling the annual working plan and target, the strategic plan was fully implemented, and expanded and secured the core business operations, explored and developed potential business, cultivated and created future business opportunities, and strived to build a concentric and diversified strategy. More efforts were made to technology introduction and staff training. Research and development on application technologies and specific technologies were practically started to build up core competitiveness and promote the stable development of various businesses of the Group.

As at the end of the reporting period, the Group's total assets amounted to RMB7.594 billion and the net assets amounted to RMB3.309 billion (excluding minority interests) with the gearing ratio of 54.80%. During the reporting period, the Group recorded an operating revenue of RMB675.52 million, representing an increase of 14.95% as compared to the corresponding period in 2009, an operating profit of RMB188.53 million, representing an increase of 31.63% as compared to the corresponding period in 2009, and a net profit of RMB129.70 million (excluding minority interests), representing an increase of 20.08% as compared to the corresponding period in 2009. The Group's operating profit increased significantly as compared to the corresponding period last year, mainly due to a significant decrease in the Group's financial expenses as compared to the corresponding period last year.

## **(II) Operation of the Group's principal business**

During the reporting period, the Group's sewage water treatment plant upgrading and reconstruction projects implemented smoothly as scheduled with the sewage water treatment plants meeting their operation targets. During the reporting period, the Group processed a total of 385 million cubic metres of sewage water, an increase of 5.45% as compared to the corresponding period last year, which was mainly due to the fact that Chibi and Anguo sewage water treatment plants commenced commercial operations in May and April last year respectively, while the sewage water treatment volume of some existing plants increased slightly. Revenue from sewage water treatment services amounted to RMB521.23 million, increased by 1.03% as compared to the corresponding period last year, with an increase of RMB60 million in the revenue and costs from sewage water treatment DBO business as compared to the corresponding period last year, and with higher rate of increase in operating costs and slightly decrease in operating profit margins. Operation services and technical services of the sewage water treatment plants increased steadily and realized revenue of RMB10.86 million, representing an increase of 21.90% as compared to the operating revenue of the sewage water treatment and construction business in the corresponding period last year. Breakthroughs were achieved in the business of sewage water treatment plants and municipal construction and management services. During the reporting period, the Group had won the bid for Tianjin's Ninghe Modern Industrial Park sewage water treatment plant BOT project. The project scale is almost 20,000 cubic metres/day, and it is currently carrying out the follow-up work of registering the project company.

During the reporting period, the water sales volume of the tap water business of the Group was 17.83 million cubic metres, representing an increase of 5.32% as compared to the corresponding period last year, which was mainly due to an increase in water volume of 1.3 million cubic metres as a result of the commercial operations of the new Anguo Tap Water Plant, despite a slight decline in the tap water volume from Qujing Capital Water Co., Ltd. due to the continuous dry spell in the southwestern region. Operating revenue from the tap water business decreased by 6% as compared to the corresponding period last year. However, the operating cost of the tap water business decreased by 28.77% as compared to the corresponding period last year due to adjustment in the tap water business model of Qujing Capital Water Co., Ltd., thus the operating profit margin of the tap water business increased at a higher rate.

During the reporting period, the water sales volume of the Group's recycled water production and sales business increased by 322.25% to 5.3744 million cubic metres as compared to the corresponding period last year due to the addition of a new power plant user. However, as this business still accounted for a low weight in the recycled water pipeline connection and water supply business, the operating revenue and the operating profit margin of the recycled water pipeline connection and water supply business increased slightly with little change as compared to the corresponding period last year.

During the reporting period, the Group recorded revenue of RMB33.51 million from the toll collection business substantially the same as the figures of the corresponding period last year. According to the relevant rules of the State, the passage toll of the Tianjin City Indebted Road ceased to be collected with effect from 1 January 2010, and the 6 toll stations in which the Group owned passage toll collection rights also ceased collecting passage toll at the same time. According to the spirit of the "Opinions on the Implementation of Oil Prices and Tax Expenses Reforms and the Cancellation of Toll Collection on Government Indebted Tier 2 Roads" (Jin Zheng Ban [2010] No. 51 Document) dated 19 May 2010, the Company can still recognize revenue from road toll operations during the reporting period according to the amount specified in the "Subcontracting Toll Collection Agreement".

## 1. Principal business by industry

Unit: '000 Currency: RMB

By industry	Operating revenue	Operating cost	Profit margin from operations (%)	Increase/ decrease in operating revenue as compared to the corresponding period last year (%)	Increase/ decrease in operating cost as compared to the corresponding period last year (%)	Increase/ decrease in profit margin from operations as compared to the corresponding period last year (%)
Sewage water treatment and sewage water treatment plant construction business	585,425	316,374	46	13	38	Decreased by 9.76 percentage points
Recycled Water pipeline connection and water supply business	21,545	17,334	20	2	2	Increased by 0.08 percentage points
Tap water supply business	17,546	12,811	27	-6	-29	Increased by 23.64 percentage points
Road business	33,513	3,560	89	0	0	0

## 2. Principal business by geographical locations

Unit: '000 Currency: RMB

Region	Operating revenue	Increase / decrease in operating revenue as compared to the corresponding period last year (%)
Tianjin	468,352	16
Guizhou	12,312	-1
Qujing	22,303	-13
Fuyang	17,218	9
Baoying	5,068	0
Hangzhou	66,197	14
Wuhan	12,187	112
Wendeng	11,501	-2
Xi'an	36,780	7
Anguo	6,111	409

Notes:

1. The reason for a greater change in the operating revenue of the Wuhan subsidiary as compared to the corresponding period last year was due to the fact that its Chibi subsidiary commenced commercial operation in May 2009.
2. The reason for a greater change in the operating revenue of the Anguo subsidiary as compared to the corresponding period last year was due to the fact that the Anguo subsidiary commenced commercial operation in April 2009.

### (III) Material changes in major financial information as compared to the corresponding period year-on-year

As at 30 June 2010, the Group's total assets amounted to RMB7,593,984,000, increased by RMB398,336,000 or 5.54% as compared to the beginning of the year. Total liabilities amounted to RMB4,162,377,000, increased by RMB382,239,000 or 10.11% as compared to the beginning of the year. Equity interest attributable to the shareholders of the Company amounted to RMB3,309,114,000, increased by RMB15,523,000 or 0.47% as compared to the beginning of the year. During the first half of the year, net profit attributable to the Company amounted to RMB129,701,000, increased by RMB21,688,000 or 20.08% as compared to the corresponding period last year. The following is an analysis of items with more significant changes:

Unit: '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
Account receivables	804,752	503,466	301,286	59.84	These were mainly new additional sewage water treatment fees receivable and road passage toll fees receivable of the Company during the reporting period, of which, the collection of sewage water treatment fees will mainly concentrate in the second half of the year. For road passage toll fees, according to the spirit of the “Opinions on the Implementation of Oil Prices and Tax Expenses Reforms and the Cancellation of Toll Collection on Government Indebted Tier 2 Roads” (Jin Zheng Ban [2010] No. 51 Document), the Company can still recognize revenue from road toll operations during the reporting period according to the amount specified in the “Subcontracting Toll Collection Agreement”.



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	589,061	374,804	214,256	57.17	Construction in progress increased by a greater extent at the end of the period than at the beginning of the period, mainly due to the increase of new amounts from the upgrading and reconstruction projects of sewage water treatment plants and water recycling plants of the Company during the current period.
Account payables	52,414	22,952	29,462	128.37	Account payables at the end of the period increased by a greater extent as compared to the beginning of the period, mainly due to the increase of new payable amounts of engineering and equipments from the construction project of the Xianning sewage water treatment plant of a subsidiary in Wuhan, the reconstruction and expansion project of the Jizhuangzi recycled water plant of Tianjin Water Recycling Company Limited and the reconstruction and expansion project of the Qujing sewage water treatment plant during the current period.

<b>Items</b>	<b>Amount at the end of the period</b>	<b>Amount at the beginning of the period</b>	<b>Increase/ Decrease</b>	<b>Percentage change (%)</b>	<b>Details of changes</b>
Taxes payable	27,923	10,000	17,923	179.23	These were mainly increased balances of taxes payable due to the additional income tax payable resulting from the profits of the first half of the year.
Dividends payable	112,235	2,014	110,221	5,472.74	The balance of dividends payable at the end of the period increased significantly, which was mainly due to the distribution of dividends during the current period. The general meeting of the shareholders of the Company held on 13 May 2010 approved the resolution to distribute cash dividends for the year of 2009 at RMB0.8 (including tax) per 10 shares on the basis of the total share capital of 1,427,000,000 shares as at 2 July 2010.

Items	January- June 2010	January- June 2009	Increase/ Decrease	Percentage change (%)	Details of changes
Operating cost	357,229	270,037	87,192	32.29	Operating cost increased by a larger extent during the current period, mainly due to the recognition of RMB60 million costs during the current period corresponding to the progress of work of the Hangu Yingcheng sewage water treatment plant DBO project of the Company. In the second half of the year, subsequent costs will be recognized according to the subsequent progress of work.
Financial expenses	63,444	112,122	-48,678	-43.42	The Company repaid a large amount of loans last year and replaced the original loan interest rate by the prime rate. Therefore, the principal amount of loans in the current period decreased significantly as compared to the corresponding period last year, and interest expenses also decreased significantly year-on-year.

<b>Items</b>	<b>January- June 2010</b>	<b>January- June 2009</b>	<b>Increase/ Decrease</b>	<b>Percentage change (%)</b>	<b>Details of changes</b>
Net cash flows from operating activities	56,723	740,710	-683,987	-92.34	Mainly due to the fact that efforts were focused on collecting the outstanding amounts of sewage water treatment fees of previous years during the corresponding period last year, the net cash inflows from operating activities decreased as compared to the corresponding period last year.
Net cash flows from investment activities	-285,194	-55,722	-229,472	411.82	During the current period, upgrading and reconstruction projects of the sewage water treatment plants and water recycling plants of the Company entered into full construction stage, therefore net cash outflows from investment activities increased significantly as compared to the corresponding period last year.

<b>Items</b>	<b>January- June 2010</b>	<b>January- June 2009</b>	<b>Increase/ Decrease</b>	<b>Percentage change (%)</b>	<b>Details of changes</b>
Net cash flows from financing activities	168,960	-264,471	433,431	-163.89	Repayment amount during the current period was significantly less than that in the corresponding period last year, and the amount of borrowings was more than the amount of repayments, resulting in net cash inflows from financing activities.
Net increase in cash and cash equivalents	-59,511	420,571	-480,082	-114.15	Net outflows of cash and cash equivalents were recorded during the current period as a result of the above three cash flows, in particular the cash flows from investment activities.

#### **(IV) Investments of the Company**

##### **1. Use of proceeds from fund-raising**

During the reporting period, the Company had not raised any funds nor utilized any proceeds raised in previous periods.

##### **2. Projects funded by proceeds other than from fund-raising**

- (1) The upgrading and reconstruction projects of four sewage water treatment plants in Tianjin, namely, Xianyanglu, Beicang, Jizhuangzi and Dongjiao, with an estimated total investment amount of RMB1.178 billion, would be invested by the Company. During the reporting period, an investment amount of RMB250 million was completed. As at the end of the reporting period, an accumulated investment amount of RMB470 million was completed. The project was scheduled to be fully completed by the end of 2010.
- (2) The reconstruction and expansion project of the Tianjin Jizhuangzi water recycling plant, with an estimated investment amount of RMB87.5732 million, would be invested by Tianjin Water Recycling Company Limited, a subsidiary of the Group. During the reporting period, an investment amount of RMB14.88 million was completed. As at the end of the reporting period, an accumulated investment amount of RMB65.54 million was completed. The project was scheduled to be fully completed by the end of 2010.
- (3) The Fuyang Yingdong sewage water treatment plant project, with an estimated investment amount of RMB53.4864 million, would be invested by Fuyang Capital Water Company Limited, a subsidiary of the Group. During the reporting period, an investment amount of RMB29.45 million was completed. As at the end of the reporting period, an accumulated investment amount of RMB42.728 million was completed. The project is currently under operation adjustment and testing.
- (4) The Qujing Liangjiangkou sewage water treatment plant reconstruction project, with an estimated investment amount of RMB100 million, would be invested by Qujing Capital Water Company Limited, a subsidiary of the Group. During the reporting period, an investment amount of RMB16.01 million was completed. As at the end of the reporting period, an accumulated investment amount of RMB62.77 million was completed. The project is currently under operation adjustment and testing.
- (5) The Xianning sewage water treatment plant project, with an estimated investment amount of RMB120 million, would be invested by Wuhan Tianchuang Environmental Protection Company Limited, a subsidiary of the Group. During the reporting period, an investment amount of RMB23.27 million was completed. As at the end of the reporting period, an accumulated investment amount of RMB77.85 million was completed. The project is currently under operation adjustment and testing.

- (6) The Anguo municipal water supply system reconstruction and expansion project, with an estimated investment amount of RMB33 million, would be invested by Anguo Capital Water Company Limited, a subsidiary of the Group. During the reporting period, an investment amount of RMB3.92 million was completed. As at the end of the reporting period, an accumulated investment amount of RMB14.44 million was completed. Construction work of urban area water distribution pipelines is currently in progress.

#### **(V) Liquidity and financial resources**

There were no seasonal changes in the Group's borrowings requirement. As at 30 June 2010, there were no outstanding bank loans and interests not repaid upon maturity. Details of the bank borrowings of the Group are stated in the notes to the condensed consolidated financial statements of the Company as at 30 June 2010.

According to the accounting report prepared in accordance with the PRC Enterprise Accounting Standards, the gearing ratio was 54.80% as at 30 June 2010.

#### **(VI) Foreign exchange risk**

Major receivables and payable items of the Group are denominated in RMB. Therefore, there is no material impact on the Group's operations from fluctuations in foreign exchange rates, and no hedging measure was taken against foreign exchange risk.

#### **(VII) Employee and emolument policy**

As at 30 June 2010, the Company had 579 employees. During the reporting period, total remuneration paid to staff of the Company was approximately RMB26,160,000. The Company determined the income of the management in accordance with their management skills, the content of the management work completed, the risk and responsibility borne by the management and the corporate economic effect. The Company adopted a salary-point system for wages. For operation staff, their income was determined in accordance with their skill level, labour intensity and difficulty and the corporate economic effect. Wages were paid according to their posts and skills.

### **(VIII) Analysis of risk factors**

In July 2005, the Municipal Government of Tianjin issued the “Administrative Measures on the Licensed Operation of Municipal Public Utilities of Tianjin” (“**Administrative Measures**”). Rule 22 of the Administrative Measures stipulates that: existing municipal public utilities projects within the required scope can be directly granted to the original operators for licensed operations after a review by the municipal construction administrative authority and the approval by the Municipal People’s Government. The municipal construction administrative authority will sign a licensed operation agreement with the operator. The Group has submitted an application to the Tianjin construction administrative authority to apply for the licensed operation of four sewage water treatment plants in the central area of Tianjin after the implementation of the Administrative Measures in November 2005. Currently, the Group is conducting in-depth negotiations over the licensed operation agreement with the Tianjin construction administrative authority.

The main requirements in respect of licensed operations under the Administrative Measures are as follow:

- a. licensed operators for new projects are generally determined by way of public tender;
- b. the municipal construction administrative authority is authorized to organize and implement the licensed operations of municipal public utility services;
- c. licensed operators shall follow the price and service charge standards for municipal public utility services of the PRC and Tianjin;
- d. the term of licensed operations shall not exceed 30 years;
- e. existing municipal public utilities projects can be directly granted to the original operators for licensed operations after a review by the municipal construction administrative authority and the approval by the Municipal People’s Government and the municipal construction administrative authority will sign a licensed operation agreement with the operator.

### **(IX) Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2010.



## **(X) Rights of debt**

As at 30 June 2010, pursuant to the “Sewage Water Processing Agreement” and the “Sewage Water Processing Interim Service Agreement” and “Construction in Progress Fee Agreement” entered into between the Company and Tianjin Sewage Water Company, total receivables and long-term receivables of the Company from Tianjin Sewage Water Company amounted to RMB871,272,000, approximately 30.96% of the total market capitalization of the Company as at 30 June 2010.

During the reporting period, Tianjin Sewage Water Company repaid a total of approximately RMB71,000,000 of the outstanding sewage water treatment fees to the Company.

## **(XI) Charge on assets**

The Group did not charge any assets of the Company or its subsidiaries as at 30 June 2010.

## **(XII) Acquisition and disposal of subsidiaries**

During the reporting period, the Company did not acquire or dispose any of its subsidiaries.

## **VI. Significant Matters**

### **(I) Corporate governance of the Company**

During the reporting period, the Company strictly complied with the requirements under the Company Law and Securities Law of the PRC, the relevant rules and regulations of the CSRC, the provisions under the relevant listing rules of the SSE and the “Code on Corporate Governance Practices” as set out in the Appendix 14 to the Listing Rules. The Company devoted a lot of effort to improve its corporate governance structure and standardize the operation of the Company.

The Company had a sound system for the general meetings, the Board and the Supervisory Committee, and achieved a clear division of responsibility and authority, scientific decision-making procedures and an effective balance between its power authority, decision-making body, supervisory authority and management level. The organization and business of the Company were independent from its shareholders. The controlling shareholder of the Company acted in a regulated manner and did not misappropriate the Company’s funds. The Directors and Supervisors of the Company duly performed their duties.

During the reporting period, the Company made amendments to its Articles of Association, Rules of Procedures for Shareholders' General Meetings and Rules of Procedures for Board Meetings based on actual circumstances, and also formulated the Rules of Procedures for General Managers to further enhance the corporate governance standard of the Company.

At present, the Company has already established a better internal control system. Based on the actual working requirements, the Company has made adjustments to its internal organizational structure and is now in the process of tidying up and adjusting different systems of work and procedures.

The new "Guidelines on Internal Control for Enterprises" issued on 26 April 2010 jointly by the Ministry of Finance of the PRC, the CSRC, National Audit Office of the PRC, CBRC and CIRC of the PRC were considered as highly important by the leaders of the Company. The relevant departments of the Company have preliminarily reviewed the guidelines and timely participated in the training session in order to lay down a foundation for the establishment of a comprehensive internal control system, and preparations have also been made accordingly for its official implementation and operation next year.

## **(II) Implementation of the profit appropriation plan during the reporting period**

In the 2009 Annual General Meeting, the 2009 profit appropriation plan was considered and approved. The Company made a payment of RMB0.08 (including tax) in cash per share to holders of A shares and RMB0.08 (equivalent to HK\$0.09113) (including tax) per share to holders of H shares. The Company published an announcement relating to dividend payment to A shares shareholders in the PRC on 29 June 2010. The shareholding registration date was 2 July 2010. The Company also published a notice of the 2009 Annual General Meeting in Hong Kong on 25 March 2010. The shareholding registration date was 12 April 2010. Distributions of the dividends to the holders of A shares and H shares have been completed on 9 July 2010.

### **(III) Implementation of the cash dividend payment policy during the reporting period**

#### **1. The cash dividend payment policy of the Company:**

Pursuant to Article 195 of the Articles of Association of the Company, the Company may distribute dividends by the following ways: the Company may, after making up any prior years' losses and setting aside funds for statutory surplus reserve and discretionary common reserve, distribute dividends by cash or shares according to its actual profit and cash flow. The Company shall draw attention to reasonable return to investors when making distribution on profit. If the Board of the Company does not make a cash dividends distribution proposal, it shall disclose in its regular reports the reasons thereof and the independent non-executive Directors shall give their independent opinion thereon. In case the fund of the Company is appropriated by a shareholder illegally, the Company shall make a deduction to the cash dividend distributed to that shareholder in order to repay the fund appropriated thereby. If the Company records a profit in the reporting period but does not make a cash dividends distribution proposal, it shall disclose in its regular reports the detailed reasons thereof and how the undistributed profit be used by the Company. The Company shall maintain a continuous and stable profit distribution policy. The Company may distribute interim dividends in cash.

#### **2. Implementation of the cash dividend payment during the reporting period**

In the 2009 Annual General Meeting, the 2009 profit appropriation plan was considered and approved. The Company made a payment of RMB0.08 (including tax) in cash per share to holders of A shares and RMB0.08 (equivalent to HK\$0.09113) (including tax) per share to holders of H shares. The Company published an announcement relating to dividend payment to A shares shareholders in the PRC on 29 June 2010. The shareholding registration date was 2 July 2010. The Company also published a notice of the 2009 Annual General Meeting in Hong Kong on 25 March 2010. The shareholding registration date was 12 April 2010. Distributions of the dividends to the holders of A shares and H shares have been completed on 9 July 2010.

**(IV) Significant litigation and arbitration**

The Company had no significant litigation or arbitration during the reporting period.

**(V) Bankruptcy and restructuring related matters**

The Company had no bankruptcy and restructuring related matters during the reporting period.

**(VI) Shareholdings of the Company in other listed companies and financial enterprises**

The Company has no shareholdings in other listed companies and financial enterprises during the reporting period.

**(VII) Asset acquisition and disposal and mergers during the reporting period**

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

**(VIII) Major connected transactions of the Company during the reporting period**

The Company did not have any major connected transactions during the reporting period.

**(IX) Major contracts and their implementation**

**1. Custody, subcontracting and leasing matters that contributed profits to the Company representing 10% or more of the total profit of the Company during the current period**

**(1) Custody**

The Company did not provide any custody during the reporting period.

**(2) Subcontracting**

The Company did not provide any subcontracting during the reporting period.

**(3) Leasing**

The Company did not have any leasing matters during the reporting period.

## 2. Guarantee

Unit: '000 Currency: RMB

### **External guarantee granted by the Company (excluding guarantee provided to the subsidiaries of the Company)**

Total amount of guarantee granted during the reporting period	0
Total amount of outstanding guarantee as at the end of the reporting period (A)	0

### **Guarantee provided to the subsidiaries of the Company**

Total amount of guarantee provided to the subsidiaries of the Company during the reporting period	24,000
Total amount of outstanding guarantee provided to the subsidiaries as at the end of the reporting period (B)	836,210

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

Total amount of guarantee (A+B)	836,210
Percentage of the total amount of guarantee to the net assets of the Company (%)	25.27
Of which:	
Amount of guarantee provided to the shareholders, actual controller and other related parties (C)	0
Amount of guarantee provided directly or indirectly to the borrowers with gearing ratio of over 70% (D)	0
Total amount of guarantee exceeds 50% of net assets (E)	0
Total amount of the above three guarantees (C+D+E)	0

### **3. Trust arrangement**

The Company did not make any trust arrangements during the reporting period.

### **4. Other major contracts**

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

### **(X) Implementation of commitments**

During the reporting period or until the reporting period, no commitments were made by the Company or shareholders who hold 5% or more of the shares.

- (1) As at the date of disclosure of the interim report, was there any business commitment not yet fully performed: None.
- (2) As at the date of disclosure of the interim report, was there any commitment for asset injection or consolidation not yet fully performed: None.

### **(XI) Punishments and rectification to listed companies and its directors, supervisors, senior management, shareholders and actual controllers**

During the reporting period, the Company and its Directors, Supervisors, senior management, shareholders and actual controller were not subject to any investigation, administrative punishments and criticisms by the CSRC or public reprimand by any stock exchange.

## (XII) Explanation of other major events

The Company did not have any other major events during the reporting period.

## (XIII) Information Disclosure Index

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
Announcement in relation to the Resolutions Passed at the 2nd Meeting of the Fifth Board	“Shanghai Securities News” page B113	25 March 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement in relation to the Resolutions Passed at the Second Meeting of the Fifth Supervisory Committee	“Shanghai Securities News” page B113	25 March 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Notice of 2009 Annual General Meeting	“Shanghai Securities News” page B113	25 March 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Annual Report 2009		26 March 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement of Final Results for the Year Ended 31 December 2009	“Shanghai Securities News” page B113, B114 and B115	25 March 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Rules of Procedures for General Managers		25 March 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
First Quarterly Report 2010	“Shanghai Securities News” page B25	22 April 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement on the Resolutions Passed at the 2009 Annual General Meeting	“Shanghai Securities News” page B25	13 May 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement on the Implementation of 2009 Profit Distribution for A Shares	“Shanghai Securities News” page B27	28 June 2010	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>



## VII. Financial Accounting Report (unaudited)

### (1) Prepared in accordance with Hong Kong Financial Reporting Standards

#### CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2010

(All amounts in Rmb thousand unless otherwise stated)

		As at	
		30 June	31 December
		2010	2009
	Note	Unaudited	Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	2,486,012	2,335,198
Investment property		121,734	123,301
Intangible assets	5	2,411,638	2,367,696
Land use rights		379,106	383,203
Investment in an associate	6	40,218	40,135
Available-for-sale financial assets		4,000	4,000
Trade receivables due after one year	7	241,792	241,792
Long-term receivables	8	333,820	331,354
Other non-current assets		7,555	3,230
		<u>6,025,875</u>	<u>5,829,909</u>
<b>Current assets</b>			
Inventories		10,606	9,653
Trade receivables	7	804,752	503,466
Other receivables		58,414	55,299
Prepayments		150,687	194,160
Cash and cash equivalents		543,650	603,161
		<u>1,568,109</u>	<u>1,365,739</u>
<b>Total assets</b>		<u><u>7,593,984</u></u>	<u><u>7,195,648</u></u>

		As at	
		30 June 2010	31 December 2009
	Note	Unaudited	Audited
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	9	1,427,228	1,427,228
Other reserves		659,462	659,462
Retained earnings		1,222,424	1,206,901
- Proposed final dividend		—	114,178
- Undistributed		1,222,424	1,092,723
		3,309,114	3,293,591
<b>Non-controlling interests</b>		122,493	121,920
<b>Total equity</b>		3,431,607	3,415,511
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	10	2,380,574	2,455,824
Deferred income tax liabilities		34,666	30,198
		2,415,240	2,486,022
<b>Current liabilities</b>			
Trade payables	11	52,414	22,952
Advances from customers		303,338	305,085
Wages payables		3,972	3,848
Income tax payable		20,692	6,082
Other taxes payable		7,231	3,918
Dividend payable		112,235	2,014
Other payables		209,872	231,426
Borrowings	10	1,037,383	718,790
		1,747,137	1,294,115
<b>Total liabilities</b>		4,162,377	3,780,137
<b>Total equity and liabilities</b>		7,593,984	7,195,648
<b>Net current assests/(liabilities)</b>		(179,028)	71,624
<b>Total assets less current liabilities</b>		5,846,847	5,901,533

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

**Zhang Wenhui**  
Director

**Lin Wenbo**  
Director

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

*(All amounts in Rmb thousand unless otherwise stated)*

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2010</b>	<b>2009</b>
Revenue	4(a)	658,029	580,084
Business tax		(20,010)	(21,168)
Cost of sales		(350,079)	(267,459)
<b>Gross profit</b>		<u>287,940</u>	<u>291,457</u>
Other income - net	4(a)	12,465	10,434
Administrative expenses		(59,610)	(42,103)
<b>Operating profit</b>	12	<u>240,795</u>	<u>259,788</u>
Finance costs - net	13	(63,444)	(110,054)
Share of profits/(loss) of an associate		83	(927)
<b>Profit before income tax</b>		<u>177,434</u>	<u>148,807</u>
Income tax expense	14	(47,160)	(38,975)
<b>Profit for the period</b>		<u>130,274</u>	<u>109,832</u>
Other comprehensive income for the period, net of tax		—	—
<b>Total comprehensive income for the period</b>		<u><u>130,274</u></u>	<u><u>109,832</u></u>
Profit attributable to:			
– equity holders of the Company		129,701	108,013
– non-controlling interests		573	1,819
		<u>130,274</u>	<u>109,832</u>
<b>Earnings per share for profit attributable to the equity holders of the Company (in Rmb per share)</b>	15		
– basic		<u>Rmb0.09</u>	<u>Rmb0.08</u>
– diluted		<u>Rmb0.09</u>	<u>Rmb0.08</u>
<b>Interim dividends</b>	16	<u>—</u>	<u>—</u>

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

*(All amounts in Rmb thousand unless otherwise stated)*

	Note	Unaudited			Sub-total	Non-controlling interests	Total
		Equity holders of the Company					
		Share capital	Other Reserves	Retained Earnings			
<b>Balance at 1 January 2010</b>		1,427,228	659,462	1,206,901	3,293,591	121,920	3,415,511
Profit for the period		—	—	129,701	129,701	573	130,274
Dividends	17	—	—	(114,178)	(114,178)	—	(114,178)
<b>Balance at 30 June 2010</b>		<u>1,427,228</u>	<u>659,462</u>	<u>1,222,424</u>	<u>3,309,114</u>	<u>122,493</u>	<u>3,431,607</u>
<b>Balance at 1 January 2009</b>		1,427,228	636,431	1,044,043	3,107,702	118,496	3,226,198
Profit for the period		—	—	108,013	108,013	1,819	109,832
Dividends	17	—	—	(57,089)	(57,089)	—	(57,089)
<b>Balance at 30 June 2009</b>		<u>1,427,228</u>	<u>636,431</u>	<u>1,094,967</u>	<u>3,158,626</u>	<u>120,315</u>	<u>3,278,941</u>

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

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

*(All amounts in Rmb thousand unless otherwise stated)*

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>		
Cash received from sales of goods and rendering of services	81,840	748,584
PRC income tax paid	(28,082)	(20,553)
Interest received	2,965	12,679
	<hr/>	<hr/>
<b>Net cash flows from operating activities</b>	<b>56,723</b>	<b>740,710</b>
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(286,409)	(89,221)
Net cash received from disposal of fixed assets	1,215	20
Cash received relating to other investments activities	—	33,479
	<hr/>	<hr/>
<b>Net cash flows from investing activities</b>	<b>(285,194)</b>	<b>(55,722)</b>
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Payments of interest expenses and distribution of dividends of profits	(73,426)	(125,231)
Repayments of bank borrowing	(42,250)	(898,340)
Proceeds of bank borrowing	286,000	756,590
Cash received/(paid) relating to other financing activities	(1,364)	2,510
	<hr/>	<hr/>
<b>Net cash flows from financing activities</b>	<b>168,960</b>	<b>(264,471)</b>
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash</b>	<b>(59,511)</b>	<b>420,517</b>
Add: Cash and bank balances at beginning of period	592,261	887,047
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of period</b>	<b>532,750</b>	<b>1,307,564</b>
	<hr/> <hr/>	<hr/> <hr/>

\* Excluding restricted cash and bank balances of Rmb10.9 million as at 30 June 2010, representing collateral deposit as guarantee for project bidding (30 June 2009: Rmb10.9 million).

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in Rmb thousand unless otherwise stated)

### 1 Company profile and principal activities

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

This condensed consolidated interim financial information was approved for issue on 19 August 2010.

This condensed consolidated financial information has not been audited.

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

#### (a) Processing of sewage water

Pursuant to relevant agreements (“Sewage Processing Agreements”), the Group currently provides sewage water 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
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	12 November 2006	Hangzhou Sewage Company
Jing Hai, Tianjin	12 September 2007	Tianyu Science Technology Park Administration Committee of Tianjin New Technology Industry Area
Wen Deng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi An, Shanxi	18 March 2008	Xi An Municipal Infrastructure Construction Investment General Company
An Guo, Hebei	14 October 2008	An Guo Municipal Government
Jin Nan, Tianjin	13 November 2009	Tianjin Jinnan Municipal Government

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 predetermined 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 water 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 water 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 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.

## 2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with HK Accounting Standard 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with HK Financial Reporting Standards.

## 3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

- (a) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group.

HKFRS 3 (revised)	Business combinations
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners
HKFRS 1(Amendment)	Additional exemptions for first-time adopters
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 2 (Amendment)	Group cash-settled share-based payment transaction
HKFRS 5 (Improvement)	Non-current assets held for sale and discontinued operations

- (b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

HKFRS 9	Financial instruments(effective from 1 January 2013)
HKAS 24 (Revised)	Related party disclosures (effective from 1 January 2011)
HKAS 32 (amendment)	Classification of rights issues (effective from 1 February 2010)
HK(IFRIC) Int-14 (amendment)	Prepayments of a minimum funding requirement (effective from 1 January 2011)
HK(IFRIC) –Int 19	Extinguishing financial liabilities with equity instruments (effective from 1 July 2010)
HKFRS 1(amendment)	Limited exemption from comparative IFRS/HKFRS 7 disclosures for first-time adopters (effective from 1 July 2010)



#### 4. Revenue and segment information

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

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

	Unaudited	
	For the six months ended	
	30 June	30 June
	2010	2009
Revenue from principal operation (Note 4(b))	658,029	580,084
Other income - net	12,465	10,434
	<u>670,494</u>	<u>590,518</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.

(i) For the period ended 30 June 2010

	Sewage water processing services		Other plants	Recycle water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant					
Segment revenue	349,158	66,197	105,875	21,545	17,546	110,173	670,494
Segment expense	(217,719)	(62,058)	(94,371)	(21,894)	(19,144)	(77,957)	(493,143)
Results before share of profits of an associate	131,439	4,139	11,504	(349)	(1,598)	32,216	177,351
Share of profits of an associate							83
Profit before income tax							177,434
Income tax expense							(47,160)
Profit for the period							130,274
Segment assets	3,786,845	814,686	1,595,378	578,079	299,365	479,413	7,553,766
Investment in an associate	—	—	—	—	—	40,218	40,218
Total assets	3,786,845	814,686	1,595,378	578,079	299,365	519,631	7,593,984
Total liabilities	2,366,922	520,751	513,020	509,365	197,063	55,256	4,162,377
Other information							
-Interest income	925	164	439	1,374	—	5,696	8,598
-Interest expenses	31,396	12,544	20,343	3,083	4,612	—	71,978
-Depreciation	47,064	—	2,654	5,698	—	2,384	57,800
-Amortisation	4,554	18,124	24,612	12	4,342	40	51,684
-Capital expenditures	198,069	—	73,146	34,596	6,139	958	312,908

(ii) For the period ended 30 June 2009

	Sewage water processing services			Recycle water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Segment revenue	358,921	57,891	99,105	21,072	18,609	34,920	590,518
Segment expense	(247,455)	(50,528)	(91,705)	(20,901)	(24,576)	(5,619)	(440,784)
Results before share of profits of an associate	111,466	7,363	7,400	171	(5,967)	29,301	149,734
Share of profits of an associate							(927)
Profit before income tax							148,807
Income tax expense							(38,975)
Profit for the period							109,832
Segment assets	3,867,984	818,438	1,548,498	518,655	303,370	567,214	7,624,159
Investment in an associate	-	-	-	-	-	38,951	38,951
Total assets	3,867,984	818,438	1,548,498	518,655	303,370	606,165	7,663,110
Total liabilities	2,435,998	534,990	813,001	414,775	140,585	44,820	4,384,169
Other information							
-Interest income	2,280	3,753	578	394	14	5,660	12,679
-Interest expenses	77,570	16,121	21,430	2,125	5,487	-	122,733
-Depreciation	46,163	-	-	5,332	-	1,390	52,885
-Amortisation	4,760	10,329	22,970	18	4,027	-	42,104
-Capital expenditures	1,548	92	98,261	58,558	5	-	158,464

## 5. Property, plant and equipment and intangible assets

	Property, plant and equipment	Intangible assets
<b>Six months ended 30 June 2009</b>		
Opening net book amount 1 January 2009	2,192,537	1,884,264
Additions	52,684	90,791
Disposals	(1,152)	-
Depreciation and amortisation	(51,414)	(36,429)
<b>Closing net book amount 30 June 2009</b>	<b>2,192,655</b>	<b>1,938,626</b>
<b>Six months ended 30 June 2010</b>		
Opening net book amount as at 1 January 2010	2,335,198	2,367,696
Additions	221,379	91,529
Disposals	(14,332)	-
Depreciation and amortisation	(56,233)	(47,587)
<b>Closing net book amount as at 30 June 2010</b>	<b>2,486,012</b>	<b>2,411,638</b>

Certain of the concession rights with net book value of Rmb257million (31 December 2009: Rmb262 million) have been secured against loan facilities.

## 6. Investment in an associate

	<b>Unaudited 2010</b>
Beginning of the period	40,135
Share of profit	83
	<hr/>
End of the period	40,218
	<hr/> <hr/>

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.

## 7. Trade receivables and trade receivables due after one year

Details of the trade receivables are as follows:

	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>
Due from TSC for:		
- Water processing services	629,480	350,863
- Construction of plants	241,792	241,792
	<hr/>	<hr/>
	871,272	592,655
Toll road fee (Note(a))	71,320	78,200
Due from others – current	103,952	74,403
	<hr/>	<hr/>
	1,046,544	745,258
	<hr/>	<hr/>
Less: Non-current portion	(241,792)	(241,792)
	<hr/>	<hr/>
	804,752	503,466
	<hr/> <hr/>	<hr/> <hr/>

(a) 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.

In accordance with “JinZhengBanFa” [2010] No.51 “The application guidance about oil price, tax reform and termination of government toll road “ as promulgated by Tianjin Government on 19 May 2010, the Company recognized toll road fee revenue during the reporting period pursuant to the Toll Collection Agreement.

(b) Credit period of receivables ranges from 1 month to 3 months. Aging of trade receivables prior to the reclassification is as follows:

	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>
Within one year	510,025	497,119
One to two years	289,741	1,361
Over two years	246,778	246,778
	<u>1,046,544</u>	<u>745,258</u>

#### 8. Long-term receivables

	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>
Receivables from toll road concession	<u>333,820</u>	<u>331,354</u>

Receivables from toll road concession represent amortised cost using effective interest method, calculated with reference to future revenues from the toll road asset of the Company based on the related agreement (Note7(a)).

#### 9. Share capital

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

	<b>“A” Circulating shares</b>	<b>Unaudited “H” Circulating shares</b>	<b>Total</b>
At 31 December 2009	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>
At 30 June 2010	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>

“A” shares 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.

## 10. Borrowings

	Note	Unaudited 30 June 2010	Audited 31 December 2009
<i>Non-current:</i>			
Long-term bank borrowings	(a)	2,506,210	2,262,460
Less: Current portion	(a)	(417,530)	(98,530)
		<hr/>	<hr/>
		2,088,680	2,163,930
Other non-current liabilities	(d)	291,894	291,894
		<hr/>	<hr/>
		2,380,574	2,455,824
		<hr/> <hr/>	<hr/> <hr/>
<i>Current:</i>			
Current portion of long-term bank borrowings	(a)	417,530	98,530
Short-term bank borrowings	(b)	100,000	100,000
Short-term debentures	(c)	500,000	500,000
Other current liabilities	(d)	19,853	20,260
		<hr/>	<hr/>
		1,037,383	718,790
		<hr/> <hr/>	<hr/> <hr/>

**Movement of bank borrowings is analyzed as follows:**

	Unaudited
<b>Six months ended 30 June 2009</b>	
Opening amount 1 January 2009	3,634,840
New borrowings	756,590
Repayments of borrowings	(898,340)
	<hr/>
Closing amount as at 30 June 2009	3,493,090
	<hr/>
<b>Six months ended 30 June 2010</b>	
Opening amount as at 1 January 2010	2,362,460
New borrowings	286,000
Repayments of borrowings	(42,250)
	<hr/>
Closing amount as at 30 June 2010	2,606,210
	<hr/> <hr/>

**(a) Long-term bank borrowing**

These borrowings mature as follows:

	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
<b>At 30 June 2010</b>						
Long-term bank borrowings	<u>57,280</u>	<u>360,250</u>	<u>395,345</u>	<u>1,050,325</u>	<u>643,010</u>	<u>2,506,210</u>
<b>At 31 December 2009</b>						
Long-term bank borrowings	<u>45,770</u>	<u>52,760</u>	<u>488,470</u>	<u>976,150</u>	<u>699,310</u>	<u>2,262,460</u>

**(b) Summary of terms of bank borrowings:**

	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>
Long-term bank borrowings:		
Secured		
- Pledge	162,000	175,000
- Guarantee	1,517,210	1,502,460
Unsecured	<u>827,000</u>	<u>585,000</u>
	<u>2,506,210</u>	<u>2,262,460</u>
Short-term bank borrowings:		
Secured		
- Guarantee	-	-
Unsecured	<u>100,000</u>	<u>100,000</u>
	<u>100,000</u>	<u>100,000</u>

**(c) Short-term debenture**

	<b>Par value</b>	<b>Issuance date</b>	<b>Maturity</b>	<b>Balance</b>
Short-term debenture	<u>500,000</u>	2009-7-28	1 year	<u>500,000</u>

- (i) 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.
- (ii) At the date of approval of the consolidated financial statements, the Company has issued the second batch of the short-term debenture of Rmb600 million. The newly issued debenture is at par with maturity period of one year and bears interest rate at 3.48% per annum. Both the principal and interest will be repaid upon maturity of the debenture.

(d) Other liabilities

	Unaudited 30 June 2010	Audited 31 December 2009
<i>Non-current:</i>		
Due to:		
- Tianjin Municipal Engineering Bureau (“TMEB”) (Note(i))	114,545	114,545
- Deferred revenue (note(ii))	143,100	143,100
- Others	34,249	34,249
	<u>291,894</u>	<u>291,894</u>
<i>Current:</i>		
- TMEB		
• Current portion of long term loan (Note(i))	16,364	16,364
• Others	3,489	3,896
	<u>19,853</u>	<u>20,260</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 as at June 30 2010 (2009: Rmb16 million). The loan is repayable in equal installments 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 period end, the Group has the following committed undrawn banking facilities:

	Unaudited 30 June 2010	Audited 31 December 2009
Floating rate:		
- Expiring within one year	979,000	741,000

11. Trade payables

As at 30 June 2010, the majority of trade payables are aged within one year. The carrying value of trade payables approximates their fair value due to their short-term maturities.



## 12. Operating profit

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

	Unaudited	
	For the six months ended	
	30 June 2010	30 June 2009
Crediting:		
Rental	(4,608)	(6,040)
Charging:		
Depreciation and amortisation expenses	109,484	94,989
Staff costs	56,588	43,123
Raw materials and consumables used	17,041	15,287
Repair and maintenance expenses	19,032	13,304
Loss of disposal of property, plant and equipment	13,117	—

## 13. Finance costs-net

	Unaudited	
	For the six months ended	
	30 June 2010	30 June 2009
Interest expenses of borrowings	78,544	124,036
Less: Capitalised interest	(6,566)	(1,303)
	71,978	122,733
Less: Interest income	(8,598)	(12,679)
- long-term receivables	(5,633)	(5,636)
- bank deposits	(2,965)	(7,043)
Others	64	—
	63,444	110,054

#### 14. Income tax expense

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong as at 30 June 2010 (2009: Nil). PRC income tax is calculated at the statutory rate of 25% (2009: 25%).

Tax charge comprises:

	Unaudited	
	For the six months ended	
	30 June 2010	30 June 2009
Current income tax	42,692	38,123
Deferred income tax	4,468	852
	<u>47,160</u>	<u>38,975</u>

#### 15. Earnings per share

Basic earnings per share is calculated based on the profit attributable to equity holders of the Company of Rmb130million (2009: Rmb108 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the period (2009: 1,427 million shares).

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

	Unaudited	
	For the six months ended	
	30 June 2010	30 June 2009
Profit attributable to equity holders of the Company	<u>129,701</u>	<u>108,013</u>
Weighted average number of ordinary shares in issue (million)	<u>1,427</u>	<u>1,427</u>
Basic earnings per share (Rmb per share)	<u>0.09</u>	<u>0.08</u>

#### 16. Interim dividends

No interim dividend was proposed by the Board of Directors of the Company for the six months ended 30 June 2010 (2009: Nil).

## 17. Commitments and contingent liabilities

- (i) The Group's commitments at the balance sheet date in respect of construction projects are as follows:

	Contracted but not provided for		Authorised but not contracted for	
	Unaudited 30 June 2010 <i>Rmb' million</i>	Audited 31 December 2009 <i>Rmb' million</i>	Unaudited 30 June 2010 <i>Rmb' million</i>	Audited 31 December 2009 <i>Rmb' million</i>
Sewage water processing plants in:				
- Jing Hai	16	16	-	-
- Wu Han	142	162	24	24
- Qu Jing	4	30	39	45
- Ji Zhuang Zi (upgrade project)	81	115	120	120
- Xian Yang Lu (upgrade project)	47	50	150	154
- Bei Cang (upgrade project)	28	53	87	90
- Dong Jiao (upgrade project)	139	96	42	138
Water recycling plants in:				
- Dong Jiao	—	1	48	48
- Bei Chen	—	—	51	51
- Ji Zhuang Zi (expansion project)	10	18	36	36
	<u>467</u>	<u>541</u>	<u>597</u>	<u>706</u>

- (ii) The group does not have any significant contingent liabilities as at the balance sheet date.

## 18. Related party transactions

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

(i) Income:

Related parties	Nature of transaction	Unaudited	
		For the six months ended 30 June 2010	For the six months ended 30 June 2009
TICIG	Rental income	3,230	3,230
Tianjin Zi Ya Recycled economy industry Investment development Ltd.	Income from serving as construction agency	2,380	—

(ii) Key management compensation for the six months ended 30 June 2010 is summarized as follows:

	Unaudited	
	For the six months ended 30 June 2010	For the six months ended 30 June 2009
Salaries and other short-term employee benefits	3,893	3,534
Other long-term benefits	307	519
	<u>4,200</u>	<u>4,053</u>

## (2) Prepared in accordance with the PRC Accounting Standards

### Balance Sheet

As at 30 June 2010

(All amounts in RMB thousand unless otherwise stated)

	Note	Group		Company	
		Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
<b>ASSETS</b>	4				
<b>CURRENT ASSETS</b>					
Cash and bank balances	(1)	543,650	603,161	260,129	234,354
Trade receivables	(2)	804,752	503,466	700,800	429,063
Prepayments	(3)	150,687	194,160	89,370	142,623
Other receivables	(4)	58,414	55,299	161,876	169,464
Inventories	(5)	10,606	9,653	4,218	3,556
Other current assets		—	—	25,000	25,000
<b>Total current assets</b>		<u>1,568,109</u>	<u>1,365,739</u>	<u>1,241,393</u>	<u>1,004,060</u>
<b>NON-CURRENT ASSETS</b>					
Long-term receivables	(6)	575,612	573,146	575,612	573,146
Long-term equity investments	(7)	44,218	44,135	1,113,481	1,108,481
Investment properties	(8)	121,734	123,301	96,681	97,995
Fixed assets	(9)	1,896,951	1,960,394	1,668,959	1,729,439
Construction in progress	(9)	589,061	374,804	523,120	323,388
Intangible assets	(10)	2,790,744	2,750,899	366,878	370,936
Other non-current assets		7,555	3,230	20,790	19,290
<b>Total non-current assets</b>		<u>6,025,875</u>	<u>5,829,909</u>	<u>4,365,521</u>	<u>4,222,675</u>
<b>TOTAL ASSETS</b>		<u><u>7,593,984</u></u>	<u><u>7,195,648</u></u>	<u><u>5,606,914</u></u>	<u><u>5,226,735</u></u>

	Note	Group		Company	
		Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Short-term borrowings	(12)	100,000	100,000	100,000	100,000
Short-term debenture	(12)	500,000	500,000	500,000	500,000
Trade payables	(11)	52,414	22,952	10,523	8,362
Advances	(11)	303,338	305,085	96,117	110,908
Wages payable		3,972	3,848	2,361	1,481
Taxes payable	(11)	27,923	10,000	22,534	1,871
Dividend payable	(15)(c)	112,235	2,014	112,235	733
Other payables	(11)	209,872	231,426	231,895	232,270
Long-term borrowings due within one year	(12)	417,530	98,530	298,000	9,000
Other current liabilities	(12)	19,853	20,260	16,364	16,364
<b>Total current liabilities</b>		<b>1,747,137</b>	<b>1,294,115</b>	<b>1,390,029</b>	<b>980,989</b>
<b>NON-CURRENT LIABILITIES</b>					
Long-term borrowings	(12)	2,088,680	2,163,930	777,000	824,000
Deferred income tax liabilities	(13)	34,666	30,198	15,870	14,275
Other non-current liabilities	(12)	291,894	291,894	182,645	182,645
<b>Total non-current liabilities</b>		<b>2,415,240</b>	<b>2,486,022</b>	<b>975,515</b>	<b>1,020,920</b>
<b>TOTAL LIABILITIES</b>		<b>4,162,377</b>	<b>3,780,137</b>	<b>2,365,544</b>	<b>2,001,909</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	(14)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	(15)(a)	383,338	383,338	380,788	380,788
General reserves	(15)(b)	276,124	276,124	276,124	276,124
Undistributed profits		1,222,424	1,206,901	1,157,230	1,140,686
<b>Equity attributable to the shareholders of the Company</b>		<b>3,309,114</b>	<b>3,293,591</b>	<b>3,241,370</b>	<b>3,224,826</b>
Minority Interests	(16)	122,493	121,920	—	—
<b>Total shareholders' equity</b>		<b>3,431,607</b>	<b>3,415,511</b>	<b>3,241,370</b>	<b>3,224,826</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>7,593,984</b>	<b>7,195,648</b>	<b>5,606,914</b>	<b>5,226,735</b>

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

## Income Statement

For the six months ended 30 June 2010

(All amounts in RMB thousand unless otherwise stated)

	Note 4	Group Unaudited		Company Unaudited	
		Six months ended 30 June		Six months ended 30 June	
		2010	2009	2010	2009
Revenue	(17)	675,524	587,660	458,475	389,910
Less: Cost of sales	(17)	(357,229)	(270,037)	(204,505)	(137,541)
Business tax and surcharges	(18)	(20,010)	(21,168)	(19,292)	(19,924)
Administrative expenses		(46,396)	(40,036)	(27,358)	(25,232)
Financial expenses - net	(19)	(63,444)	(112,122)	(24,182)	(70,997)
Add: Investment income/(loss)	(7)	83	(1,075)	1,992	200
Including: Share of profit/(loss) of an associate		83	(927)	—	200
<b>Operation profit</b>		188,528	143,222	185,130	136,416
Add: Non-operating income		2,120	5,745	1,613	—
Less: Non-operating expenses		(13,214)	(160)	(13,111)	(97)
Including: Loss on disposal of non-current assets		(13,117)	—	(13,082)	—
<b>Total profit</b>		177,434	148,807	173,632	136,319
Less: Income tax	(20)	(47,160)	(38,975)	(42,910)	(34,031)
<b>Net profit</b>		130,274	109,832	130,722	102,288
<b>Other comprehensive income</b>		—	—	—	—
<b>Total comprehensive income</b>		130,274	109,832	130,722	102,288
<b>Attributable to shareholders of the Company</b>		129,701	108,013	130,722	102,288
<b>Minority interests</b>		573	1,819	—	—
<b>Earnings per share (in Rmb yuan)</b> (21)					
– Basic		0.09	0.08		
– Diluted		0.09	0.08		

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

## Cash Flow Statement

For the six months ended 30 June 2010

(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
<b>1. Cash flows from operating activities</b>				
Cash received from sales of goods and rendering of services	361,349	994,349	167,969	802,249
Cash received relating to other operating activities	87,342	88,357	89,677	91,485
<b>Sub-total of cash inflows</b>	<b>448,691</b>	<b>1,082,706</b>	<b>257,646</b>	<b>893,734</b>
Cash paid for goods and services	(174,668)	(153,628)	(89,764)	(73,243)
Cash paid to and on behalf of employees	(61,890)	(48,435)	(36,009)	(26,691)
Payments of taxes and levies	(55,008)	(47,713)	(45,652)	(41,186)
Cash payments relating to other operating activities	(100,402)	(92,220)	(91,226)	(42,943)
<b>Sub-total of cash outflows</b>	<b>(391,968)</b>	<b>(341,996)</b>	<b>(262,651)</b>	<b>(184,063)</b>
<b>Net cash flows from operating activities</b>	<b>56,723</b>	<b>740,710</b>	<b>(5,005)</b>	<b>709,671</b>
<b>2. Cash flows from investing activities</b>				
Cash received from disposal of investments	—	100	—	200
Cash received from returns on investments	—	279	7,505	—
Net cash received from disposal of fixed assets	1,215	20	1,158	—
Cash received relating to other investments activities	—	33,100	—	20,100
<b>Sub-total of cash inflows</b>	<b>1,215</b>	<b>33,499</b>	<b>8,663</b>	<b>20,300</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(286,409)	(89,221)	(186,329)	(18,572)
Cash paid to acquire equity investments	—	—	(5,000)	(11,590)
<b>Sub-total of cash outflows</b>	<b>(286,409)</b>	<b>(89,221)</b>	<b>(191,329)</b>	<b>(30,162)</b>
<b>Net cash flows from investing activities</b>	<b>(285,194)</b>	<b>(55,722)</b>	<b>(182,666)</b>	<b>(9,862)</b>



	Group		Company	
	Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009
<b>3. Cash flows from financing activities</b>				
Cash received from borrowings	286,000	750,000	242,000	500,000
Cash received relating to other financing activities	—	11,100	—	3,000
<b>Sub-total of cash inflows</b>	<u>286,000</u>	<u>761,100</u>	<u>242,000</u>	<u>503,000</u>
Repayments of amounts borrowed	(43,614)	(898,340)	—	(816,890)
Payments for interest expenses and distribution of profits	(73,426)	(125,231)	(28,554)	(78,881)
Cash payments relating to other financing activities	—	(2,000)	—	—
<b>Sub-total of cash outflows</b>	<u>(117,040)</u>	<u>(1,025,571)</u>	<u>(28,554)</u>	<u>(895,771)</u>
<b>Net cash flows from financing activities</b>	<u>168,960</u>	<u>(264,471)</u>	<u>213,446</u>	<u>(392,771)</u>
<b>4. Effect of foreign exchange rate changes on cash</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>5. Net increase/(decrease) in cash</b>	(59,511)	420,517	25,775	307,038
Add: Cash and bank balances at beginning of period	<u>592,261</u>	<u>887,047</u>	<u>224,354</u>	<u>262,440</u>
<b>6. Cash and bank balances at end of period*</b>	<u><u>532,750</u></u>	<u><u>1,307,564</u></u>	<u><u>250,129</u></u>	<u><u>569,478</u></u>

\* Excluding restricted cash and bank balances of RMB10.9 million as at 30 June 2010, representing collateral deposit as guarantee for project bidding (30 June 2009: RMB10.9 million).

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*

## Consolidated statement of changes in equity

For the six months ended 30 June 2010

(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	
<b>Balance at 1 January 2009</b>	1,427,228	383,338	253,093	1,044,043	118,496	3,226,198
<b>Changes in 2009</b>						
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)
<b>Balance at 31 December 2009</b>	1,427,228	383,338	276,124	1,206,901	121,920	3,415,511
<b>Changes in 2010</b>						
Net profit	—	—	—	129,701	573	130,274
Profit appropriation						
-Dividend appropriation to shareholders (Note 4(15)(c))	—	—	—	(114,178)	—	(114,178)
<b>Balance at 30 June 2010</b>	1,427,228	383,338	276,124	1,222,424	122,493	3,431,607

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

**Consolidated statement of changes in equity**

**For the six months ended 30 June 2010**

*(All amounts in RMB thousand unless otherwise stated)*

	Share capital	Capital surplus	General reserve	Undistributed profits	Total shareholders' equity
<b>Balance at 1 January 2009</b>	1,427,228	380,788	253,093	990,501	3,051,610
<b>Changes in 2009</b>					
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)
<b>Balance at 31 December 2009</b>	1,427,228	380,788	276,124	1,140,686	3,224,826
<b>Changes in 2010</b>					
Net profit	—	—	—	130,722	130,722
Profit appropriation					
-Dividend appropriation to shareholders	—	—	—	(114,178)	(114,178)
<b>Balance at 30 June 2010</b>	1,427,228	380,788	276,124	1,157,230	3,241,370

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*

## Notes to the Financial Statements

### For the six months ended 30 June 2010

(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.

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 water

Pursuant to relevant agreements (“Sewage Water Processing Agreements”), the Group currently provides sewage water 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	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
Jin Nan, Tianjin	13 November 2009	Tianjin Jinnan Municipal Government

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 water 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 water 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 water 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 pricing 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 19 August 2010.

## 2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### (1) 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”).

### (2) Statement of compliance with CAS

The financial statements of the Company for the six months ended 30 June 2010 truly and completely present the financial position as of 30 June 2010 and the operating results, cash flows and other information for the period then ended of the Group and the Company in compliance with the Accounting Standards for Business Enterprises.

### (3) Accounting period

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

### (4) Recording currency

The recording currency is Renminbi (“Rmb”).

### (5) 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.

### (6) 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.

## **(7) 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.

## **(8) Financial instruments**

### **(a) Financial assets**

The Group's financial assets represent receivables (Note 2(9)), 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.

(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.

**(9) 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.



## **(10) 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.

## **(11) 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.

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

For 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.

For 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.

(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.

## (12) 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:

	<b>Estimated useful lives</b>	<b>Estimated residual value rate</b>	<b>Annual depreciation (amortisation) rate</b>
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.

## (13) 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:

	<b>Estimated useful lives</b>	<b>Estimated residual value rate</b>	<b>Annual depreciation rate</b>
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.

#### **(14) 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.

#### **(15) 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.

#### **(16) 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.

#### **(17) 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.

#### **(18) 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.

Termination 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.

#### **(19) Dividend distribution**

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

#### **(20) 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 with 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.

## **(21) 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.

## **(22) Deferred tax assets and deferred tax liabilities**

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax 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.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related 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.

### (23) 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.

### (24) 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 of 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 30 June 2010 are not impaired.

## 3 TAXATION

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

<b>Tax by category</b>	<b>Basis of Tax</b>	<b>Tax rate</b>
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%



#### 4 NOTES TO THE ACCOUNTS

##### (1) CASH AND BANK BALANCES

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Cash on hand and in bank	<u>543,650</u>	<u>603,161</u>	<u>260,129</u>	<u>234,354</u>
Including:				
Special funds for construction in progress (note (a))	40,250	67,647	40,172	65,540
Restricted bank deposits due within one year (note (b))	<u>10,900</u>	<u>10,900</u>	<u>10,000</u>	<u>10,000</u>

(a) The special funds for construction in progress represent the unutilised balances of the special loans for sewage water processing projects.

(b) The bank deposits represented deposits for project bids due within one year of Rmb10.9million (2009: Rmb10.9 million).

## (2) TRADE RECEIVABLES

Details of trade receivables are as follows:

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Due from TSC for:				
- Sewage water processing service	629,480	350,863	629,480	350,863
- Construction of sewage water processing plants	241,792	241,792	241,792	241,792
	<u>871,272</u>	<u>592,655</u>	<u>871,272</u>	<u>592,655</u>
Due from Tianjin Toll Collection Office				
- Toll road fee(note (a))	71,320	78,200	71,320	78,200
Other items with insignificant amount	103,952	74,403	—	—
	<u>1,046,544</u>	<u>745,258</u>	<u>942,592</u>	<u>670,855</u>
Less: Non-current portion (Note 4(6))	<u>(241,792)</u>	<u>(241,792)</u>	<u>(241,792)</u>	<u>(241,792)</u>
	<u><u>804,752</u></u>	<u><u>503,466</u></u>	<u><u>700,800</u></u>	<u><u>429,063</u></u>

- (a) 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.

In accordance with “JinZhengBanFa” [2010] No.51 “The application guidance about oil price, tax reform and termination of government toll road “ as promulgated by Tianjin Government on 19 May 2010, the Company recognized toll road fee revenue during the reporting period pursuant to the Toll Collection Agreement.

(b) Credit period of receivables ranges from 1 month to 3 months. Aging of trade receivables prior to the classification to long-term receivables described as above is as follows:

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Within one year	510,025	497,119	412,420	429,063
One to two years	289,741	1,361	288,380	—
Over two years	246,778	246,778	241,792	241,792
	<u>1,046,544</u>	<u>745,258</u>	<u>942,592</u>	<u>670,855</u>

(c) As at 30 June 2010, there were no trade receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2009: Nil).

### (3) PREPAYMENTS

Prepayments include:

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Plant construction	84,559	135,468	84,559	135,468
Recycled water pipeline connection	45,142	40,490	—	—
Prepayments for equipments	19,695	15,178	3,569	4,178
Others	1,291	3,024	1,242	2,977
	<u>150,687</u>	<u>194,160</u>	<u>89,370</u>	<u>142,623</u>

As at 30 June 2010, there were no prepayments to any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2009: Nil).

### (4) OTHER RECEIVABLES

Other receivables include:

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Project deposits	27,970	29,650	27,000	27,300
Other receivables from customers	6,593	7,971	—	—
Receivables from subsidiaries	—	—	127,100	127,136
Others	23,851	17,678	7,776	15,028
	<u>58,414</u>	<u>55,299</u>	<u>161,876</u>	<u>169,464</u>

As at 30 June 2010, there were no receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2009: Nil).

**(5) INVENTORIES**

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Raw materials	8,520	8,526	4,105	3,423
Finished goods	3,768	3,768	-	-
Spare parts and low cost consumables	1,318	359	113	133
	<u>13,606</u>	<u>12,653</u>	<u>4,218</u>	<u>3,556</u>
Less: Provision for declines in the value of inventories	<u>(3,000)</u>	<u>(3,000)</u>	<u>—</u>	<u>—</u>
	<u><u>10,606</u></u>	<u><u>9,653</u></u>	<u><u>4,218</u></u>	<u><u>3,556</u></u>

**(6) LONG-TERM RECEIVABLES**

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Receivables from TSC	241,792	241,792	241,792	241,792
Receivables from toll road concession	333,820	331,354	333,820	331,354
	<u>575,612</u>	<u>573,146</u>	<u>575,612</u>	<u>573,146</u>

Receivables from toll road concession represent amortised cost using effective interest method, calculated with reference to future revenues from the toll road asset of the Company based on the related agreement(Note4(2)(a)).

**(7) LONG-TERM EQUITY INVESTMENTS**

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>
Investment in subsidiaries (note (a))	—	—	1,135,981	1,130,981
Less: Impairment provision for long-term investment (note (c))	—	—	(26,500)	(26,500)
	<u>—</u>	<u>—</u>	<u>1,109,481</u>	<u>1,104,481</u>
Investment in an associate (note (b))	40,218	40,135	—	—
Other long-term equity investments	4,000	4,000	4,000	4,000
	<u>44,218</u>	<u>44,135</u>	<u>1,113,481</u>	<u>1,108,481</u>

(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.

	Investment cost	Carrying Value		30 June 2010	Interest held / Voting shares %
		31 December 2009	Addition/ (disposal)		
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	98,500	98,500	—	98,500	100
Fuyang Capital Water Co., Ltd.	62,100	62,100	—	62,100	99.9
Anguo Capital Water Co., Ltd.	41,000	41,000	—	41,000	100
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
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
Tianjin Capital Water Co. Ltd.	5,000	—	5,000	5,000	100
		<u>1,130,981</u>	<u>5,000</u>	<u>1,135,981</u>	

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

(b) Investment in an associate

	Registered capital	Interest & voting shares held	30 June 2010		For the period ended 30 June 2010	
			Total assets	Total liabilities	Revenue	Net profit
Tianjin international Machinery Co., Ltd.	120,000	27.5%	577,572	420,159	752,516	302

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 2009	Disposal	Share of profit in associated company	30 June 2010
TIMC	33,000	40,135	—	83	40,218

- (c) Full provision has been made for the investment in Tianjin Capital New Materials Co., Ltd. of approximately Rmb26.5 million as at 30 June 2010 (31 December 2009: Rmb26.5 million).

**(8) INVESTMENT PROPERTIES**

<b>Buildings</b>	<b>Group</b>	<b>Company</b>
Cost		
At 31 December 2009	137,374	110,648
At 30 June 2010	137,374	110,648
Accumulated depreciation		
At 31 December 2009	(14,073)	(12,653)
Charge for the period	(1,567)	(1,314)
At 30 June 2010	(15,640)	(13,967)
Net book value		
At 30 June 2010	121,734	96,681
At 31 December 2009	123,301	97,995

## (9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS

### (a) Group

	<b>Buildings &amp; structure (note (i))</b>	<b>Machinery &amp; equipment</b>	<b>Motor vehicles &amp; others</b>	<b>Total</b>
Cost				
At 31 December 2009	2,421,274	339,507	99,107	2,859,888
Addition	586	358	6,178	7,122
Disposal	(34,807)	(13,110)	(2,430)	(50,347)
At 30 June 2010	<u>2,387,053</u>	<u>326,755</u>	<u>102,855</u>	<u>2,816,663</u>
Accumulated depreciation				
At 31 December 2009	(639,239)	(188,709)	(55,546)	(883,494)
Charge for the period	(43,761)	(4,180)	(8,292)	(56,233)
Disposal	23,597	11,559	859	36,015
At 30 June 2010	<u>(659,403)</u>	<u>(181,330)</u>	<u>(62,979)</u>	<u>(903,712)</u>
	<b>Buildings &amp; structure (note (i))</b>	<b>Machinery &amp; equipment</b>	<b>Motor vehicles &amp; others</b>	<b>Total</b>
Impairment				
At 31 December 2009	(11,000)	(4,068)	(932)	(16,000)
At 30 June 2010	(11,000)	(4,068)	(932)	(16,000)
Net book value				
At 30 June 2010	<u>1,716,650</u>	<u>141,357</u>	<u>38,944</u>	<u>1,896,951</u>
At 31 December 2009	<u>1,771,035</u>	<u>146,730</u>	<u>42,629</u>	<u>1,960,394</u>

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) The Group's depreciation expense of Rmb51million (2009:Rmb46 million) has been included in cost of sales and Rmb5 million (2009: Rmb5 million) in administrative expenses for the period ended 30 June 2010.
- (iii) Ownership of certain land and buildings included in fixed assets, investment properties and land use rights with cost of Rmb311 million (31 December 2009: 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.



(b) Company

	<b>Buildings &amp; structure (note (i))</b>	<b>Machinery &amp; equipment</b>	<b>Motor vehicles &amp; others</b>	<b>Total</b>
Cost				
At 31 December 2009	2,304,152	192,950	68,230	2,565,332
Addition	232	65	2,446	2,743
Disposal	(34,807)	(13,110)	(2,338)	(50,255)
At 30 June 2010	<u>2,269,577</u>	<u>179,905</u>	<u>68,338</u>	<u>2,517,820</u>
Accumulated depreciation				
At 31 December 2009	(621,213)	(166,157)	(48,523)	(835,893)
Charge for the period	(42,391)	(2,385)	(4,207)	(48,983)
Disposal	23,597	11,559	859	36,015
At 30 June 2010	<u>(640,007)</u>	<u>(156,983)</u>	<u>(51,871)</u>	<u>(848,861)</u>
Net book value				
At 30 June 2010	<u>1,629,570</u>	<u>22,922</u>	<u>16,467</u>	<u>1,668,959</u>
At 31 December 2009	<u>1,682,939</u>	<u>26,793</u>	<u>19,707</u>	<u>1,729,439</u>

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

	Budget	31 December 2009	Addition	Transfer to fixed assets	30 June 2010	Sources of funds	Incurred costs to budget costs ratio (%)
Water recycling plants:							
- Dong Jiao	129,072	77,189	1,835	—	79,024	Self-raised fund	61
- Bei Chen	97,000	43,567	17,605	—	61,172	Self-raised fund	63
Sewage water processing plants:							
- XianYang Lu (Project BNR)	6,873	5,240	849	—	6,089	Self-raised fund	89
- Dong Jiao (upgrade project)	409,374	40,561	50,566	—	91,127	Self-raised fund	22
- XianYang Lu (upgrade project)	301,128	70,271	48,644	—	118,915	Self-raised fund	39
- Bei Cang (upgrade project)	199,370	55,132	34,487	—	89,619	Self-raised fund	45
- Ji Zhuang Zi (upgrade project)	267,806	28,166	44,976	—	73,142	Self-raised fund	27
Others		3,262	833	(63)	4,032	Self-raised fund	
Total – Company		<u>323,388</u>	<u>199,795</u>	<u>(63)</u>	<u>523,120</u>		
Water recycling plants:							
- Ji Zhuang Zi (expansion project)	87,573	18,565	11,429	-	29,994	Self-raised fund	34
- Office buildings		31,618	3,096	-	34,714	Self-raised fund	
Others		1,233	-	-	1,233	Self-raised fund	
Total – Group		<u>374,804</u>	<u>214,320</u>	<u>(63)</u>	<u>589,061</u>		
Including: Capitalised borrowing costs - Group		<u>957</u>	<u>5,178</u>	<u>-</u>	<u>6,135</u>		

Borrowing costs have been capitalized for the period ended 30 June 2010 at an average interest rate of 5.35% per annum (2009: 6.5%).

## (10) INTANGIBLE ASSETS

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Concession rights (note (a))	2,411,638	2,367,696	-	-
Land use rights (note (b))	379,106	383,203	366,878	370,936
	<u>2,790,744</u>	<u>2,750,899</u>	<u>366,878</u>	<u>370,936</u>

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

	Group
Cost	
At 31 December 2009	2,585,543
Addition	91,529
At 30 June 2010	<u>2,677,072</u>
Accumulated amortisation	
At 31 December 2009	(217,847)
Charge for the period	(47,587)
At 30 June 2010	<u>(265,434)</u>
Net book value	
At 30 June 2010	<u>2,411,638</u>
At 31 December 2009	<u>2,367,696</u>

As at 30 June 2010, certain of concession rights with net book value of Rmb 257 million (Cost: Rmb302 million) (31 December 2009: net book value of Rmb262 million and cost of Rmb302 million) have been secured against long-term borrowings of Rmb162 million (31 December 2009: Rmb175 million).

(b) Land use rights

	<b>Group</b>	<b>Company</b>
Cost		
At 31 December 2009	495,927	474,416
At 30 June 2010	495,927	474,416
Accumulated amortisation		
At 31 December 2009	(112,724)	(103,480)
Charge for the period	(4,097)	(4,058)
At 30 June 2010	(116,821)	(107,538)
Net book value		
At 30 June 2010	379,106	366,878
At 31 December 2009	383,203	370,936

**(11) TRADE PAYABLES, ADVANCES, TAXES PAYABLE AND OTHER PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>
Trade payables	52,414	22,952	10,523	8,362
Advances (note (a))	303,338	305,085	96,117	110,908
Other payables (note (b))	209,872	231,426	231,895	232,270
Taxes payable (note (c))	27,923	10,000	22,534	1,871
	<u>593,547</u>	<u>569,463</u>	<u>361,069</u>	<u>353,411</u>

(a) Advances comprise:

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>
For pipeline connection Received from project of Han Gu	205,687	194,024	—	—
Other advances	89,684	110,504	89,684	110,504
	7,967	557	6,433	404
	<u>303,338</u>	<u>305,085</u>	<u>96,117</u>	<u>110,908</u>

(b) Other payables comprise:

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Construction costs payable	90,697	116,715	64,375	97,553
Payable for purchase of fixed assets and concession right of plants	66,378	83,389	—	—
Others	52,797	31,322	167,520	134,717
	<u>209,872</u>	<u>231,426</u>	<u>231,895</u>	<u>232,270</u>

As at 30 June 2010, 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 2009: Nil).

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

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Income tax payable	20,692	6,082	17,113	(665)
Business tax payable	5,113	3,172	4,837	2,536
Others	2,118	746	584	—
	<u>27,923</u>	<u>10,000</u>	<u>22,534</u>	<u>1,871</u>

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

	Note	Group		Company	
		Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Non-current:					
Long-term bank borrowings	(a)	2,506,210	2,262,460	1,075,000	833,000
Less: Current portion	(a)	<u>(417,530)</u>	<u>(98,530)</u>	<u>(298,000)</u>	<u>(9,000)</u>
		2,088,680	2,163,930	777,000	824,000
Other non-current liabilities	(c)	<u>291,894</u>	<u>291,894</u>	<u>182,645</u>	<u>182,645</u>
		<u>2,380,574</u>	<u>2,455,824</u>	<u>959,645</u>	<u>1,006,645</u>
Current:					
Current portion of long-term bank borrowings	(a)	417,530	98,530	298,000	9,000
Short-term bank borrowings	(a)	100,000	100,000	100,000	100,000
Short-term debenture	(b)	500,000	500,000	500,000	500,000
Other current liabilities	(c)	<u>19,853</u>	<u>20,260</u>	<u>16,364</u>	<u>16,364</u>
		<u>1,037,383</u>	<u>718,790</u>	<u>914,364</u>	<u>625,364</u>

(a) Summary of terms of bank borrowings:

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Long-term bank borrowings:				
Secured				
- Pledge	162,000	175,000	-	-
- Guarantee	1,517,210	1,502,460	248,000	248,000
Unsecured	827,000	585,000	827,000	585,000
	<u>2,506,210</u>	<u>2,262,460</u>	<u>1,075,000</u>	<u>833,000</u>
Short-term bank borrowings:				
Secured				
- Guarantee	-	-	-	-
Unsecured	100,000	100,000	100,000	100,000
	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

(b) 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>

- (i) 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.
- (ii) At the date of approval of the consolidated financial statements, the Company has issued the second batch of the short-term debenture of Rmb600 million. The newly issued debenture is at par with maturity period of one year and bears interest rate at 3.48% per annum. Both the principal and interest will be repaid upon maturity of the debenture.

## (c) Other liabilities

	Group		Company	
	Unaudited 30 June 2010	Audited 31 December 2009	Unaudited 30 June 2010	Audited 31 December 2009
Non-current:				
-Tianjin Municipal Engineering Bureau ("TMEB") (note(i))	114,545	114,545	114,545	114,545
-Deferred revenue (note(ii))	143,100	143,100	68,100	68,100
-Others	34,249	34,249	-	-
	<u>291,894</u>	<u>291,894</u>	<u>182,645</u>	<u>182,645</u>
Current:				
-TMEB				
• Current portion of long- term loan (note(i))	16,364	16,364	16,364	16,364
-Others	3,489	3,896	-	-
	<u>19,853</u>	<u>20,260</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 as at 30 June 2010 (2009: 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.

**(13) DEFERRED INCOME TAX LIABILITIES**

	30 June 2010		31 December 2009	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>34,666</u>	<u>138,664</u>	<u>30,198</u>	<u>120,792</u>



#### (14) SHARE CAPITAL

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.

	<b>A share Circulating shares</b>	<b>H share Circulating shares</b>	<b>Total</b>
At 31 December 2009	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>
At 30 June 2010	<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.

#### (15) 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.
- (c) Dividends

A dividend in respect of year ended 31 December 2009 of Rmb0.8 (gross tax) every 10 shares, total shares of 1,427 million shares on 13 May 2010, amounting to a total dividend of Rmb114 million, was proposed and approved at the Annual General Meeting on 2 July 2010 (2009: Rmb0.4 (gross tax) every 10 shares, amounting to a total dividend of Rmb57 million).

## (16) MINORITY INTERESTS

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

	<b>Group</b>	
	<b>Unaudited 30 June 2010</b>	<b>Audited 31 December 2009</b>
Hangzhou Tianchuang Capital Water Co., Ltd.	88,180	87,811
Baoying Capital Water Co., Ltd.	12,470	12,583
Qujing Capital Water Co., Ltd.	11,482	11,514
Guizhou Capital Water Co., Ltd.	6,957	6,715
Honghu Capital Water Co., Ltd.	2,094	1,983
Tianjin Water Recycling Co., Ltd.	1,212	1,218
Chibi Capital Water Co., Ltd.	84	82
Fuyang Capital Water Co., Ltd.	14	14
	<u>122,493</u>	<u>121,920</u>

## (17) INCOME FROM AND COST OF OPERATIONS

	<b>Group</b>			
	<b>Unaudited Six months ended 30 June 2010</b>		<b>Unaudited Six months ended 30 June 2009</b>	
	<b>Income from operations</b>	<b>Cost of operations</b>	<b>Income from operations</b>	<b>Cost of operations</b>
Income from principal operations (Note 5)	658,029	350,079	580,084	267,459
Other operating income	17,495	7,150	7,576	2,578
	<u>675,524</u>	<u>357,229</u>	<u>587,660</u>	<u>270,037</u>

	<b>Company</b>			
	<b>Unaudited Six months ended 30 June 2010</b>		<b>Unaudited Six months ended 30 June 2009</b>	
	<b>Income from operations</b>	<b>Cost of operations</b>	<b>Income from operations</b>	<b>Cost of operations</b>
Income from principal operations	446,867	200,815	383,170	135,554
Other operating income	11,608	3,690	6,740	1,987
	<u>458,475</u>	<u>204,505</u>	<u>389,910</u>	<u>137,541</u>

The Company's principal operations are substantially from processing of sewage water, toll road collection, water recycling and tap water supply.

**(18) BUSINESS TAX AND SURCHARGES**

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Business tax	19,844	20,937	19,292	19,924
City construction and maintenance fee	105	153	—	—
Education fee surcharge	61	78	—	—
	<u>20,010</u>	<u>21,168</u>	<u>19,292</u>	<u>19,924</u>

**(19) FINANCIAL EXPENSES – NET**

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Interest expenses of borrowings	78,544	124,036	36,087	78,873
Less: Capitalised interest	(6,566)	(1,303)	(4,691)	—
Net interest expenses	71,978	122,733	31,396	78,873
Less: Interest income	(8,598)	(12,679)	(7,229)	(7,916)
- long-term receivables	(5,633)	(5,636)	(5,633)	(5,636)
- bank deposits	(2,965)	(7,043)	(1,596)	(2,280)
Others	64	2,068	15	40
	<u>63,444</u>	<u>112,122</u>	<u>24,182</u>	<u>70,997</u>

**(20) INCOME TAX**

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Current income tax	42,692	38,123	41,315	35,431
Deferred income tax	4,468	852	1,595	(1,400)
	<u>47,160</u>	<u>38,975</u>	<u>42,910</u>	<u>34,031</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:

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Profit before income tax	177,434	148,807	173,632	136,319
Calculated at applicable income tax rates	44,359	37,202	43,408	34,081
Income not subject to tax	(21)	(50)	(498)	(50)
Utilisation of previously deductible tax for which no deferred income tax was recognised	(195)	(183)	—	—
Current year tax losses for which no deferred income tax asset was recognised	3,017	2,006	—	—
Income tax expenses	<u>47,160</u>	<u>38,975</u>	<u>42,910</u>	<u>34,031</u>

## **(21) EARNINGS PER SHARE**

Basic earnings per share is calculated based on the profit attributable to equity holders of the Company of Rmb130 million (2009: Rmb108 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the period (2009: 1,427 million shares).

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

	<b>Group Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
Profit attributable to equity holders of the Company	129,701	108,013
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic earnings per share (Rmb Yuan)	<u>0.09</u>	<u>0.08</u>

**(22) NOTES TO THE CASH FLOW STATEMENTS AND SUPPLEMENTARY INFORMATION**

Reconciliation of net profit to cash flows from operating activities

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Six months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net profit	130,274	109,832	130,722	102,288
Adjustments for:				
Depreciation of fixed assets and investment properties	57,800	52,885	50,297	48,375
Amortisation of intangible assets	51,684	42,104	4,058	5,675
Losses on disposal of fixed assets	13,117	27	13,082	-
Financial expenses-net	71,978	122,733	31,396	78,873
Investment income	(83)	1,075	(1,992)	(200)
Decrease/(increase) in inventories	(953)	519	(662)	(657)
Increase/(Decrease) in deferred tax liabilities	4,468	852	1,595	(1,400)
Decrease/(Increase) in operating receivables	(258,258)	457,483	(208,226)	493,778
Decrease in operating payables	(13,304)	(46,800)	(25,275)	(17,061)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash flows from operating activities	<u>56,723</u>	<u>740,710</u>	<u>(5,005)</u>	<u>709,671</u>

## 5 SEGMENT REPORTING

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

(a) For the period ended 30 June 2010

	Sewage water processing services			Recycle	Tap	All other	Group
	Tianjin plants	Hangzhou plant	Other plants	water and pipeline connection			
Revenue (Note 4(17))	349,158	66,197	105,875	21,545	17,546	115,203	675,524
Cost of sales (Note 4(17))	(128,165)	(47,016)	(76,038)	(17,334)	(12,811)	(75,865)	(357,229)
Other expenses	(41,581)	(5,921)	(6,381)	(3,048)	(1,584)	(7,891)	(66,406)
Segment profit	179,412	13,260	23,456	1,163	3,151	31,447	251,889
Operating profit	144,556	4,139	11,504	(349)	(1,598)	30,276	188,528
Segment assets	3,786,845	814,686	1,595,378	578,079	299,365	519,631	7,593,984
Segment liabilities	2,366,922	520,751	513,020	509,365	197,063	55,256	4,162,377
Depreciation	47,064	—	2,654	5,698	—	2,384	57,800
Amortisation	4,554	18,124	24,612	12	4,342	40	51,684
Capital expenditures	198,069	—	73,146	34,596	6,139	958	312,908

(b) For the period ended 30 June 2009

	Sewage water processing services			Recycle	Tap	All other	Group
	Tianjin plants	Hangzhou plant	Other plants	water and pipeline connection			
Revenue( Note 4(17))	358,921	57,891	99,105	21,072	18,609	32,062	587,660
Cost of sales (Note 4(17))	(129,904)	(35,683)	(62,882)	(16,970)	(17,985)	(6,613)	(270,037)
Other expenses	(40,917)	(2,467)	(13,007)	(2,196)	(1,117)	(1,500)	(61,204)
Segment profit	188,100	19,741	23,216	1,906	(493)	23,949	256,419
Operating profit	111,465	7,363	1,655	171	(5,967)	28,535	143,222
Segment assets	3,867,984	818,438	1,548,498	518,655	303,370	606,165	7,663,110
Segment liabilities	2,435,998	534,990	813,001	414,775	140,585	44,820	4,384,169
Depreciation	46,163	—	—	5,332	—	1,390	52,885
Amortisation	4,760	10,329	22,970	18	4,027	—	42,104
Capital expenditures	1,548	92	98,261	58,558	5	—	158,464

## 6 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 water processing, tap water supply	Subsidiary of the Company	Limited company	Yang Guang
Gui Zhou Capital Water Co., Ltd.	Guizhou, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Yang Guang
Fu Yang Capital Water Co., Ltd.	Fuyang, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Zhong Hui Fang
Bao Ying Capital Water Co., Ltd.	Baoying, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Zhong Hui Fang
Chi Bi Capital Water Co., Ltd.	Chibi, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Wang Hui
Hong Hu Capital Water Co., Ltd.	Honghu, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Zhang Wen Hui
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Hong Kong, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Ma Bai Yu
Hang Zhou Tianchuang Capital Water Co., Ltd.	Hangzhou, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Zhong Hui Fang
Wen Deng Capital Water Co., Ltd.	Wendeng, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Zhong Hui Fang
Tianjin Jing Hai Capital Water Co., Ltd.	Tianjin, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Gu Qi Feng



Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
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	Tang Fu Sheng
Xi'an Capital Water Co., Ltd.	Xi'an, the PRC	Sewage water processing Company	Subsidiary of the Company	Limited company	Yang Guang
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	Tianjin, the PRC	Environmental engineering, protection and technical consultation	Subsidiary of the Company	Limited company	Liu Wen Ya
Anguo Capital Water Co., Ltd.	Anguo, the PRC processing	Sewage and tap water	Subsidiary of the Company	Limited company	Li Yu Qing
Wuhan Tianchuang Environmental Protection Co., Ltd	Wuhan, the PRC	Sewage and tap water processing	Subsidiary of the Company	Limited company	Yang Guang
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
Tianjin Capital Water Co., Ltd.	Tianjin, the PRC	Sewage water processing	Subsidiary of the Company	Limited company	Li Yu Qing

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

	<b>31 December 2009</b>	<b>Additions</b>	<b>30 June 2010</b>
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.	63,000	—	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	103,240	—	103,240
Tianjin Capital Water Co., Ltd.	—	5,000	5,000
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	7,840	—	7,840

(c) Registered capital of related parties that has no controlling relationship and their movements

	<b>31 December 2009</b>	<b>Additions</b>	<b>30 June 2010</b>
Tianjin Zi Ya Recycled economy industry Investment development Ltd.	2,000,000	—	2,000,000

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

	<b>31 December 2009</b>		<b>Reduction for the period</b>		<b>30 June 2010</b>	
	Amount	%	Amount	%	Amount	%
TMICL	757,333	53.06	(67)	—	757,266	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

<b>Related party</b>	<b>Nature of transaction</b>	<b>Unaudited Six months ended 30 June 2010</b>	<b>Unaudited Six months ended 30 June 2009</b>
TICIG	Rental income	3,230	3,230
Tianjin Zi Ya Recycled economy industry Investment development Ltd.	Income from serving as construction agency	2,380	—

(ii) Key management compensation

	<b>Unaudited Six months ended 30 June 2010</b>	<b>Unaudited Six months ended 30 June 2009</b>
Key management compensation	4,200	4,053

## 7 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	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	<i>Rmb' million</i>	<i>Rmb' million</i>	<i>Rmb' million</i>	<i>Rmb' million</i>
Sewage water processing plants in:				
- Jing Hai	16	16	-	-
- Wu Han	142	162	24	24
- Qu Jing	4	30	39	45
- Ji Zhuang Zi (upgrade project)	81	115	120	120
- Xian Yang Lu (upgrade project)	47	50	150	154
- Bei Cang (upgrade project)	28	53	87	90
- Dong Jiao (upgrade project)	139	96	42	138
Water recycling plants in:				
- Dong Jiao	-	1	48	48
- Bei Chen	-	-	51	51
- Ji Zhuang Zi (expansion project)	10	18	36	36
	<u>467</u>	<u>541</u>	<u>597</u>	<u>706</u>

## VIII. Purchase, Sale or Redemption of the Company's listed securities

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

## IX. Audit Committee

On 31 July 2001, the Board approved the establishment of the Audit Committee to review and supervise the Company's financial reporting procedure and internal controls. The Audit Committee comprises the independent non-executive Directors, Mr. Xie Rong, Mr. Di Xiaofeng and Ms. Lee Kit Ying, Karen. The Audit Committee, together with the management of the Group, have reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Group the internal controls and financial reporting matters including the review of the unaudited interim results and the Interim Report. The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2010.

## **X. Code on Corporate Governance Practices**

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

## **XI. Model Code for Securities Transactions by the Directors**

The Company has adopted a code of conduct regarding the securities transactions by the Directors and Supervisors on the terms exactly the same as the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 to the Listing Rules. The Company, having made specific enquiries to all the Directors and Supervisors, confirmed that all the Directors and Supervisors have complied with the code of conduct regarding the securities transactions by the Directors and Supervisors during the reporting period.

## **XII. Documents Available for Inspection**

1. Financial statements signed and sealed by the legal representative, officer in charge of the accounting function (Chief Accountant) and the officer in charge of the accounting department (person in charge of accounting) of the Company.
2. Original copies of the documents and announcements of the Company which were publicly disclosed on newspapers designated by the CSRC during the reporting period.
3. Annual Report 2009.

**Tianjin Capital Environmental Protection Group Company Limited**

**Zhang Wenhui**

*Chairman*

19 August 2010