Annual Report 2010

Tianjin Capital Environmental Protection Group Company Limited

天 津 創 業 環 保 集 團 股 份 有 限 公 司

Contents

1. Important

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

(2) PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have issued standard unqualified audit reports of the Company.

(3) Chairman of the Company — Mr. Zhang Wenhui

Officer in charge of the accounting work and Officer in charge of the accounting department (the chief accountant) — Ms. Shi Zhenjuan

Mr. Zhang Wenhui, the Company's chairman, and Ms. Shi Zhenjuan, the officer in charge of the accounting work and the officer in charge of the accounting department (the chief accountant), have declared that they are responsible for the truthfulness and completeness of the financial reports contained in the 2010 annual report.

(4) Did the controlling shareholder of the Company and its related parties misappropriate the Company's funds?

No.

(5) Did the Company provide external guarantees in violation of any specified decision-making procedures?

No.

2. Company Profile

(1) Information of the Company

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

(2) Contact person and method

	Company Secretary to the Board	Company Secretary in Hong Kong	Securities Affairs Representative
Name	Fu Yana	Lo Wai Keung, Eric	Guo Fengxian
Correspondence address	TCEP Building 76 Weijin South Road Nankai District, Tianjin The People's Republic of China (the "**PRC**")	22/F, Worldwide House, Central, Hong Kong	TCEP Building 76 Weijin South Road Nankai District, Tianjin the PRC
Telephone number	86-22-2393 0128	852-2218 0920	86-22-2393 0128
Facsimile number	86-22-2393 0126	852-2501 0028	86-22-2393 0126
Email address	fu_yn@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

(3) Company profile

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

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

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

2. Company Profile

(5) Profile of the shares of the Company

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

(6) Other relevant information

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

Other information of the Company

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

3. Major Financial Information and Benchmarks

(1) Major financial data for the reporting period

Unit: '000 Currency: RMB

Item	Amount
Operating profit	406,686.00
Total profit	366,826.00
Net profit attributable to shareholders of the Company	271,160.00
Net profit after deduction of extraordinary items attributable to shareholders of the Company	301,055.00
Net cash flows from operating activities	453,303.00

(2) Extraordinary profit and loss items and amounts

Unit: '000 Currency: RMB

Extraordinary profit and loss items	Amount
Gain and loss from disposal of non-current assets	-47,553
Income and expenses from other operations other than the above	7,693
Impact of income tax	9,965
Total	-29,895

3. Major Financial Information and Benchmarks

(3) Principal Accounting Data and Financial Highlights for the Three Years prior to the End of the Reporting Period

Unit: '000 Currency: RMB

Principal Accounting Data	2010	2009	Increase/ Decrease from last year (%)	2008
Operating income	1,467,768.00	1,256,793.00	16.79	1,159,307.00
Total profit	366,826.00	337,721.00	8.62	310,238.00
Net profit attributable to shareholders of the Company	271,160.00	242,978.00	11.60	231,065.00
Net profit after deduction of extraordinary items attributable to shareholders of the Company	301,055.00	246,770.00	22.00	229,756.00
Net cash flow from operating activities	453,303.00	1,390,313.00	-67.40	304,600.00

	31 December 2010	31 December 2009	Increase/ Decrease from the end of last year (%)	31 December 2008
Total assets	8,425,563.00	7,195,648.00	17.09	7,560,263.00
Owners' equity (or shareholders' equity) attributable to shareholders of the Company	3,450,573.00	3,293,591.00	4.71	3,107,702.00

3. Major Financial Information and Benchmarks

Unit: '000 Currency: RMB

Financial Highlights	2010	2009	Increase/ Decrease from last year (%)	2008
Basic earnings per share (Yuan/share)	0.19	0.17	11.76	0.16
Diluted earnings per share (Yuan/share)	0.19	0.17	11.76	0.16
Basic earnings per share after deduction of extraordinary items (Yuan/share)	0.21	0.17	23.53	0.16
Weighted average return ratio on equity (%)	7.86	7.38	Increased by 0.48 percentage points	7.44
Weighted average return ratio on equity after deduction of extraordinary items (%)	8.72	7.49	Increased by 1.23 percentage points	7.39
Net cash flow from operating activities per share (Yuan/share)	0.32	0.97	-67.01	0.21

	31 December 2010	31 December 2009	Increase/ Decrease from the end of last year (%)	31 December 2008
Net asset value per share attributable to shareholders of the Company (Yuan/share)	2.42	2.31	4.76	2.18

3. Major Financial Information and Benchmarks

(4) Prepared in accordance with the Hong Kong Financial Reporting Standards

Results

	For the year ended 31st December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,394,821	1,226,466	1,135,101	978,953	755,595
Profit before taxation	366,826	337,721	310,238	309,592	246,236
Taxation	(91,670)	(91,319)	(76,753)	(99,224)	(82,948)
Profit after taxation	275,156	246,402	233,485	210,368	163,288
Minority interests	(3,996)	(3,424)	(2,420)	(1,040)	2,317
Profit attributable to equity holders of the Company	271,160	242,978	231,065	209,328	165,605
Dividend	156,995	114,178	57,089	57,089	56,105

Note:

The results for each of the five years ended 31st December 2010 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

Assets and Liabilities

	As at 31st December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets	3,812,606	2,841,702	2,704,364	2,726,943	2,746,173
Intangible assets	2,427,782	2,367,696	1,884,264	1,174,341	1,163,914
Associated company	41,583	40,135	39,878	63,979	61,660
Available-for-sale financial assets	4,000	4,000	4,000	4,000	6,000
Long-term receivables	336,286	331,354	331,254	326,980	318,234
Trade receivables due after one year	68,794	241,792	697,763	697,763	749,973
Other non-current assets	7,458	3,230	47,252	23,778	46,113
Net current (liabilities)/assets	39,599	15,624	137,563	(158,829)	(405,995)
	6,738,108	5,845,533	5,864,338	4,858,955	4,686,072
Minority interests	125,596	121,920	118,496	117,358	116,318
Long-term liabilities	3,161,939	2,430,022	2,620,140	1,807,871	2,167,853
Net assets	3,450,573	3,293,591	3,107,702	2,933,726	2,401,901

4. Details of Changes in Share Capital and Shareholders

(1) Changes in share capital

1. Changes in shares

Unit: shares

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

2. Changes in restricted shares

During the reporting period, there were no restricted shares of the Company.

(2) Issue and listing of securities

1. Issue of securities in the past three years

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

4. Details of Changes in Share Capital and Shareholders

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

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

3. **Existing internal employee shares**

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

(3) Details of shareholders and ultimate controller

1. **Number of shareholders and their shareholdings**

Unit: shares

Total number of shareholders as at the end of the reporting period	105,300, among which 92 are shareholders of H shares

Shareholdings of the top ten shareholders

Shareholders	Nature of the Shareholder	Percentage of shareholding (%)	Total number of shares held	Increase/ Decrease during the reporting period	Number of restricted shares held	Number of shares pledged or frozen
Tianjin Municipal Investment Company Limited ("TMICL")	State-owned shareholder	51.83	739,781,100	-17,551,666	0	Pledged 251,940,000
HKSCC Nominees Limited	Unknown	23.44	334,580,900	-3,034,000	0	Unknown
Zhou Jun	Unknown	0.43	6,177,700	234,865	0	Unknown
Shenyang Railway Coal Group Co., Ltd.	Unknown	0.21	3,000,000	0	0	Unknown
HO MAN PING	Unknown	0.14	2,014,000	2,014,000	0	Unknown
CITIC Trust & Investment Co., Ltd. – Win Win No.4	Unknown	0.09	1,325,721	1,325,721	0	Unknown
Chen Ceng	Unknown	0.09	1,235,000	1,235,000	0	Unknown
Wang Ming Li	Unknown	0.08	1,193,500	-96,667	0	Unknown
FUNG CHUN KIT	Unknown	0.08	1,130,000	1,130,000	0	Unknown
Shanghai Tian Xi Investment Co., Ltd	Unknown	0.08	1,130,000	1,130,000	0	Unknown

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

Name of shareholder	Number of the non-restricted circulating shares held	Type of shares
TMICL	739,781,100	Ordinary RMB Shares
HKSCC Nominees Limited	334,580,900	H Shares
Zhou Jun	6,177,700	Ordinary RMB Shares
Shenyang Railway Coal Group Co., Ltd.	3,000,000	Ordinary RMB Shares
HO MAN PING	2,014,000	H shares
CITIC Trust & Investment Co., Ltd.– Win Win No.4	1,325,721	Ordinary RMB Shares
Chen Ceng	1,235,000	Ordinary RMB Shares
Wang Ming Li	1,193,500	Ordinary RMB Shares
FUNG CHUN KIT	1,130,000	H Shares
Shanghai Tian Xi Investment Co., Ltd	1,130,000	Ordinary RMB Shares

Notes on the connected relationship or parties acting in concert among the above shareholders: It is not certain whether there is any connected relationship among the top 10 shareholders. It is not certain whether there is any connected relationship between the top 10 shareholders of non-restricted circulating shares and the top 10 shareholders.

1. According to the register of members of the Company as provided by HKSCC Nominees Limited, those H Shares held by it were held on behalf of various clients. There was no client who owned 5% or more interest in the total share capital of the Company.

2. The top ten shareholders are not strategic investors of the Company.

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

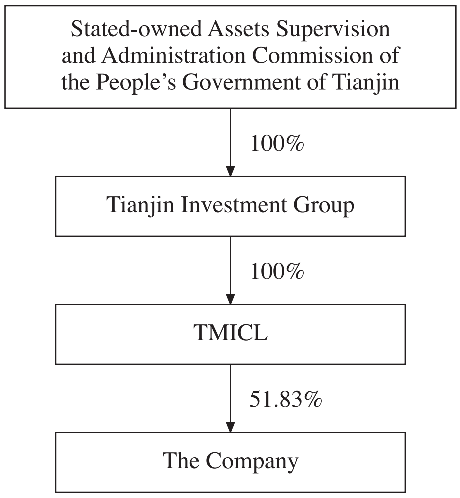
(1) Description of the legal person controlling shareholder

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

(2) Description of the legal person ultimate controller

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

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



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

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

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

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

4. Details of Changes in Share Capital and Shareholders

(4) Substantial Shareholders Interests

(a) As at 31st December 2010, so far as is known to or can be ascertained after reasonable enquiries by the Directors, Supervisors or chief executive of the Company, the following entities (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Number and class of securities *(Note)*	Approximate percentage in the relevant class of securities	Approximate percentage in the total issued share capital of the Company
TMICL	Beneficial Owner	739,781,100 A Shares (L)	68.04%	51.83%
Edmond de Rothschild Asset Management	Investment Manager	33,900,000 H Shares (L)	9.97%	2.38%
Edmond de Rothschild Asset Management Hong Kong Limited	Investment Manager	33,300,000 H Shares (L)	9.79%	2.33%
ISIS Asset Management Plc	Investment Manager	17,286,000 H Shares (L)	5.08%	1.21%
HSBC Asset Management (Hong Kong) Limited	Investment Manager	20,000,000 H Shares (L)	5.88%	1.40%

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

(b) Save as disclosed above, there is no other person (other than the Directors, Supervisors or chief executive of the Company) so far as is known to the Directors, Supervisors or chief executives of the Company who, as at 31 December 2010, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 10% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

5. Directors, Supervisors and Senior Management

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

Name	Position held	Sex	Age	Appointment date	Termination date	No. of shares held at the beginning of the year	No.of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB) (Before Tax)	Receive any remuneration or allowance from companies of shareholders or other related companies?
Zhang Wenhui	Executive Director, Chairman	M	56	18 December 2009	17 December 2012	0	0	—	815,268	No
Lin Wenbo	Executive Director, general manager	M	54	18 December 2009	17 December 2012	0	0	—	709,893.31	No
Fu Yana	Executive Director, deputy general manager and secretary to the Board	F	40	18 December 2009	17 December 2012	0	0	—	540,992	No
Zhong Huifang	Executive Director, deputy general manager	F	43	18 December 2009	17 December 2012	0	0	—	497,845	No
An Pindong	Non-executive Director	M	42	18 December 2009	17 December 2012	0	0	—	100,000	Yes
Chen Yinxing	Non-executive Director	F	37	18 December 2009	17 December 2012	0	0	—	100,000	Yes
Xie Rong	Independent non-executive Director	M	59	18 December 2009	17 December 2012	0	0	—	HK$200,000	No
Di Xiaofeng	Independent non-executive Director	M	50	18 December 2009	17 December 2012	0	0	—	HK$200,000	No
Lee Kit Ying, Karen	Independent non-executive Director	F	63	18 December 2009	17 December 2012	0	0	—	HK$200,000	No
Zhang Mingqi	Chairman of Supervisory Committee	M	54	18 December 2009	17 December 2012	0	0	—	394,845.70	No
Nie Youzhuang	Supervisor	M	42	18 December 2009	17 December 2012	959 domestic shares	959 domestic shares	—	262,700.60	No
Xu Zhiyong	Supervisor	M	40	18 December 2009	17 December 2012	0	0	—	394,345.70	No
Wang Yanmin	Supervisor, deputy general manager of the audit department of Tianjin Investment Group	F	45	18 December 2009	17 December 2012	0	0	—	0	Yes

5. Directors, Supervisors and Senior Management

Name	Position held	Sex	Age	Appointment date	Termination date	No. of shares held at the beginning of the year	No.of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB) (Before Tax)	Receive any remuneration or allowance from companies of shareholders or other related companies?
Li Yang	Supervisor	M	42	18 December 2009	17 December 2012	0	0	—	269,653.60	No
Qi Lipin	Supervisor	F	33	18 December 2009	17 December 2012	0	0	—	189,503	No
Deng Biao	Deputy general manager	M	45	18 December 2009	17 December 2012	0	0	—	410,245.70	No
Yang Guang	Deputy general manager	M	41	18 December 2009	17 December 2012	0	0	—	432,349	No
Zhang Qiang	Deputy general manager	M	48	18 December 2009	17 December 2012	0	0	—	410,284	No
Li Yuqing	Chief engineer	M	46	18 December 2009	17 December 2012	0	0	—	403,345.70	No
Shi Zhenjuan	Chief accountant	F	41	18 December 2009	17 December 2012	0	0	—	419,349	No
Lo Wai Keung, Eric	Company secretary (Hong Kong)	M	35	18 December 2009	17 December 2012	0	0	—	US$20,000	No
Tang Fusheng	Deputy general manager	M	38	25 March 2010	17 December 2012	0	0	—	447,323	No
Wang Hong	Deputy general manager	M	36	25 March 2010	17 December 2012	0	0	—	411,145.69	No
Zhao Yi	Deputy general manager	M	39	18 October 2010	17 December 2012	0	0	—	58,964	No
Gu Wenhui	Former chief economist	M	34	5 March 2009	25 March 2010	0	0	—	185,873.35	No
Total	/	/	/	/	/	959 domestic shares	959 domestic shares	/	8,096,938.35	/

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

Zhang Wenhui, is now the chairman and party committee secretary of the Company. Since 1980, Mr. Zhang served as the deputy head of No.4 Branch of Tianjin Sewage Management Division, the deputy chief, chief and party secretary of Tianjin Sewage Management Division, and the vice-chairman of the labour union of Tianjin Urban Construction Bureau. Mr. Zhang was an executive Director of the Company from 20 December 2000 to 19 December 2003. Mr. Zhang was the chairman of the Supervisory Committee of the Company since 20 December 2003. He was the party secretary of the Company since October 2006. Mr. Zhang resigned as the Supervisor and the chairman of the Supervisory Committee of the Company on 21 July 2009, and he was appointed as the executive Director and chairman of the Company on 8 September 2009. Mr. Zhang Wenhui has nearly 30 years experience in municipal public administration industry and is familiar with the technology and operation of the water industry with extensive experience in enterprise operation and management.

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

Fu Yana, is now the executive Director, deputy general manager and secretary of the Board of the Company, and also the manager of the human resources department of the Company. Ms. Fu has been the secretary to the Board since December 2000. She was appointed as the executive Director and deputy general manager of the Company since December 2003 and has been the manager of the human resources department since 8 November 2010. During the reporting period, Ms. Fu was also the director of Tianjin Beifang Rencaigang Company Limited, in which the Company has interest. Ms. Fu was also the director of the Company's subsidiaries, Tianjin Capital Environmental Protection (Hong Kong) Company Limited and Anguo Capital Water Company Limited.

Zhong Huifang, is now the executive Director and deputy general manager of the Company, and is also the general manager of the international business department of the Company and the general manager of Tianjin Capital Environmental Protection (Hong Kong) Company Limited. From August 2002 to August 2008, Ms. Zhong Huifang successively held the positions of manager assistant, deputy manager and manager of the market development division of the Company, and deputy chief engineer and general manager assistant of the Company, and participated as a key member in market development of the Company. Ms. Zhong Huifang was the deputy general manager of the Company since 21 August 2008. She was appointed as the general manager of the eastern water business department of the Company since December 2009 and has been the director and chairman of Wengdeng Capital Water Company Limited, Hangzhou Tianchuang Water Company Limited, Baoying Capital Water Company Limited and Fuyang Capital Water Company Limited. She was appointed as the general manager of the international business department of the Company and general manager of Tianjin Capital Environmental Protection (Hong Kong) Company Limited on Novenber 2010. Ms. Zhange was the executive Director of the Company since 18 December 2009.

5. Directors, Supervisors and Senior Management

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

Chen Yinxing, a certified public accountant in the PRC, is now the non-executive Director of the Company and the deputy chief accountant of Tianjin Investment Group. From December 2003 to December 2004, Ms. Chen was appointed as the deputy chief economist, general administrative officer, and manager of the asset management department of TMICL. She joined the Company in January 2005 and was the chief accountant of the Company since February 2005. Ms. Chen Yinxing resigned as the chief accountant of the Company on 5 March 2009 and began to be the deputy chief accountant of Tianjin Investment Group. Ms. Chen was appointed as the non-executive Director of the Company since 18 December 2009.

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

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

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

Zhang Mingqi, is now the chairman of the Supervisory Committee and the deputy secretary of party committee of the Company. Since November 2003, Mr. Zhang was the head of party office of the Company, officer of the organization division of the Company and secretary of institutional party sub-committee. He was the officer of the Company's party community working division, deputy chairman of trade union and secretary of the institutional party sub-committee since May 2006. He has been the deputy secretary of party committee of the Company since 24 February 2009. Mr. Zhang was appointed as the Supervisor on behalf of the Company's staff since September 2001 and the chairman of the Supervisory Committee of the Company since July 2009.

Nie Youzhuang, is now the Supervisor of the Company and the general manager of the eastern region of the Tianjin water business division and the factory director of Dongjiao Sewage Water Treatment Plant. Mr. Nie joined the Company in January 2001 and worked in the production operation department, and held positions as departmental deputy general manager, manager and deputy chief engineer of the Company. From February 2008 to December 2009, he was the general manager of a water business branch of the Company. He was the general manager of the southern region of the Tianjin water business division from January 2010 to February 2011. Mr. Nie has been the Supervisor of the Company since 19 December 2003.

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

Wang Yanmin, is now the Supervisor of the Company and the deputy general manger of audit department of Tianjin Investment Group. Ms. Wang joined the Company in September 2004 and has been the manager of the audit department of the Company. She was transferred to Tianjin Investment Group and became the assistant to the director of audit department in July 2009 and was appointed the deputy general manger of audit department of Tianjin Investment Group in December 2010. Ms. Wang Yanmin was appointed as the Supervisor of the Company since 19 December 2006.

Li Yang, is now the Supervisor of the Company and the general manager of the non-local water business division of the Shaanxi region. From November 2005 to April 2009, he was the general manager of Fuyang Capital Water Company Limited. From April 2009 to December 2009, he was the general manager of the 2nd water operation branch of the Company. He has been the general manager of the eastern region of Tianjin water business division from January 2010 to February 2011 and has been the general manager of the non-local water business division of the Company since February 2011. Mr. Li was appointed as the Supervisor of the Company since 8 September 2009.

5. Directors, Supervisors and Senior Management

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

Deng Biao, is now the deputy general manager of the Company and the general manager of the 3rd engineering branch company. Mr. Deng was the chief engineer of the Company from December 2003 to June 2009. He has been the deputy general manager of the Company since 5 March 2009.

Yang Guang, is now the deputy general manager of the Company and general manager of the Tianjin water business division. Mr. Yang worked as the deputy general manager and general manager in Guizhou Capital Water Company Limited, a subsidiary of the Company, from June 2003 to November 2010, and as the general manager of the western region of water business division of the Company. He was the director and chairman of Xi'an Capital Water Company Limited, Qujing Capital Water Company Limited, Guizhou Capital Water Company Limited and Wuhan Tianchuang Environmental Protection Company Limited. Mr. Yang has been the deputy general manager of the Company since 5 March 2009.

Zhang Qiang, is now the deputy general manager of the Company and the general manager of the 2nd engineering branch company. From August 2003 to October 2007, Mr. Zhang served as deputy general manager in Tianjin Third Municipal Highway Engineering Company Limited. in charge of the modification works of Xianyang Road in Tianjin, Celerity Road of Dongfeng Overpass and the operation and development of the company. From October 2007 to February 2009, he was appointed as the chairman and general manager of Tianjin Seventh Municipal Highway Engineering Company Limited in charge of the overall work. He was the general manager of the business department of the urban projects of the Company from December 2009 to January 2011. Mr. Zhang joined and served as the deputy general manager of the Company since 5 March 2009.

Li Yuqing, is now the chief engineer of the Company and the manager of the technology management division and the director of the scientific research institute of the business division of the research and development centre. From 2001 to 2008, Mr. Li worked for Dongjiao Sewage Water Treatment Plant, water supply branch and the production and operation department of the Company and held the positions of deputy factory head, factory head, general manager of water supply branch, manager of the operation department and deputy chief engineer of the Company. He has been the chief engineer of the Company since 30 June 2009. Mr. Li was elected as the Supervisor of the fourth Supervisory Committee of the Company from 9 October 2008 to 17 June 2009. He was the general manager of the Tianjin water business division of the Company from December 2009 to November 2010.

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

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

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

Wang Hong, is now the deputy general manager of the Company and general manager of the 1st engineering branch company. Mr. Wang joined the Company in March 2002 and successively served as the deputy manager of work project of Xianyanglu Sewage Water Treatment Plant and deputy general manager and general manager of the construction management branch company. He was the assistant to general manager of the Company from June 2009 to March 2010. He has been the deputy general manager of the Company since 25 March 2010.

Zhao Yi, is now the deputy general manager of the Company and the general manager of the non-local water business division and the chairman of the eight subsidiaries under the non-local business division. Mr. Zhao joined the Company in January 2003. From August 2005 to March 2009, he held the positions of the general manager of Qujing Capital Water Company Limited and Tianjin Kaiying Environmental Engineering Technology Consulting Limited, subsidiaries of the Company. He was the deputy general manager of Tianjin Beiyangyuan Investment Development Company Limited from April 2009 to October 2010. He has been the deputy general manager of the Company since 18 October 2010.

5. Directors, Supervisors and Senior Management

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

As at 31st December 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 Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

Name	The Company / name of associated corporations	Capacity	Number and class of securities (Note)	Approximate percentage in the total issued share capital of the Company/ associated corporations
Supervisor				
Nie Youzhuang	The Company	Beneficial owner	959 domestic shares (non-restricted circulating shares) (L)	0.000067%

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

As at 31st December 2010, none of the Directors, Supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

(II) Positions held at the shareholder's entity

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

Positions held at other entities:

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

(III) Remunerations of Directors, Supervisors and Senior Management

The procedures for determining the remuneration of the Directors, Supervisors and Senior management

1. The procedures for determining the remuneration of the Directors, Supervisors and senior management: the remuneration of the Directors and Supervisors will be determined in accordance with the remuneration standard as approved at the Company's general meetings. The remuneration of the senior management officers will be determined on the basis of the remuneration plan approval by the Board and operation result performance of the Company as well as an annual income system and bonus for completion above the target. The Supervisors of the Company do not receive remunerations.

The basis for determining the remuneration of the Directors, Supervisors and senior management

2. The basis for determining the remuneration of the Directors, Supervisors and senior management: the remuneration of the Company's senior management will be distributed in accordance with their achievements in production and operation and usual management activities. The annual remuneration and bonus will be determined according to the achievement of annual operating targets and performance indicators and performance appraisal results.

Actual payment of the remuneration of the Directors, Supervisors and senior management

3. During the financial year, the Company did not pay any housing allowance, other allowance, benefits in kind and bonus to the Directors, Supervisors and senior management, nor any payment to them as an inducement to join the Company or as compensation for loss of office of Directors, Supervisors or senior management. None of the Directors, Supervisors and senior management of the Company waived or agreed to waive any emoluments. The Company has not provided any loans to Directors, Supervisors or senior management. Except for remuneration, the Directors, Supervisors and senior management of the Company have not derived other benefits from other contracts. The Company, during the reporting period, did not enter into any administration or management contracts for all or material part of its business.

(IV) Change of Directors, Supervisors and Senior Management of the Company

Name	Position held	Change	Reasons for change
Lin Wenbo	General manager	Appointment	Working Requirement
Gu Wenhui	Chief economist	Leaving the post	Job Transfer
Tang Fusheng	Deputy general manager	Appointment	Working Requirement
Wang Hong	Deputy general manager	Appointment	Working Requirement
Zhao Yi	Deputy general manager	Appointment	Working Requirement

(V) Employees of the Company

Total number of on-duty employees	1,355	Number of retired employees for whom the Company is required to afford charges	0
Description of employees of the Company	1,355	on-duty employees in total	

Staff structure was as follows:

1. By profession

Category of profession	Number of persons
Engineering technology	371
Financial management	68
Administration and party community work	98
Enterprise management	105
Market development	30
Production	683
Total	1,355

2. By education

Category of education	Number of persons
Doctor	3
Master	58
Undergraduate	518
Tertiary	372
Secondary School and below	404
Total	1,355

6. Structure of Corporate Governance

(1) The Company's Corporate Governance

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

(1) In respect of shareholders and general meeting: The Company treats all shareholders equally, ensures the shareholders can duly exercise their rights, and safeguards the legitimate interests of all shareholders. In accordance with the Articles of Association of the Company and the relevant regulations, the Company has developed the Rules of the Procedures of General Meetings and was able to convene and hold general meetings in strict compliance with the relevant laws and regulations, and ensures shareholders can exercise their voting rights duly and successfully. During the reporting period, the number of shareholders attending general meetings of the Company and shares represented by them complied with the relevant provisions of the Company Law of the PRC and the Articles of Association of the Company.

(2) In respect of the relationship between the controlling shareholder and the listed company: The controlling shareholder of the Company has exercised its shareholders' rights in strict compliance with the relevant provisions of the Articles of Association of the Company without the existence of intervening in the Company's major decision making and production and operation activities by overriding the Board and the general meeting. The Board and internal organs of the Company operate independently to a full extent. For connected transactions, the Company has performed the relevant transaction approval procedures in strict compliance with the Articles of Association of the Company and the share listing rules in Shanghai and Hong Kong, ensuring the fairness and reasonableness of the transactions.

(3) In respect of the Directors and the Board: The Board of the Company has performed work independently under the support of its subordinate audit committee, remuneration and assessment committee, nomination committee and strategy committee. In accordance with the Rules of the Procedures of Board Meetings, all Directors have duly discharged their duties in a diligent way, have independently performed their duties and have paid sufficient attention to the interests of all medium and minority shareholders.

(4) In respect of the Supervisors and the Supervisory Committee: The members and composition of the Supervisory Committee of the Company comply with the requirements of laws and regulations. The Supervisors of the Company were able to conscientiously perform their duties in accordance with the Rules of the Procedures of the Meetings of the Supervisory Committee, and by adhering to the spirit of being accountable to shareholders, monitor the finance of the Company and the legality and compliance of the performance of duties by the Directors, managers and other senior management members.

(5) In respect of performance appraisal and incentive control mechanism: The general meeting of the Company has approved the remuneration standard for the Directors. A strict remuneration and performance appraisal and incentive system has been implemented upon approval by the Board to conduct appraisal and evaluation on the performance of employees of the manager level or below.

(1) The Company's Corporate Governance (Continued)

(6) In respect of stakeholders: The Company is able to duly respect and safeguard the legitimate interests of other stakeholders such as banks, other creditors and staff, cooperate and realize good communication with each other, jointly promote the sustained and healthy development of the Company.

(7) In respect of information disclosure and transparency: In accordance with the share listing rules in Shanghai and Hong Kong and the Information Disclosure Management System of the Company, the Company has internally established unimpeded information collection channels, ensuring timeliness, fairness, truthfulness, accuracy and integrity in relation to information disclosure of the Company. The Company has also established the Investor Relations Management System to conscientiously receive investors paying visits and conducting on-site inspections. The official website of the Company has established an investor column which serves as a platform for timely communication between the Company and investors. The establishment of a sound communication channel between the Company and investors is of great help to improve the Company's operational management standard and corporate governance.

(2) Performance of Duties by Directors

1. Attendance of Directors at the Board meetings

Name of Director	Independent non-executive Director?	Number of Board meetings required to attend this year	Attend in person (times)	Attend by way of other communication method (times)	Attend by proxies (times)	Absence (times)	Absence for two consecutive meetings in person?
Zhang Wenhui	No	11	11	0	0	0	No
Lin Wenbo	No	11	10	0	1	0	No
Fu Yana	No	11	11	0	0	0	No
Zhong Huifang	No	11	11	0	0	0	No
An Pindong	No	11	8	0	3	0	No
Chen Yinxing	No	11	11	0	0	0	No
Xie Rong	Yes	11	10	0	1	0	No
Di Xiaofeng	Yes	11	10	0	1	0	No
Lee Kit Ying, Karen	Yes	11	11	0	0	0	No

Number of Board meetings held during the year	11
Among which: Physical Meetings (times)	4
Meetings held by way of other communication method (times)	7
Meetings held physically together with by way of other communication method (times)	0

(2) Performance of Duties by Directors (Continued)

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

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

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

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

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

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

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

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

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

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

(4) Corporate Governance Report

1. Compliance with the "Code on Corporate Governance Practices"

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

2. Details of Corporate Governance Report

(1) About Corporate Governance Practices

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

(2) About Securities Transactions by the Directors

The Company has adopted a code of practice in respect of securities transactions by Directors, the standards of which are similar to the "Model Code for Securities Transactions by Directors of Listed Issuers" ("**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"). The Articles of Association requires that the Directors, Supervisors, managers and other senior management shall during their terms of office make regular reports to the Company on the Company's shares they held, shall not transfer more than 25% of the total shares of the Company they held fer each year during their terms of office, and shall not transfer the Company's shares they held within six months after their resignation.

After making specific enquiries by the Board, there were only one Supervisor holding 959 A Shares of the Company (Please see the section "Directors, Supervisors and Senior Management" in this annual report for details), and there have been no share transactions during the reporting period. No other Directors, Supervisors and senior management of the Company has purchased the Company's shares and debentures during the reporting period. Accordingly, all the Directors have complied with the Model Code during the reporting period.

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(3) About the Board

The Fifth Board of the Company elected at the extraordinary general meeting of the Company held on 18 December 2009 consists of nine members, including Mr. Zhang Wenhui, the Chairman and an executive Director; three other executive Directors: Mr. Lin Wenbo, Ms. Fu Yana and Ms. Zhong Huifang; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Mr. Di Xiaofeng, Mr. Xie Rong and Ms. Lee Kit Ying, Karen. There was no relationship including financial, business, family or other material/relevant relationship between the members of the Board of the Company. All of the Board members possess immense qualifications and management experience. For details of the members of the Board, please refer to the section headed "Directors, Supervisors and Senior Management" in this Annual Report.

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

The qualifications and professional experiences of the three independent non-executive Directors have fully complied with the requirements under the Listing Rules. The Board of the Company has accepted the declaration of independence for the year 2010 by each independent non-executive Director, and confirms that they comply with the relevant independence requirements as set out under Rule 3.13 of the Listing Rules.

The Company held 11 Board meetings during the reporting period. Details of the resolutions and attendance of Directors are set out in the section headed "Directors' Report" in this Annual Report.

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(4) About the Chairman and the Chief Executive Officer

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

During the reporting period, Mr. Zhang Wenhui served as the Chairman of the Company and acted for the position of the acting General Manager before 25 March 2010. In the second meeting of the Fifth Board held on 25 March 2010, Mr. Lin Wen Bo was appointed as the General Manager of the Company, with his term of office same as that of the Fifth Board.

(5) About non-executive Director

As required by the Article of Association, independent non-executive Director is subject to a term of office of three years and is re-electable, provided that the appointment shall not exceed 6 years. In the extraordinary general meeting of the Company held on 18 December 2009, the Directors of the Fifth Board of the Company were elected, with three independent non-executive Directors, including Mr. Di Xiao Feng, Mr. Xie Rong and Ms. Lee Kit Ying and Karen; and two non-executive Directors, including Mr. An Pindong and Ms. Chen Yinxing. The tenures of the abovementioned non-executive Directors commenced on 18 December 2009 for three years.

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(6) About the remunerations of the Directors

The Company has established a Remuneration and Assessment Committee and its members consist of all three independent non-executive Directors. In the first meeting of the Fifth Board of the Company, the independent non-executive Directors of the Fifth Board, Ms. Lee Kit Ying, Mr. Xie Rong and Mr. Di Xiaofeng, were elected as the members of the Remuneration and Assessment Committee, and Ms. Lee Kit Ying became the chairman of the committee. The primary duties of the Remuneration and Assessment Committee are to propose remuneration plan of Directors and senior management of the Company to the Board. For its written working scope, please refer to the "Details for the works of the Remuneration and Assessment Committee" which was discussed and approved at the 25th meeting of the Third Board.

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

(7) About the nomination of Directors

In accordance with the Articles of Association and the relevant requirements of the SSE and the Stock Exchange, the Board of the Company set up the Nomination Committee. During the reporting period, the members of the Nomination Committee comprised three independent non-executive Directors, the Chairman, Mr. Zhang Wenhui, and executive Director, Mr. Lin Wen Bo, with the independent non-executive Director, Mr. Di Xiao Feng being the chairman of the Nomination Committee.

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

During the reporting period, two meetings of the Nomination Committee were convened, at which resolutions in relation to the nomination of Mr. Lin Wen Bo as the Company's general manager and the nomination of Mr. Tang Fusheng, Mr. Wang Hong and Mr. Zhao Yi as the Company's deputy general managers were considered. Members of the Nomination Committee have attended all the above meetings.

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(8) About the Remuneration of Auditors

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

(9) About the Audit Committee

The primary duties of the Audit Committee include making proposal for the appointment of external auditors, reviewing of annual and interim financial statements. For details of its written working scope, please see the "Articles of the Works of the Audit Committee". In order to upgrade the Company's internal control system, the Company has formulated the "Internal Audit System", which is in line with the works of the Audit Committee. The Audit Committee comprises independent non-executive Directors, with Mr. Xie Rong, the independent non-executive Director, as the chairman.

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

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(10) About other specific disclosures

The Directors are responsible for supervising the compliation of the accounts for each financial period, in order to ensure that those accounts reflect genuinely and fairly the business and results of the Company for the period. In compiling the accounts for the year ended 31 December 2010, the Directors have chosen and thoroughtly applied the appropriate accounting policies with due and reasonable judgement and estimates having been made, and prepared the accounts on a going concern basis.

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

The Board of the Company has been much concerned about the internal control of the Company. At the sixteenth meeting of the Fifth Board held on 24 March 2011, the resolution in respect of the internal control of the Company was solely considered and a self-assessment report on the internal control was issued.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have been the Company's domestic and overseas auditors respectively. In view of their continued understanding to the Company and their high professional level, the Audit Committee has proposed to re-appoint the above audit firms to provide audit services to the Company in 2011, and such proposal has been considered and passed at the sixteenth meeting of the Fifth Board.

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

Overall plan for the establishment of internal control

In strict compliance with the Company Law and Securities Law of the PRC, the "Guidelines on Internal Control of Listed Companies of the Shanghai Stock Exchange" and the requirements of the "Basic Standard for Enterprise Internal Control" and the relevant rules and regulations of the CSRC, the Company continuously improved and standardized the organizational structure of its internal control, properly established the management functional department and formulated a relatively systematic management control system. Besides, the Company took vigorous control measures to establish a relatively sound internal control system.

The Board is solely responsible for the establishment and improvement of the internal control system as well as for the inspection of its effectiveness, in order to protect the rights of shareholders as a whole and the security and integrity of each item of assets of the Company, thus preventing the loss of assets. As the decision-making body in the daily operation of an enterprise, the manager office guides, implements and supervises the establishment and operation of the internal control system of the Company. The operation management department, which is mainly responsible for the establishment and protection of the internal control system with the authorization of the Company, is in charge of the planning, co-ordination, promotion and daily execution supervision of the establishment of the internal control of the Company. The legal audit department is responsible for the actual organization and implementation of the evaluation of internal control and carries out an independent examination and verification of the high risk areas and units included in the evaluation. Each business and functional department is responsible for the establishment as well as the effective implementation of its internal control, according to the planning and arrangement of the establishment of the internal control system by the operation management department.

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

Work plan and its implementation in respect of the establishment and effectiveness of the internal control system

Pursuant to the change in the organization structure and the personnel change of the Company in 2009 and in accordance with the requirements of the "Administrative Measures for the Establishment of Systems", the operation department initiated the reestablishment and rectification of key systems and processes in early 2010. The establishment of the internal control system for the current year focused on the establishment of key systems after the rectification of the organization structure and the updating of existing systems. Combined with the result of the internal control test in 2009, the establishment of and amendments to 63 key system guidelines were successively completed during the year and certain subprocesses in the five major areas of technology, administration, production, investment and finance were re-issued. Through the establishment of the "Target for the Establishment of Systems and Processes" at the beginning of the year and the assessment at the end of the year, the Company has ensured the timely updating of the systems, guidelines and process documents so as to adapt to the needs of the Company in standardizing management.

The establishment of the internal control examination and supervision department

The Company has designated the legal audit department as the dedicated examination and supervision department to be responsible for the daily examination and supervision of internal control. The legal audit department was established in late 2009 and was previously the Group's audit department. In late 2009, because of the rectification of the Group's organization structure, the function of legal administration was added to the audit department and more staff members were added to the internal audit team. The legal audit department was formed as a result. In 2010, the legal audit department had 1 head, 3 professional auditors and 1 legal officer.

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

The implementation of the self-assessment of internal supervision and internal control

1. Maintaining a good control environment: The Company made the execution result of internal control as its evaluation target and stepped up the training of internal auditors to improve their ability to practice, and continued to improve the information system relating to control. Meanwhile, the Company strengthened communication with employees of all levels to increase the internal control awareness of all staff.

2. Key control activities

   2.1 Carrying out self-assessment of internal control: The aim is to increase the familiarity of employees of all levels with the process system and make them attach more importance to it and enhance their awareness of internal control so as to lay a solid foundation for unified control and test by the legal audit department.

   2.2 Conducting internal control tests on the Company

   In respect of all business cycles, 496 points were chosen from 752 control points, representing 66% of the total. The scope of testing expanded by 8% as compared to last year and internal control tests on business divisions were included for the first time. The tests focused on the fixed asset cycle, the production and procurement cycle, the finance cycle, the financing cycle and the personnel management cycle. There were 361 test points in total for the five cycles, representing 73% of all test points. As demonstrated by the test result, there were no material control defects.

   2.3 Conducting financial audit:

   Pursuant to the audit plan for 2010 of the legal audit department, the Company issued 10 audit reports. As at the end of 2010, apart from the subsequent audit planned to be conducted on the headquarters of the Group in early 2011, the legal audit department tracked rectifications in a timely manner in respect of all audited units.

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

2.4 Emphasizing special audit and exploring new audit areas

The Company provided audit recommendations on various issues existing in practice such as contract drafting, examination and approval, legality review and design rationality, and urged rectification, which achieved excellent results. Meanwhile, the Company also conducted audits on construction projects and issued construction audit reports, forming an internal control model with the internal audit changing from the original single financial audit and internal control examination to focusing on financial audit and internal control examination supplemented by special audits.

2.5 Management of the Company's connected transactions

The Company formulated the "Connected Transaction Management System" in 2010 which specifies the identification of connected parties and connected transactions, authorities with the right of approval, the approval procedure and the content requiring disclosure, and makes it clear that the office of the secretary to the Board is responsible for the administration of the approval procedure and disclosure in relation to connected transactions.

Arrangement made by the Board for internal control-related work

The Board has the Audit Committee which comprises the independent non-executive Directors of the Company. The Audit Committee is accountable to the Board and carries out independent examination and verification of the internal control system of the Company through the audit department of the Company. Pursuant to the work plan for 2010 of the legal audit department, the Company completed 13 audit reports of various kinds, including internal control evaluation report, financial audit report, contract special audit report and construction project audit report.

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

The establishment and operation of the internal control system relating to financial reporting	During the year, while implementing internal control in an all-round manner, the Company exerted itself to facilitate the establishment and operation of the internal control system relating to financial reporting. As at the end of 2010, the Company amended and issued various key system guidelines such as "Capital Management System", "Financing Management System", "Investment Management System", "Non-current Asset Management System", "Fixed Asset Management System", "Guarantee Management System", "Financial Budget Management System", "Budget Preparation Management System" and "Financial Report Preparation System". Besides, the Company undertook the amendment of certain processes in relation to the capital cycle such as bank account management, cash management, payment management, capital transfer and allocation, and in relation to the fixed asset cycle such as fixed asset checking. The relevant system guidelines and processes came into effect on the date of issue. The legal audit department also paid particular attention to the operation of the internal control system relating to financial reporting during the internal control test conducted at the end of the year. As demonstrated by the internal control test, there were no material control defects. Effective internal control relating to financial reporting was maintained in all material respects.
The defects existing in internal control and their rectification	During the reporting period, no material defects in the design or implementation of the Company's internal control were identified. The internal control system of the Company is sound and its implementation is effective. The Company will continue to improve the establishment and amendment of the internal control system and refine the business process so as to continuously increase the Company's governance standard and strengthen the implementation of internal control.

(6) The Company has disclosed the Self-assessment Report on the Internal Control or the Social Responsibility Report.

The Company has disclosed in the websites the 2010 Social Responsibility Report and the 2010 Self-assessment Report on the Internal Control:

Disclosure websites: www.sse.com.cn
www.hkex.com.hk
www.ifn.com.hk/ir/tjcep/

1. **Has the Company disclosed the Self-assessment Report on the Internal Control: Yes**

   Disclosure websites: www.sse.com.cn
   www.hkex.com.hk
   www.ifn.com.hk/ir/tjcep/

2. **Has the Company disclosed the verified assessment opinion on the internal control report of the Company by the audit institution:**

   No

(7) Appraisal and incentive mechanism for senior management

Appraisal and incentive mechanism :

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

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

Name	**Contribution to pension scheme (RMB)**
Zhang Wenhui	20,112
Lin Wen Bo	20,112
Fu Yana	20,112
Zhong Huifang	20,112
Tang Fusheng	20,112

Notes:

The basic remuneration for the above five persons is less than HK$1 million. For details, please refer to the section headed "Directors, Supervisors and Senior Management" in this Annual Report.

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

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

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

7. Shareholders' General Meetings

1. Annual General Meeting

Session	Convening Date	Newspapers for publishing the resolutions	Date for publishing the resolutions
2009 Annual General Meeting	13 May 2010	Shanghai Securities News, page B25	13 May 2010

2. Extraordinary General Meeting

Session	Convening Date	Newspapers for publishing the resolutions	Date for publishing the resolutions
2010 First Extraordinary General Meeting	28 December 2010	Shanghai Securities News, page B40	28 December 2010

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

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

In 2010, under the leadership of the Board, the strategic guidelines of "rapid growth on the basis of capability enhancement and value creation", and higher requirements for environmental supervision, energy saving and emission reduction indicators, the Company and its subsidiaries (the "**Group**") proactively improved the sewage water treatment service systems, increased the scientific research and development standard, reinforced the group management concept and increased the overall core competitiveness in accordance with the operating plan for 2010. In 2010, through the joint efforts of all departments, the Group achieved certain results in all aspects and the overall operation target was completed quite well.

In 2010, the Group recorded income from operations of RMB1,467.77 million, representing an increase of 16.80% as compared to 2009, and recorded net profit of RMB271.16 million (excluding profit and loss attributable to minority shareholders), representing an increase of 11.60% as compared to 2009. During the reporting period, with stable development in its principal businesses, the Group continued to be listed as one of the Top 10 Influential Water Business Enterprises in 2010 in the PRC.

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

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

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

a. Sewage water processing and sewage water treatment plants construction business

As at the end of the reporting period, the sewage water processing capacity of the Group reached 4.065 million cubic metres per day, and the sources for generating revenue from sewage water treatment include (1) the sewage water treatment service fees charged by the four sewage water treatment plants in the central area of Tianjin pursuant to the "Sewage Water Processing Agreement" and the "Sewage Water Processing Interim Service Agreement"; (2) the sewage water treatment services provided by the subsidiaries under the Group in accordance with the license agreements on sewage water treatment and the agreements on sewage water treatment services signed between the local governments and those subsidiaries; (3) entrusted operation by which the Group charged operating service fees by rendering operating services in relation to sewage water treatment. The Group had processed a total of 892.7245 million cubic metres of sewage water during the reporting period through the above ways, representing an increase of 17.2% as compared to the same period last year. Income realized amounted to RMB1,106.21 million, representing an increase of 4% as compared to the same period last year, which was mainly attributed to the increased income generated by the subsidiaries in Wuhan and Hangzhou as compared to last year.

During the reporting period, the Group's four sewage water treatment plants in the central area of Tianjin processed a total of 377.16 million cubic metres of sewage water for the whole year and realized a sewage water treatment service income of RMB727.92 million. The volume of water processed and the income remained basically the same as the same period last year.

During the reporting period, subsidiaries of the Group processed sewage water of 431.24 million cubic metres, representing an increase of 10.9% as compared to the same period last year. Income from sewage water processing services of RMB354.91 million was realized, representing an increase of 3% as compared to the same period last year. The increase in the amount of water was due to an increase in the amount of sewage water processed by the subsidiaries as compared to the same period last year. In particular, the Chibi sewage water treatment plant of Wuhan subsidiary commenced commercial operation in May 2009. Therefore, the amount of sewage water processed in 2010 increased substantially by 40.6% as compared to that in 2009. The amount of sewage water processed by the Qujing subsidiary increased by 9.26% as compared to the same period last year. The amount of sewage water processed by the Baoying subsidiary increased by 10.63% as compared to the same period last year. The amount of sewage water processed by the Hangzhou subsidiary increased by 12.73% as compared to the same period last year.

During the period, on the basis of ensuring steady operation of the sewage water processing projects invested and operated by it and relying on the technical and operating capabilities of the sewage water treatment plants under it, the Group proactively developed entrusted operation projects and worked towards increasing operating income and becoming a first-class sewage water processing and operation service provider in the industry. During the reporting period, the Group's entrusted operation projects processed sewage water of 84.3245 million cubic metres in total, realizing an income of RMB23.37 million.

During the reporting period, the Group's sewage water treatment plants construction businesses include the Hangu Yingcheng sewage water treatment plant DBO project and Ziya Zone sewage water treatment plant BT project, realizing an income from construction of RMB140 million.

b. Recycled water business

During the reporting period, the recycled water business recorded water sales of 12.37 million cubic metres, an increase of 57% as compared to the same period last year. The increase in water sales was attributed to an increase in users of Jizhuangzi recycled water plant, and an increase in the amount of water after the Dongjiao recycled water plant and the Xianyanglu recycled water plant came into operation. During the reporting period, income from sales of recycled water of RMB23.56 million was recorded, representing a growth of 172.69% as compared to the same period last year, which was mainly due to (1) the aforesaid substantial increase in water sales; (2) an increase in the unit prices of recycled water for industrial, administrative and operational service uses and of recycled water for use by special industries (car washing, temporary water) since April 2009 (increased from RMB1.2 to RMB3.1 per cubic metres for recycled water for industrial, administrative and operational service uses; increased from RMB1.8 to RMB4.0 per cubic metres for recycled water for use by special industries). The sharp increase in unit prices also led to an increase in income from recycled water.

During the reporting period, the recycled water pipeline connection business realized an income of RMB46.36 million, basically the same as last year.

c. Tap water business

During the reporting period, the Group's tap water business recorded an on-grid water volume of 35.76 million cubic metres, an increase of 2.3% as compared to the same period last year, and realized RMB37.58 million in income, representing a increase of 2.68% as compared to the same period last year. Affected by the continued drought in the first half year, the Qujing subsidiary recorded a decrease in the on-grid water volume. However, due to the commencement of commercial operation of the Anguo subsidiary in November 2009, the on-grid water volume of the Group increased during the reporting period.

d. Operations of toll collection business

During the reporting period, the Group recorded an income of RMB67.03 million from the toll collection business, which was in line with the same period last year. According to the relevant requirements of the Chinese government, the collection of toll for Tianjin City Indebted Road was suspended on 1 January 2010. The six toll collection offices in which the Company has an income right in respect of road toll also ceased toll collection. According to the spirit of the Jin Zheng Ban (2010) No.51 Document "Opinions on the Implementation of Oil Prices and Tax Expenses Reforms and the Cancellation of Toll Collection on Government Indebted Tier 2 Roads" dated 19 May 2010, the Company still recognized income from the road business based on the amount received according to the "Subcontracting Toll Collection Agreement" during the reporting period.

(2) *Principal businesses by industry*

Unit: '000
Currency: RMB

By industry or by product	Income from operations	Cost of operations	Profit margin from operation (%)	Increase/ decrease in income from operations as compared to last year (%)	Increase/ decrease in cost of operations as compared to last year (%)	Increase/decrease in profit margin from operations as compared to last year (%)
By industry						
Sewage water treatment and sewage water treatment plant construction business	1,220,294	679,377	44.33	14.44	39.17 (Note a)	Decreased by 9.89 percentage points
Toll collection business	67,026	7,120	89.38	—	—	—
Tap water supply business	37,583	25,098	33.22	2.69	- 9.28	Increased by 8.81 percentage points
Recycled water pipeline connection and water supply business	69,918	51,396	26.49	23.76	31.64 (Note b)	Decreased by 4.4 percentage points

Note:

a) The greater increase in the operating cost for the sewage water treatment and sewage water treatment plant construction business as compared to the previous year was mainly attributed to the recognition of approximately RMB120 million in accordance with the principle of matching construction progress with income for the Hangu Yingcheng sewage water treatment plant DBO project. In addition, Tianjin Zichuang Engineering Investment Company Limited, a subsidiary, recognized costs of approximately RMB20 million in accordance with the completion progress for the Ziyayuan sewage water treatment plant BT project.

b) The greater increase in the operating cost for the recycled water pipeline connection and water supply business as compared to the previous year was mainly attributed to the commencement of operation of Dongjiao recycled water plant in 2010 with no costs incurred for last year and the commencement of operation of Xianyanglu recycled water plant in August last year with costs incurred not enough one year.

(3) *Principal businesses by region*

Unit: '000

Currency: RMB

Region	Income from operations	Increase/decrease in income from operations as compared to last year (%)
Tianjin	1,002,329	18.64
Guizhou	24,864	-2.57
Qujing	51,380	1.24
Fuyang	28,365	15.13
Baoying	11,077	8.41
Hangzhou	141,476	9.95
Wendeng	23,445	-0.55
Xian	74,646	4.10
Anguo	11,914	184.25 (Note)
Wuhan	25,325	23.51

Note:

The greater change in the income from operations of the Anguo subsidiary as compared to the same period last year was attributed to the commencement of commercial operation of its sewage water business in April 2009 and the commencement of commercial operation of the tap water business in November 2009.

3. **Material changes in asset composition and major financial data during the reporting period as compared to the corresponding period of last year**

As at 31 December 2010, the total assets of the Group amounted to RMB8,425.563 million, representing an increase of RMB1,229.915 million or rose by 17.09% as compared to the beginning of the year; the total liabilities amounted to RMB4,849.394 million, representing an increase of RMB1,069.257 million or rose by 28.29% as compared to the beginning of the year. Equity interest attributable to the shareholders of the Company amounted to RMB3,450.573 million, representing an increase of RMB156.982 million or grew by 4.77% as compared to the beginning of the year. Realized net profit attributable to the Company for the year 2010 amounted to RMB271.16 million, representing an increase of RMB28.182 million or rose by 11.60% as compared to the same 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
Accounts receivables	996,949	503,466	493,483	98.02	Mainly additional sewage water treatment service fees receivable of the Company amounting to approximately RMB340 million during the reporting period. In addition, part of the construction management fees receivable were received after the reporting period, with an improvement in liquidity. Therefore, this part of the amount was reclassified to accounts receivables on the date of the statement.
Prepayments	103,759	194,160	-90,401	-46.56	Mainly due to the transfer of prepayments of approximately RMB40 million to construction in progress during the reporting period as the upgrading and renovation projects of the Company's four sewage water plants entered into the middle and late stage. In addition, the recognition of costs in accordance with construction progress for the Hangu Yingcheng sewage water treatment plant DBO project during the reporting period led to a corresponding reduction in prepayments.

Items	Amount at the end of the period	Amount at the beginning of the period	Increase/ Decrease	Percentage change (%)	Details of changes
Fixed assets	2,526,459	1,960,394	566,065	28.88	Mainly due to a greater increase in fixed assets as a result of the acquisition of assets generated from foreign bank loans by the Group from Tianjin Sewage Company in relation to the Tianjin sewage water treatment construction project in the Haihe Basin and the Beicang sewage water treatment project.
Construction in progress	703,651	374,804	328,847	87.74	The greater increase in construction in progress at the end of the reporting period as compared to the beginning of the reporting period was mainly due to the additional amount for the current period for construction projects such as the upgrading and renovation of the Company's four sewage water plants and the upgrading and renovation of the recycled water plant.
Tax payable	16,431	10,000	6,431	64.31	Mainly due to the additional income tax payables as a result of additional profit during the reporting period, accordingly resulting in the increase in the balance of tax payable.
Non-current liabilities due within 1 year	360,180	98,530	261,650	265.55	Being the Company's mid- and long-term liquidity loans due within one year and the consideration for acquisition of assets payable within one year.
Long-term payables	399,604	—	399,604	—	The additional long-term payables at the end of the reporting period were the asset-corresponding balance of the last payment payable for the acquisition of assets as a result of the acquisition of the assets generated from foreign bank loans from Tianjin Sewage Company by the Group during the reporting period, upon deduction of the unrecognized finance charge.
Deferred income	284,974	143,100	141,874	99.14	The additional amount was mainly due to the financial project appropriation acquired from the upgrading and renovation project of the Company's sewage water plants during the reporting period.

Unit: '000

Currency: RMB

Items	2010	2009	Increase/ Decrease	Percentage Change (%)	Details of changes
Operating costs	793,672	578,927	214,745	37.09	Greater increase in operating costs during the period was mainly due to the corresponding recognition of the costs of approximately RMB120 million in accordance with the principle of matching construction progress with income for the Hangu Yingcheng sewage water treatment plant DBO project during the period. In addition, Tianjin Zichuang Engineering Investment Company Limited's BT project recognized costs of approximately RMB20 million in accordance with the completion progress during the period. There was a corresponding increase in the depreciation cost due to the acquisition of Phase II assets by the subsidiary in Hangzhou. Costs began to incur due to the commencement of operation of both Dongjiao recycled water project of Tianjin Water Recycling Company Limited and Xianning sewage water plant project of the subsidiary in Wuhan during the reporting period.
Finance costs	135,790	186,743	-50,953	-27.29	The Company repaid a large amount of bank loans last year, so the average loan principal of this period decreased significantly as compared to the same period last year. Meanwhile, there was a substantial decrease in the interest expense due to the application of favorable loan rates instead of the original loan rates.
Non-operating expenses	47,853	12,990	34,863	268.38	During the period, the upgrading and renovation works of the Company's sewage water plants were under full-scale construction, so there was an increase in the disposal loss of fixed assets as compared to last period.
Net cash flow from operating activities	453,303	1,390,313	-937,010	-67.40	In the same period last year, the Company recovered the sewage charges owed in the previous years, as well as certain long-term receivables. Therefore, there was a peak in the cash inflow from operating activities. By comparison, there was a greater volatility during the period.

Items	2010	2009	Increase/ Decrease	Percentage Change (%)	Details of changes
Net cash flow from investing activities	-673,682	-668,051	-5,631	0.84	During the period, there were capital expenditures in relation to the projects such as the upgrading and renovation of the Group's sewage water treatment plants and the upgrading and renovation of the recycled water plants, as well as the acquisition of assets generated from foreign bank loans by the Group from Tianjin Sewage Company, resulting in the increase in net cash outflow from investing activities during the period as compared to last period. There was also an increase in the financial subsidies provided by the government for the infrastructure projects during the reporting period as compared to last year, resulting in the net cash outflow from investing activities during the reporting period basically the same as that of last period.
Net cash flow from financing activities	167,548	-1,017,048	1,184,596	-116.47	During the period, there was a substantial decrease in repayment amount than the same period last year. Moreover, the borrowing amount was greater than the repayment amount, resulting in the net cash inflow from financing activities.
Net increase in cash and cash equivalents	-52,831	-294,786	241,955	-82.08	During the period, there was a net outflow in the cash and cash equivalents due to the cash flow from the three activities mentioned above.

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

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

Unit: '000
Currency: RMB

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Water Recycling Company Limited	Tianjin	Production and sales of recycled water, development and construction of facilities for recycled water; manufacture, installation, commissioning and operation of equipment for recycled water.	100,000	Limited company	98%	616,627	9,549
Guizhou Capital Water Company Limited	Guiyang, Guizhou	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and solid waste processing facilities; research, development and promotion of environmental protection technology; consultancy services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	100,000	Limited company	95%	176,870	9,156
Tianjin Capital New Materials Company Limited	Tianjin	Manufacture and sales of construction materials, new compound material products and polymer material products; technical consultation on new piping materials.	37,500	Limited company	70.67%	11,741	-984 (Operation ceased and pending liquidation)

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Baoying Capital Water Company Limited	Yangzhou, Jiangsu	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	38,000	Limited company	70%	85,183	512
Qujing Capital Water Company Limited	Qujing, Yunnan	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	120,000	Limited company	90.07%	353,723	2,831

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Fuyang Capital Water Company Limited	Fuyang, Anhui	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	63,000	Limited company	98.57%	172,424	4,392
Hangzhou Tianchuang Water Company Limited	Hangzhou, Zhejiang	Operation and maintenance and technical services for sewage water processing and recycled water utilization facilities, and ancillary services such as technology services and technology training.	257,445	Limited company	70%	814,646	9,134
Tianjin Capital Environmental Protection (Hong Kong) Company Limited	Hong Kong	Treatment and recycling and utilization of sewage water.	US$7,840,000	Limited company	100%	67,417	-1,035

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Wendeng Capital Water Company Limited	Wendeng, Shandong	Development, construction, operation and management of sewage water treatment and its ancillary facilities, solid waste treatment facilities and water recycling facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	48,000	Limited company	100%	144,929	4,398
Tianjin Jing Hai Capital Water Company Limited	Jinghai, Tianjin	Development, construction, operation and management of sewage water treatment plant, urban sewage water treatment plant and tap water plants and their ancillary facilities, and solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities and environmental projects.	12,000	Limited company	100%	38,863	-2,487

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Xian Capital Water Shaanxi Company Limited	Xian,	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and its ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; application of renewable energy and related equipment; installation services for sewage water treatment plant equipment; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	270,000	Limited company	100%	625,629	-4,009
Tianjin Kaiying Environmental Engineering Technology Consulting Limited	Tianjin	Environmental governance projects, civil engineering works, urban planning and related project technology consultation services; surveying design, tender agency, engineering projects management and technical services.	2,000	Limited company	100%	2,030	-82

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Anguo Capital Water Company Limited	Anguo, Hebei	Urban water supply, drainage and sewage water treatment (water-drawing permit valid until September 2, 2013 and hygiene permit valid until July 17, 2012. Operations are forbidden for projects which require special approval until such approval is obtained, and operations are forbidden for projects which require approval as stipulated by administrative laws and regulations or the State Council until such approval is obtained).	41,000	Limited company	100%	98,850	484
Wuhan Tianchuang Environmental Protection Company Limited	Wuhan, Hubei	Investment and development, construction, operation, management and consultancy services of municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities and water recycling facilities; production, supply and sales of equipment and materials relating to water and environmental protection; research, development and promotion of environmental protection technology.	103,240	Limited company	100%	364,936	-5,196

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Capital Environmental Water Company Limited	Jinnan, Tianjin	Development, construction, operation and management of sewage water treatment, municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultancy services for water treatment facilities and environmental protection works (The above scope involved in industry approvals is subject to the business scope and the expiry date of the license).	5,000	Limited company	100%	4,523	-477
Tianjin Zichuang Engineering Investment Company Limited	Jinghai, Tianjin	Investment in engineering projects (in accordance with the State regulations for specific projects and operations).	23,400	Limited company	100%	23,514	114
Tianjin Jinning Capital Environmental Water Company Limited	Ninghe, Tianjin	Sewage water treatment; development, construction of municipal sewage water treatment plants and its ancillary facilities; project consultancy services for water treatment facilities and environmental protection works (in accordance with the State regulations for specific projects and operations).	15,000	Limited company	100%	15,000	—

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

Tianjin Beifang Rencaigang Company Limited

As at the end of the reporting period, the Company invested a total of RMB2,000,000 in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. Its principal activities comprise senior executive insurance services, senior executive personnel services (employment agent service, financial guarantee consultation service, personal creditworthiness assessment), enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. After the reporting period, the Group received bonus distribution of RMB200,000 for the year 2009 from this company.

Tianjin Baotong Light Mass Materials Company Limited

As at the end of the reporting period, the Company invested a total of RMB2,000,000 in Tianjin Baotong Light Mass Materials Company Limited ("**Baotong**"), representing 4.9% of its registered capital. The principal activities of this company include production and sales of high resistance and light mass materials and its products. In 2010, Baotong continued to commence its liquidation and deregistration procedures by the liquidation team authorized by the general meeting. In the second half of 2010, the liquidation team preliminarily completed the procedures in relation to the listing-for-sale of assets. The delisting price is approximately RMB21.30 million. Currently, the asset delivery is completed. The land transfer procedures are under processing. Meanwhile, compensation for layoffs and liquidation and deregistration of Baotong are being launched.

5. **The Company's Technology**

During the reporting period, to meet the technological innovation demand for "Upgrading and reconstruction work of the sewage water treatment plants" and "Energy saving and emission reduction by enterprises", the Group did a great deal of research on sludge reduction and stabilization and on the elimination of its harms and transforming it into resources, and facilitated various projects such as sludge deep dehydration and deodorization. These have accelerated the transformation of results, creating a technology reserve for future development. During the reporting period, the Group initiated 23 technological programs and 12 technological reform projects. The programs and projects were implemented successfully and met their expected requirements. The Group invested a total of approximately RMB7 million in technology.

The Group's technology efforts in 2010 mainly included the continuation of scientific research on previous programs such as the development and application of the sewage water treatment plant technology analysis system. Good results were achieved in scientific research programs recently undertaken by the Group in the aspects of production and construction in which there was an urgent need to solve the problems, such as the research on whole process deordorization technology for the CYYF urban sewage water treatment plant, the research on the new technology of highly effective biological nitrogen and phosphorus removal based on the step-feed and dissolved oxygen control technology, and the research on the differential pressure anti-floating technology based on aerated bottom board construction. Good results were also achieved in the preparation of scientific research programs which are the focus for achieving breakthroughs in the future. At present, patents for the deodorization technology, the step-feed technology and the aerated bottom board anti-floating construction technology have been obtained and the technologies are widely applied in production process. Meanwhile, by relying on the research and development centre and the post-doctoral scientific research stations, the Group has persisted in combining production, learning and research to build a base for technological innovation for the Company, train high-level talents, provide intellectual support and guarantee human resources. The several proprietary technologies and research achievements owned by the Group have been put into practical applications and are generating economic benefits.

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

(II) Outlook of the Company's future development

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

With the measures taken by the central government to control the systematic risks of cyclical industries such as real estate, emerging industries working for energy conservation and environmental protection are expected to develop rapidly under the support of policies. Meanwhile, given the expectation of inflation under proper control, the proactive and prudent fiscal policy will continue to be implemented. The steady growth of economy will provide support for the central government to increase investment in the environmental industry. On the other hand, the development of economy will objectively increase the environmental pressure, generating a greater demand for sewage water treatment and environmental control.

The environmental protection industry is faced with the major trend of transforming into and upgrading to the integrated environmental service industry. Therefore, the first echelons in the water market of the PRC are all actively expanding their scope of business to extend the industry chain. This will certainly intensify the competition and will also impose stricter requirements on the integrated capability of enterprises. Mergers, acquisitions and reorganizations may accelerate in the industry in the future and the trend of industrial concentration will become more prominent. In the meantime, there are huge potential business opportunities associated with such businesses as sludge treatment, industrial sewage water treatment, sewage water recycling, new energy, seawater desalinization and environment rehabilitation. In addition, considering the trend of macroeconomic operation, in 2011, inflation will lead to the interest rate hike cycle, which will have a certain impact on the indirect funding of enterprises. The above series of external environmental changes demand higher requirements for corporate capabilities, indicating the coexistence of opportunities and challenges in the water industry in 2011.

2. Overall strategy of the Group in 2011

Development strategy:

In 2011, facing the opportunities and challenges of development in the industry, the Group will continue to purify the water environment for the daily living of the human race, uphold its organizational mission of raising water quality, and apply great efforts in achieving fast growth on the basis of capability enhancement and value creation, and propose the strategy of "business expansion, resource continuation, capability optimization" to further emphasize and enhance the Group's competitive edge and industry position in the field of sewage water treatment.

Operating strategy for the coming year:

With regard to business structure, the Group will continue the stable development of water investment and operation business, complete the license operation in Tianjin and complete the final works of the upgrading and renovation of the sewage water treatment plant in Tianjin, so as to achieve up-to-standard operation for the city's central area. Besides, the Group will explore its management and control experience to achieve capability enhancement, and facilitate the extensible business development of the industry chain of the Company's construction business, energy business, international business, technology research and development, and export and transformation business while strengthening the sewage water treatment business.

With regard to investment and development, the Group will strengthen the market shares in Tianjin area and the surrounding regions and counties to ensure the advantageous position of the headquarters. The Group will coordinate the development and expansion plans for the domstic and overseas markets through the business divisional system, expand coverage to the surrounding regions by leveraging on the branding advantage of services, and strive to expand the service area in order to realize a positive cycle of self sufficiency.

With regard to technology research and development, the Group will, on the basis of analyzing the trend of industry development, the change in market demand and its own strengths and weaknesses, prepare and organize the implementation of the 2011 technology research and development plan, and strengthen the collection, collating and analysis of the Group's internal and external basic technology information and intelligence. The Group will keep track of sophisticated technologies in the industry, reinforce research on putting application technologies into practice, form a technology route applicable to the Group, complete the Group's internal quota and standards, regulate the enterprise's production, safeguard the Group's certification system, regulate internal management, strengthen the efforts in managing the safety system, and construct a sharing and application platform for technological transformation and technological innovation.

With regard to internal management, the Group will improve the budget plan, tracking and analysis mechanism, financial management mechanism and funds optimized allocation mechanism of the Group's production operations, strengthen the analysis of operational risks, strengthen the efforts in operational control, improve the target appraisal methods, urge the Group's management innovation, remove the obstacle to direct financing, develop financing plans available for selection, strengthen audit, internal control and legal work in order to avoid and control risks, optimize the Group's human resources integration and planning, strengthen the incentive mechanism and the bonus and punishment system, optimize the recruitment and training of specific staffs in demand, create a learning organization, improve the administration efficiency, strengthen the management of social responsibility, develop investor relationship management proactively and maintain the market value.

Operation plan for the coming year:

In 2011, the Group will focus on improving the overall operation quality, reducing operation costs, and enhancing technology research and development and the transformation of achievements, so as to increase the overall economic effectiveness and core competitiveness of the Company.

As for water treatment, the Group will continue to facilitate license operation in Tianjin and operate the existing sewage water treatment plant, tap water plant and recycled water plant businesses well to ensure that the quality of water is up to standard.

As for project construction, the Group will continue to undertake the final works of the upgrading and renovation of the Tianjin Jizhuangzi, Xianyanglu, Dongjiao and Beichen sewage water treatment plants and the recycled water, sewage water treatment plant and tap water plant construction projects of some subsidiaries.

As for new business development, the Group will continue to expand market development in respect of the water plant entrusted operation project and facilitate the development of and the breakthrough in the construction management service and the construction contracting service for municipal projects. On the basis of the research on facilities and drugs related to the water industry, the Group will propel the commercialization of scientific achievements and drive the development of the design and consultation operations. The Group will complete the construction and test run of the centralized heating and cooling project of the energy station of Tianjin Cultural Centre. In addition, the Group will also explore the opportunity of developing the international water service market so as to accumulate experience in international operations.

As for management, while continuing to improve various basic management tasks, the Group will make strengthening internal control and enhancing internal management as the focus of annual management effort so as to adapt to the development needs.

(1) Planning for income, expenses and costs:

In 2011, subject to no material changes in the prevailing national direction policies, operating environment and sewage water processing service agreements being complied by the Group, it is expected that the change in the target income from the sewage water processing service fees as compared to the amount in 2010 will not exceed 4%.

(2) Cost control targets:

Given increasing inflation, charges for various types of resources have risen. There is a higher pressure on the increase in the business costs of various operations run by the Group. Subject to no material changes in the prevailing national direction policies being complied by the Group and in the operating environment, it is expected that the increase in the costs of the sewage water treatment business of the Group in 2011 as compared to that in 2010 will not be higher than 10%. Relying on the many years of operation experience in sewage water treatment, the Group will adopt scientific and effective energy saving and consumption reduction measures to improve cost management as well as control operating costs through administrative and technological means and incentive measures, in order to keep the cost at a reasonably low range, subject to the satisfaction of the requirements for quality and various regulatory conditions, while at the same time, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

(3) R&D plans:

In 2011, the Group will further increase the investments and supporting management efforts in scientific research work. The Group plans to inject at least RMB6 million of funds as scientific research fees for the R&D of technology related to the principal businesses of the Group and technology reserve related to the development strategy of the Group.

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

3. Demand for funds and application plans

The Group's current financing sources can basically satisfy the needs of the Group's annual operation plans. In 2011, the Group will meet the market development and operational needs to implement direct financing and indirect financing facilities, improve the debt structure, increase the capital efficiency and reduce the financial cost. Through introducing strategic investors and financial investors in a timely manner, the Group will reinforce capital cooperation in project cooperation. The Group will obtain the funds that the relevant projects may require from its current financing sources.

4. Analysis of risk factors

(1) In response to the changing economic and financial environment, the Group will further enhance its risk control capability: first, to improve the internal control system and enhance auditing and supervision; second, to establish a risk warning system to enhance risk management, so as to improve the Group's overall organization operation efficiency and maintain sustained competitive advantages.

(2) In July 2005, the Tianjin Municipal Government issued the "Administrative Measures on Licensed Operations of Public Utilities of Tianjin Municipality" ("**Administrative Measures**"). Under Rule 22, license(s) for operating current urban public utilities projects within the scope of requirements may be granted directly to the original operator after a review by the department in charge of municipal construction and administrative management and obtaining approval from the Municipal People's Government, and a licensed operation agreement will be signed between the department in charge of municipal construction and administrative management and the operator. The major provisions of the "Administrative Measures" in respect of such licensed operation are as follows:

a. Licensed operators of new projects shall be ascertained by public tenders;

b. The municipal construction and administrative management authority shall be authorized to take charge of organizing and implementing licensed operations of municipal public utilities;

c. The licensed operators shall implement the municipal public utility product prices and service charge standards set by the State and the city.

d. The term of the licensed operation shall not exceed 30 years.

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

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

(III) The Company's investments

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

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

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

   (1) In 2010, the Group invested in the upgrading and renovation projects of four sewage water treatment plants in Tianjin, namely, Xianyanglu, Beicang, Jizhuangzi and Dongjiao. Total investment in the projects was approximately RMB1.04 billion. RMB411 million was invested in 2010. Currently, the projects have been basically completed and are in the stage of project finishing and test run.

   (2) The Group's subsidiary, Tianjin Water Recycling Company Limited, invested in the reconstruction and expansion project of the Jizhuangzi recycled water plant. Total investment in the project was RMB87.57 million. RMB21.44 million was invested in 2010. Currently, the project has been basically completed and is in the stage of project finishing and test run.

   (3) The Group's subsidiary, Fuyang Capital Water Company Limited, invested in the Yingdong sewage water treatment plant project. Total investment in the project was RMB53.49 million. RMB37.60 million was invested in 2010. Currently, the project has been basically completed and is in the stage of project finishing.

   (4) The Group's subsidiary, Qujing Capital Water Company Limited, invested in the reconstruction project of Lianjiangkou sewage water treatment plant. Total investment in the project was approximately RMB100 million. RMB14.77 million was invested in 2010. Currently, the project has been basically completed and is in the stage of project finishing.

   (5) The Group's subsidiary, Wuhan Tianchuang Environmental Protection Company Limited, invested in the Xianning sewage water treatment plant project. Total investment in the project was approximately RMB120 million. RMB27.83 million was invested in 2010. Currently, the project has been basically completed and is in the stage of project finishing and test run.

   (6) The Group's subsidiary, Anguo Capital Water Company Limited, invested in the reconstruction and expansion project of Anguo municipal water supply system. Total investment in the project was RMB33 million. RMB19.57 million was invested in 2010. Currently, the construction of the principal part of the project has been basically completed and the construction of the pipeline network is in progress.

   (7) The Group's subsidiary, Wendeng Capital Water Company Limited, invested in the sewage water treatment plant project in Gejia Town, Wendeng. Total investment in the project was RMB17.70 million. RMB7.85 million was invested in 2010. Currently, the preliminary work of the project such as equipment procurement and installation and civil works tender was completed.

(8) The Group's subsidiary, Jinghai Capital Water Company Limited, invested in the Tianjin Jinghai Tianyu Technology Park sewage water treatment plant project. Total investment in the project was approximately RMB48.21 million. RMB6.97 million was invested in 2010. Currently, the project has been fully completed.

(9) The Group's subsidiary, Hangzhou Tianchuang Water Company Limited, invested in the project of equipment purchase and installment for Qige Sewage Water Treatment Plant Phase Two with a daily production capacity of 50,000 tonnes. Total investment in the project was RMB23 million. RMB1.35 million was invested in 2010. Currently, part of the main framework of the structure and the construction of the principal part of the project have been completed.

(10) The Company entered into the "Licensed Operation Agreement Relating to the Shuanglin Sewage Water Treatment and Recycled Utilization Phase 1 Project in the Jinnan District of Tianjin" with the People's Government of Jinnan District on 13 November 2009, pursuant to which the Company incorporated a wholly-owned subsidiary, Tianjin Capital Environmental Water Company Limited, with cash contribution of RMB5 million on 7 January 2010, which invested and constructed the Shuanglin sewage water treatment plant in Jinnan District of Tianjin by way of a licensed operation and enjoyed exclusive asset operation rights of possession, usage, operation and maintenance over the project facilities as well as the rights to collect sewage water treatment service fees during the licensed period. The project commenced construction in October 2010. Total investment in the project was approximately RMB181 million. RMB51.17 million was invested in 2010. The principal part of the project has been completed.

(11) In 2010, the Company won the bid for the BT finance construction project of the sewage water treatment plant (Phase I) in the Ziya Circular Economy Industrial Zone of Tianjin. The construction scale of the project is 10,000 cubic metres per day. The price for the successful bid was RMB76,796,000. On 6 August 2010, the Company incorporated a wholly-owned subsidiary, Tianjin Zichuang Engineering Investment Company Limited, with cash contribution of RMB23.40 million, for the financing and construction of the project. Currently, the project is under construction.

(12) On 6 July 2010, the Company entered into the "Licensed Operation Agreement Relating to the BOT Project of the Sewage Water Treatment Plant in the Ninghe Xiandai Industrial Zone" with the management committee of the Ninghe Xiandai Industrial Zone, pursuant to which the Company incorporated a wholly-owned subsidiary, Tianjin Jinning Capital Environmental Water Company Limited, with cash contribution of RMB15 million on 6 September 2010, which will construct and operate the project during the licensed period. Currently, the preliminary work of the project is underway.

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

Before 1 January 2010, for term loans that containing terms in the loan agreements entitling the lenders to unconditionally recall their loans at any time, the Company would determine whether they were current liabilities or non-current liabilities according to the agreed repayment plan of the parties.

In November 2010, the Hong Kong Society of Accountants issued No. 5 Interpretation which explicitly includes the accounting method for long-term loans with unconditional recall terms. No. 5 Interpretation came into force upon its issuance. In the financial statements for 2010 prepared in accordance with the Hong Kong Financial Reporting Standards, the Company has adopted this No. 5 Interpretation and accounted term loans that include terms of unconditional recall as current liabilities. According to the provisions of No. 5 Interpretation, the Company considers this change as a change in accounting policies, and restated figures for 2009 retrospectively.

According to the equivalent principle of "No.2 Interpretation of the Accounting Standards for Business Enterprises" issued by the Ministry of Finance of the PRC, the Company has adopted the same accounting methods as the Hong Kong Financial Reporting Standards for these terms loans which include recall terms in the financial statements prepared under the PRC Accounting Standards for Business Enterprises.

This restatement has no impact on the total profits, cash flow and owners' interests as reported, and has no material impact on gearing ratio, liquidity risk and financial position.

The effect on the balance sheet by adopting this amended accounting policy is shown below:

	31 December 2010 (Rmb)	31 December 2009 (Rmb)	1 January 2009
Increase of current liability			
Short-term bank loan	**73,000,000**	56,000,000	—
Decrease of non-current liability			
Long-term bank loan	**(73,000,000)**	(56,000,000)	—

(V) Review of the Board Activities

1. The Board meetings and resolutions passed

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 2nd Meeting of the 5th Board	25 March 2010	(1) Agreed the 2009 annual report and its summary to be announced in the PRC and overseas; (2) Agreed the financial and accounting statements of the Company for 2009 audited by the domestic and overseas auditors; (3) Agreed the 2009 working report of the Board and the 2010 operation development plan; (4) Approved the 2009 final financial report and the 2010 financial budget report; (5) Approved the 2009 profit distribution plan; (6) Considered the social responsibility report 2009; (7) Considered the 2009 self-assessment report on the internal control; (8) Considered the resolution on changing the accounting policies; (9) Considered the application for liquidity loan facility; (10) Agreed the appointment of Mr. Lin Wenbo as the Company's general manager; (11) Agreed the resignation of Mr. Gu Wenhui as the Company's chief economist and the appointment of Mr. Tang Fusheng as the Company's deputy general manager; (12) Agreed making an application to the Board for authorization in respect of the water service tender project; (13) Agreed the reappointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the domestic and external auditors of the Company; (14) Agreed the supplementary medical insurance for employees; (15) Agreed the resolution on amendments to the business scope of the Company; (16) Agreed the resolution on amendments to the Articles of Association; (17) Agreed the amendments to the rules of procedure of the Board meetings; (18) Agreed the amendments to the rules of procedure of the general meeting; (19) Agreed the formulation of the Rules of Procedures for General Managers; (20) Agreed the convening of the 2009 Annual General Meeting; (21) The independent opinions of the independent non-executive Directors on the change in the accounting policies.	Shanghai Securities News	25 March 2010

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 3rd Meeting of the 5th Board	22 April 2010	(1) Considered the progress of the acquisition of foreign assets reported by Shi Zhenjuan, the chief accountant; (2) Considered the progress of the toll road business reported by Shi Zhenjuan, the chief accountant; (3) Considered the subsequent rectification of the internal control results for 2008 reported by Niu Jing, manager of the legal audit department; (4) Agreed the announcement of the first quarterly report for 2010 and the summary of the report in the PRC and overseas.	Shanghai Securities News	22 April 2010
The 4th Meeting of the 5th Board	2 June 2010	Agreed the resolution on making an application to the Board for authorization in respect of the open tender BT project.		
The 5th Meeting of the 5th Board	16 July 2010	Agreed the resolution on the agency construction of the construction project in Ziya Circular Economy and Industrial Zone.		16 July 2010
The 6th Meeting of the 5th Board	28 July 2010	Agreed the entering into of the "Investment and Construction Agreement" between the Company and Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited.	Shanghai Securities News	28 July 2010
The 7th Meeting of the 5th Board	19 August 2010	(1) Agreed the announcement of the interim report for 2010 and the summary of the report in the PRC and overseas; (2) Agreed the operation and management targets and appraisal and incentive measures of the Company for 2010.	Shanghai Securities News	19 August 2010

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 8th Meeting of the 5th Board	27 August 2010	Agreed the investment in establishing the wholly-owned subsidiary,Tianjin Jinnan Capital Environmental Water Company Limited		
The 9th Meeting of the 5th Board	27 September 2010	Agreed the bidding for the licensed operation project of the centralized energy station of the Tianjin Cultural Centre.	Shanghai Securities News	28 September 2010
The 10th Meeting of the 5th Board	28 October 2010	(1) Agreed the announcement of the third quarterly report for 2010 and the summary of the report in the PRC and overseas; (2) Agreed the adjustment of the remuneration system of the Company; (3) Agreed the appointment of Mr. Zhao Yi as the deputy general manager of the Company; (4) Agreed the formulation of the "Administrative System for Insiders".	Shanghai Securities News	28 October 2010
The 11th Meeting of the 5th Board	9 November 2010	(1) Agreed the acquisition of the foreign assets of Tianjin Sewage Company; (2) Agreed the amendments to the Articles of Association of the Company; (3) Agreed the convening of the first extraordinary general meeting for 2010.	Shanghai Securities News	9 November 2010
The 12th Meeting of the 5th Board	23 December 2010	(1) Agreed the amendments to the Information Disclosure Managements System of the Company; (2) Agreed the formulation of the "Management System for Connected Transactions"; (3) Agreed the establishment of the project branch company.	Shanghai Securities News	23 December 2010

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

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

The execution of the profit appropriation plan passed at the annual general meetings for 2009: The profit appropriation plan for 2009 of the Company has been considered and approved by the 2009 annual general meeting held on 13 May 2009. The relevant resolutions were published on Shanghai Securities News, the website of SSE (www.sse.com.cn), the website of the Stock Exchange (www.hkex.com.hk) and the website of IFN Financial Press Ltd. (http://www.ifn.com.hk/ir/tjcep/). The profit appropriation plan has been implemented. The Company distributed RMB0.08 in cash per share (tax inclusive) to A Share shareholders and RMB0.08 (HK$0.09113, tax inclusive) per share to H Share shareholders. The Company issued an announcement of A Share dividend distribution on 29 June 2010 in the PRC, with the registration date of the share rights on 2 July 2010. The Company issued a notice of the 2009 annual general meeting on 25 March 2010, with the registration date of the share rights on 12 April 2010. The distribution of A Share dividends was completed on 9 July 2010, while the distribution of H Share dividends was completed on 9 July 2010.

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

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

In accordance with the relevant requirements of the CSRC and SSE, the Detailed Implementation Rules of the Audit Committee of the Company, and the work system in respect of the annual reports of independent Directors, the Audit Committee of the Company has duly performed its supervisory and examination functions during the preparation and disclosure process of the 2009 annual report and the 2010 interim report, safeguarding audit independence.

(1) Regarding the Review of the 2009 Annual Report:

(a) The Committee established the "Working Rules of the Audit Committee in respect of the 2009 Annual Report" and the "Working System for the Independent Directors in the 2009 Annual Report", which regulate the audit work in the process of the preparation of the annual report;

(b) Before the auditor's arrival, the Committee reviewed the unaudited financial statements of the Company and the auditor's audit working plan through a telephone conference and formed written opinions;

(c) By way of teleconferencing, the Committee carried out in-depth communications with the auditor in relation to significant audit matters found;

(d) By way of physical meetings, the Committee considered and passed the audited annual report and then submitted it to the Board for consideration and approval;

(e) By way of physical meetings, the Committee considered and passed the 2009 internal control report and then submitted it to the Board for consideration and approval;

(f) By way of physical meetings, the Committee considered the audit work for 2009 and agreed the reappointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the PRC and Hong Kong auditors of the Company respectively, and submitted a relevant proposal to the Board for consideration.

(2) Regarding the Review of the 2010 Interim Report

(a) In the process of preparing the interim financial statements for 2010, communication in relation to the material financial matters with the Company's management has been conducted by way of teleconference;

(b) The meeting of the Audit Committee has been convened to consider and vote for the interim financial statements of the Company for 2010, and a resolution has been formed for submission to the Board for consideration.

Except Di Xiaofeng, who could not attend the meeting of the Audit Committee held on 19 August 2010 due to his business trip, all the other members attended the above meetings of the Audit Committee.

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

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

During the reporting period, there were two meetings in total held by the Remuneration Committee. All members attended the meetings held, at which resolutions including "A resolution regarding the determination of the remuneration of the General Manager, Mr. Lin Wenbo", "A resolution regarding the determination of the remuneration of the Deputy General Managers, Mr. Tang Fusheng and Mr. Wang Hong" , "A resolution regarding the adjustment of the Company's remuneration system" and "A resolution regarding the determination of Mr. Zhao Yi's remuneration" were considered and passed respectively, and were submitted to the Board for consideration.

5. **Establishment and the effectiveness of the management system concerning the users of external information of the Company**

In order to strengthen the Group's management of information disclosure, strictly implement the delivery, verification and disclosure procedure of undisclosed information, prevent the insider from taking advantage of the insider information to carry out security-dealing activities, and eliminate the insider transactions dealings, pursuant to the relevant requirements of the Securities Law, the Company Law and the Administrative Measures Concerning Information Disclosure for Listed Companies of the PRC, the Group established the Notice of Relevant Regulations Concerning the Users of External Information. The relevant regulations mainly include: the Group shall reject the request for submission of the annual financial statements of an external company which does not abide by the laws and regulations. If the Group considers it suitable for the submission in compliance with the laws and regulations, it will classify the relevant person of the external company for submission as an insider and record the same for inspection. The Group shall consider relevant information as insider information and remind in writing the relevant person of the external company for submission to fulfill the obligation of confidentiality.

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

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

6. **The statement issued by the Board on the responsibility of internal control**

The Board of the Company is responsible for the establishment and the maintenance of a proper internal control system relating to financial reports. The aim of the Company's internal control relating to financial reports is to guarantee the truthfulness, integrity and reliability of information relating to financial reports and prevent material misstatement risks. As there are inherent limitations existing in internal control, the Company can only provide reasonable assurance that the above aim can be achieved. The Board conducted an assessment of the internal control relating to financial reports in accordance with the requirements of the "Basic Standards for Enterprise Internal Control" and considered the internal control relating to the 2010 financial report of the Company was sound and could be implemented effectively.

During the self-assessment of its internal control, the Company did not identify any material defects in the design or implementation of internal control.

7. **The implementation of the management system for insiders**

According to the Company's self-investigation, whether any insider has made use of the insider information to deal in the Company's shares before the disclosure of material sensitive information affecting the Company's share price? No.

(VI) Plans for profit distribution or transfer of capital reserve fund to share capital

As audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers, the net profit attributable to the Company in 2010 was RMB271.16 million. After deduction of a Statutory Common Reserve in the amount of RMB25.88 million pursuant to the relevant requirements of the Company Law of the PRC and the Article of Association of the Company, adding the undistributed profit of RMB1,206.90 million at the beginning of the year, and less 2009 cash dividends of RMB114.18 million distributed in 2010, the actual distributable profits attributable to shareholders for this year was RMB1,338.00 million. According to the profit appropriation policy 2010, a cash dividend of RMB1.10 (tax inclusive) per 10 shares will be distributed to all shareholders.

No transfer from the capital reserve fund to share capital was made for 2010.

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

Unit: '0000 Currency: RMB

Year	Amount of cash dividends (inclusive of tax)	Net profit attributable to shareholders of the Company in the consolidated financial statements	Percentage of net profit attributable to shareholders of the Company to the consolidated financial statements (%)
2007	5,708.91	20,933	27
2008	5,708.91	23,107	25
2009	11,417.83	24,298	47

9. Report of the Supervisory Committee

(1) Operation of the Supervisory Committee

No. of meetings held	4
Meetings held by the Supervisory Committee	**Resolutions considered at the meetings of the Supervisory Committee**
The second meeting of the Fifth Supervisory Committee	Considered (1) the 2009 Supervisory Committee working report; (2) the 2009 annual report of the Company and its summary proposed to be announced in the PRC and overseas; (3) the 2009 accountant's report audited by the domestic and overseas auditors; (4) the 2009 financial report and the 2010 financial budget report of the Company; (5) the 2009 profit appropriation plan; (6) the legality of the operation of the Board of the Company for 2009; (7) the specific explanation in relation to the changes in accounting policies.
The third meeting of the Fifth Supervisory Committee	Considered the resolution in relation to the 2010 first quarterly report and its summary proposed to be announced in the PRC and overseas.
The fourth meeting of the Fifth Supervisory Committee	Considered the resolution in relation to the 2010 interim report and its summary proposed to be announced in the PRC and overseas.
The fifth meeting of the Fifth Supervisory Committee	Considered the resolution in relation to the 2010 third quarterly report and its summary proposed to be announced in the PRC and overseas.

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

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

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

The Supervisory Committee considers that the Company's financial management system and internal control system were strict and have been seriously implemented during the reporting period, and considers that the 2010 financial report of the Company could truly reflect the financial situation and operating results of the Company. The audit opinion issued by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers was objective and fair.

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

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

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

For details of the acquisition and disposal of assets by the Company during the reporting period, please refer to the section headed "Connected transaction in relation to asset acquisitions and disposals" in this Annual Report. The Supervisory Committee considers that the Company's asset transactions have been conducted at fair prices in accordance with market principles without insider trading and have been disclosed to a sufficient extent pursuant to the requirements to safeguard the interests of shareholders.

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

For details of the material connected transactions of the Company during the reporting period, please refer to the section "Material connected transactions of the Company during the reporting period" in this Annual Report. The Supervisory Committee considers that the connected transactions of the Company were conducted in compliance with the market principles of fairness, equality, voluntary basis and friendly negotiation, and sufficient information disclosure was made in compliance with the rules, and the interests of the non-related shareholders were protected.

(7) Opinion of the Supervisory Committee on the Self-assessment Report on the Internal Control

The Supervisory Committee has reviewed the Self-assessment Report on the Internal Control 2010 (the "**Self-assessment Report**") of the Board of the Company and considers that the design of the internal control of the Company is reasonable and complete, and it has been effectively implemented. The Supervisory Committee agrees with the Self-assessment Report of the Board.

10. Major Events

(1) Material litigation or arbitration

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

(2) Bankruptcy and restructuring events and suspension of listing or delisting

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

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

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

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

For details of the acquisition and disposal of assets by the Company and merger during the year, please refer to the section headed "Connected transaction in relation to asset acquisitions and disposals " below.

(5) Material connected transactions of the Company during the reporting period

1. Connected transactions related to daily operation

(A) Tenancy agreements

In order to obtain steady return of rental income in respect of its owned premises, on 24 September 2009, the Company entered into tenancy agreements with Tianjin Investment Group, Tianjin City Investment and Construction Engineering Management and Consultation Company Limited ("**Tianjin Construction Engineering**") and Tianjin City Investment and Resources Operating Company Limited ("**Tianjin City Resources**") respectively. On 1 July 2010 and 4 March 2011, the Company entered into new tenancy agreements with Tianjin Investment Group, Tianjin Construction Engineering and Tianjin City Resources respectively. Tianjin Investment Group is the ultimate controller of the Company. Both Tianjin Construction Engineering and Tianjin City Resources are wholly-owned subsidiaries of Tianjin Investment Group. As such, the above 3 parties are all connected persons of the Company. The transactions contemplated under the above tenancy agreements constitute continuing connected transactions of the Company. A summary of the principal terms of the above tenancy agreements is as follows:

The tenancy agreements between the Company and Tianjin Investment Group

(1)	Date:	24 September 2009		
	Parties:	The Company as landlord and Tianjin Investment Group as tenant		
	Premises:	Certain area from 3rd floor to 12th floor of TCEP Building		
	Car parking spaces:	28		
	Lettable area:	Floor area	-	6,845.91 square meters
		Public area	-	814.86 square meter (building)
				866.39 square meter (courtyard)

	Term:	9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)		
	Total rent:	RMB4,537,994.36		
(2)	Date:	4 March 2011		
	Parties:	The Company as landlord and Tianjin Investment Group as tenant		
	Premises:	Certain area from 3rd floor to 13th floor of TCEP Building		
	Car parking spaces:	28		
	Lettable area:	Floor area	-	7,869.92 square meters
		Public area	-	937.17 square meter (building)
				990.67 square meter (courtyard)
	Term:	12 months commencing from 1 July 2010 to 30 June 2011 (both days inclusive)		
	Total rent:	RMB7,237,348.20		

The tenancy agreements between the Company and Tianjin Construction Engineering

(3)	Date:	24 September 2009		
	Parties:	The Company as landlord and Tianjin Construction Engineering as tenant		
	Premises:	Certain area of 3rd floor and 4th floor of TCEP Building		
	Car parking spaces:	10		
	Lettable area:	Floor area	-	1,175.93 square meters
		Public area	-	139.81 square meters (building)
				133.61 square meters (courtyard)
	Term:	9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)		
	Total rent:	RMB775,325.16		
(4)	Date:	1 July 2010		
	Parties:	The Company as landlord and Tianjin Construction Engineering as tenant		
	Premises:	Certain area of 3rd floor and 4th floor of TCEP Building		
	Car parking spaces:	10		
	Lettable area:	Floor area	-	1,175.93 square meters
		Public area	-	139.81 square meters (building)
				133.61 square meters (courtyard)
	Term:	Commencing from 1 July 2010 to 30 November 2010		
	Total rent:	RMB344,588.95		

The tenancy agreements between the Company and Tianjin City Resources

(5)	Date:	24 September 2009		
	Parties:	The Company as landlord and Tianjin City Resources as tenant		
	Premises:	Certain area of 6th floor of TCEP Building		
	Car parking spaces:	10		
	Lettable area:	Floor area	-	726.08 square meters
		Public area	-	100.75 square meters (building)
				125.00 square meters (courtyard)
	Term:	9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)		
	Total rent:	RMB496,043.19		
(6)	Date:	4 March 2011		
	Parties:	The Company as landlord and Tianjin City Resources as tenant		
	Premises:	Certain area of 6th floor of TCEP Building		
	Car parking spaces:	10		
	Lettable area:	Floor area	-	726.08 square meters
		Public area	-	100.75 square meters (building)
				125.00 square meters (courtyard)
	Term:	12 months commencing from 1 July 2010 to 30 June 2011 (both days inclusive)		
	Total rent:	RMB687,529.80		

Furthermore, on 30 September 2009 and 4 March 2011, the Company entered into two fitness club tenancy agreements with Tianjin Investment Group. The transactions contemplated under the above tenancy agreements constitute continuing connected transactions of the Company. A summary of the principal terms of the above fitness club tenancy agreements is as follows:

(1)	Date:	30 September 2009
	Parties:	The Company as landlord and Tianjin Investment Group as tenant
	Premises:	Fitness club located at 19th floor and 20th floor of TCEP Building
	Lettable area:	Floor area -1,067.54 square meters
	Term:	Commencing from 1 October 2009 to 30 June 2010
	Total rent:	RMB307,118.70
(2)	Date:	4 March 2011
	Parties:	The Company as landlord and Tianjin Investment Group as tenant
	Premises:	Fitness club located at 19th floor and 20th floor of TCEP Building
	Lettable area:	Floor area -1,067.54 square meters
	Term:	Commencing from 1 July 2010 to 30 June 2011
	Total rent:	RMB409,491.60

(B) Construction agency agreements

In addition, in order to fully utilize its expertise and experience in construction work and earn operating income from the construction services provided, on 1 April 2009, 15 April 2009, 20 April 2009, 25 June 2009, 20 July 2009, 9 October 2009, 25 October 2009, 28 October 2009, 1 November 2009, 6 January 2010, 29 March 2010 and 13 April 2010, the Company entered into twelve construction agency agreements with Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited ("**Tianjin Ziya Investment**"), pursuant to which the Company agreed to provide construction and related services in respect of different kind of construction works to Tianjin Ziya Investment in the Ziya Circular Economy Industrial Zone. Since TMICL, the controlling shareholder of the Company, and Tianjin Investment Group, the ultimate controller of the Company, hold 21% and 30% (collectively 51%) equity interest in Tianjin Ziya Investment respectively, Tianjin Ziya Investment is a connected person of the Company. The transactions contemplated under the twelve construction agency agreements constitute continuing connected transactions of the Company and should be aggregated.

The construction agency fees to be earned by the Company from Tianjin Ziya Investment shall be calculated in accordance with the relevant requirements in (i) the "Notice by the Ministry of Finance in respect of the Printing and Distribution of Regulation on Infrastructure Financial Management (Caijian [2002] 394 Hao)" and (ii) the "Guiding Opinion by the Ministry of Finance on Relevant Problems relating to Strengthening the Financial Management of Agency System for Government-invested Projects (Caijian [2004] 300 Hao)". The construction agency fees shall be settled in cash by Tianjin Ziya Investment after the Company completes the construction work in accordance with the schedule and quality of the work as required. Bonus (other than the construction agency fees mentioned above) may also be paid by Tianjin Ziya Investment to the Company if there is a balance of funds for the construction project. The method for calculating the bonus payment will be agreed by the parties separately.

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that:

(1) the above continuing connected transactions were in the ordinary and usual course of business of the Company;

(2) the above continuing connected transactions were conducted on normal commercial terms; and

(3) the above continuing connected transactions were carried out in accordance with the terms of the relevant agreements, which were fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

The Board of the Company has also confirmed that its auditors have confirmed the matters set out in Rule 14A.38 of the Listing Rules.

(C) Investment and construction agreements

In order to fully utilize its expertise and experience in construction work and earn operating income, on 28 July 2010, the Company and Tianjin Ziya Investment entered into the investment and construction agreement, pursuant to which the Company agreed to set up a project company to build a sewage water treatment plant in the Ziya Circular Economy Industrial Zone. Upon completion of the construction of the sewage water treatment plant, Tianjin Ziya Investment shall purchase the sewage water treatment plant at the bidding price of RMB76,796,000. As stated above, Tianjin Ziya Investment is a connected person of the Company. The transaction contemplated under the investment and construction agreement constitutes a connected transaction of the Company.

2. Connected transactions in relation to asset acquisitions and disposals

The Company and Tianjin Sewage Company ("**TSC**") signed the "Agreement on the Transfer of Assets Generated from Foreign Bank Loans in relation to the Haihe Basin Tianjin Sewage Water Treatment Construction Project and the Beicang Sewage Water Treatment Project" ("**Asset Transfer Agreement**") in Tianjin. The Haihe Basin Tianjin Sewage Water Treatment Construction Project refers to the Company's Tianjin Jizhuangzi Sewage Water Treatment Plant and Xianyanglu Sewage Water Treatment Plant reconstruction and expansion project. Assets generated from foreign bank loans refer to the assets financed by Japan Bank for International Cooperation for the Xianyanglu Sewage Water Treatment Plant and the Jizhuangzi Sewage Water Treatment Plant and the assets financed by Asian Development Bank for the Beicang Sewage Water Treatment Plant.

The ownership of the aforesaid assets generated from foreign bank loans originally belongs to TSC. The assets have been managed and utilized by the Company since the date on which they were generated. They are component parts of the sewage water treatment facilities of the Company's Tianjin Jizhuangzi Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and Beicang Sewage Water Treatment Plant. To ensure the integrity of its sewage water treatment facilities, the Company acquired the aforesaid assets from TSC.

Mr. Tan Zhaofu, the legal representative and general manager of TSC, was a Director of the Fourth Board of the Company from 19 December 2006 to 18 December 2009. Pursuant to the requirements of the Shanghai Stock Exchange Share Listing Rules, a person who was a director, supervisor or senior management of a listed company over the past 12 months was a connected person of the listed company. Therefore, on the date of the Asset Transfer Agreement, i.e. 9 November 2010, TSC was a connected legal person of the Company and the above transaction constituted a connected transaction of the Company under the Shanghai Stock Exchange Share Listing Rules.

In respect of the acquisition of the above assets, the Company signed the "Cooperation Agreement" with TSC in August 2003, pursuant to which the Company should acquire the above assets at their book value upon final acceptance of the assets. The book value of the above assets was RMB691,892,517.35 as at 27 December 2007. Beijing China Enterprise Appraisals Company Limited（北京中企華資產評估有限公司）, an independent valuer, has appraised the above assets using the cost method and the appraised value was RMB689,101,182.

Principle for determining the transaction consideration:

The consideration of the above transaction was the sum of RMB261,578,056.76 and the total outstanding amount of principal and interests after the Asset Transfer Agreement came into effect under the loan agreement entered into between Japan Bank for International Cooperation and TSC for the asset financing of the Xianyanglu Sewage Water Treatment Plant and the Jizhuangzi Sewage Water Treatment Plant ("**Japan Bank Loan Agreement**") and the loan agreement entered into by Asian Development Bank for the asset financing of the Beicang Sewage Water Treatment Plant ("**Asian Bank Loan Agreement**"). The consideration should be paid in the following ways:

a) RMB261,578,056.76 should be paid in cash within 5 business days after the Asset Transfer Agreement came into effect.

b) The remaining amount should be paid in cash to TSC before the repayment date in accordance with the repayment schedule of the Japan Bank Loan Agreement and the Asian Bank Loan Agreement.

Since the repayment of the loan of Japan Bank for International Cooperation and the loan of Asian Development Bank shall be made in Japanese yen and US dollar respectively and the loan of Asian Development Bank bears interests payable based on LIBOR, it will be difficult to determine the accurate payment amount for each installment in the future. The Company will bear the risks associated with interest rates and exchange rates.

Based on the above consideration calculation and payment method and under the following assumption, the total present value of the consideration is RMB691,878,056.76.

Assuming that on 8 October 2010, 1 US dollar can be converted into RMB6.6830, 100 yen can be converted into RMB8.1040 and the 6-month LIBOR was 0.4587%, the total outstanding amount of principal and interests after the Asset Transfer Agreement came into effect under the Japan Bank Loan Agreement and the Asian Bank Loan Agreement was approximately RMB834,200,000. According to the repayment schedule of the loan agreements, payment will be made in 91 installments over the next 31 years. The net present value discounted at the benchmark lending rate of 5.94% for medium-to-long-term loans for five years or above issued by the People's Bank of China on 8 October 2010 was approximately RMB430,300,000. Together with RMB261,578,056.76 paid after the effective date of the Asset Transfer Agreement, the total present value of the consideration was RMB691,878,056.76, which was basically equivalent to the net book value of the above transfer assets as at 27 December 2007 and was higher than the appraised value of the above transfer assets by RMB2,776,874.76 or 0.4%.

The consideration has been determined after arm's length negotiation between the Company and TSC after taking into account of (1) the terms of the cooperation agreement; and (2) the book value of the above transfer assets as at the date of transfer; and (3) the valuation of the transfer assets as set out in the valuation report issued by the independent PRC valuer on 28 April 2010.

Pursuant to the requirements of the Asset Transfer Agreement, the Company made the first payment within five business days after the Asset Transfer Agreement came into effect and the property rights of the above transfer assets would be owned by the Company from the payment date.

(6) Major contracts and their implementation

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

(1) **Custody**

The Company did not provide any custody during the year.

(2) **Subcontracting**

The Company did not provide any subcontracting during the year.

(3) **Leasing**

The Company did not have any leasing during the year.

2. **Guarantee**

Unit: 0'000 Currency: RMB

Guarantee provided to external parties by the Company (not including guarantee provided to the subsidiaries of the Company)	
Total amount of guarantee provided during the reporting period	0
Total amount of outstanding guarantee provided 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	2,400
Total amount of outstanding guarantee provided to the subsidiaries of the Company as at the end of the reporting period (B)	79,893
Total amount of guarantee granted by the Company (including guarantee provided to the subsidiaries of the Company)	
Total amount of guarantee (A+B)	79,893
Percentage of the total amount of guarantee to the net assets of the Company (%)	23.15
Of which:	
Amount of guarantee provided to the shareholders, ultimate 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 exceeding 50% of net assets (E)	0
Total amount of the above three guarantess (C+D+E)	0

3. **Trust arrangement**

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

4. **Other major contracts**

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

(7) Implementation of commitments

No commitments were made by the Company or shareholders who hold over 5% of the shares during or till the reporting period.

(8) Appointment and removal of the accountants

Does the Company change its accountants?	No
	Present Appointment
Name of the PRC accountants	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
Auditing services rendered by the PRC accountants	16 years
Name of the Hong Kong accountants	PricewaterhouseCoopers
Auditing services rendered by the Hong Kong accountants	16 years

During the reporting period, the Company did not change its accountants. The PRC auditor of the Company is PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company. The Hong Kong auditor of the Company is PricewaterhouseCoopers. A total of approximately RMB3.75 million were paid to the two auditors for auditing services rendered in the previous year. As at the end of the previous reporting period, the above two accountants have rendered auditing services to the Company for 16 years. During the past three years, the Company did not change its auditors.

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

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

(10) Has the Company been included in the list of polluting enterprises released by the environmental protection department: No

(11) Explanation of other major events

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

(12) Information Disclosure Index

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement in Relation to the Resolutions Passed at the 2nd Meeting of the Fifth Board	"Shanghai Securities News" page B113	25 March 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in Relation to the Resolutions Passed at the 2nd Meeting of the Fifth Supervisory Committee	"Shanghai Securities News" page B113	25 March 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Notice of 2009 Annual General Meeting	"Shanghai Securities News" page B113	25 March 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Annual Report 2009		25 March 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of Final Results for the Year Ended 31 December 2009	"Shanghai Securities News" pages B113, B114, B115	25 March 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
The Rules Governing the General Manager's Meeting		25 March 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
First Quarterly Report 2010	"Shanghai Securities News" page B25	22 April 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/

10. Major Events

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement on the Resolutions Passed at the 2009 Annual General Meeting	"Shanghai Securities News" page B25	13 May 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Implementation of 2009 Profit Distribution for A Shares	"Shanghai Securities News" page B27	28 June 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in Relation to the Winning of the Bid for the BT Finance Construction Project of the Sewage Water Treatment Plant (Phase I) in the Ziya Circular Economy Industrial Zone of Tianjin	"Shanghai Securities News" page B17	13 July 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Continuing Connected Transactions		16 July 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Connected Transactions	"Shanghai Securities News" page B6	28 July 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of Interim Results for the Six Months Ended 30th June 2010	"Shanghai Securities News" page B40	19 August 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
2010 Interim Report		30 August 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement in Relation to the Resolutions Passed at the 9th Meeting of the Fifth Board	"Shanghai Securities News" page B16	28 September 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in relation to the Winning of the Bid for the License Operation Project of the Centralised Energy Station of Tianjin Cultural Centre	"Shanghai Securities News" page B17	18 October 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in Relation to the Reduction of Holding of the Company's Shares by Tianjin Municipal Investment Company Limited, the Controlling Shareholder of the Company	"Shanghai Securities News" page B17	18 October 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement of the Supervisory Committee and Appointment of the Supervisor	"Shanghai Securities News" page B80	28 October 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Insiders Management System		28 October 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Third Quarterly Report 2010	"Shanghai Securities News" page B80	28 October 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in Relation to the Resolutions Passed at the 10th Meeting of the Fifth Board	"Shanghai Securities News" page B80	28 October 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/

10. Major Events

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Notice of 2010 First Extraordinary General Meeting	"Shanghai Securities News" page B8	9 November 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Major Transaction -Acquisition of Sewage Water Treatment Plants' Assets and Proposed Amendment to the Articles of Association of the Company	"Shanghai Securities News" page B8	9 November 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in Relation to the Resolutions Passed at the 12th Meeting of the Fifth Board	"Shanghai Securities News" page B17	23 December 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Connected Transaction Management System		23 December 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Information Disclosure Management System		23 December 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement on the Resolutions Passed at the 2010 First Extraordinary General Meeting	"Shanghai Securities News" page B40	28 December 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/
Announcement in Relation to the Reduction of Holding of the Company's Shares by Tianjin Municipal Investment Company Limited, the Controlling Shareholder of the Company	"Shanghai Securities News" page B73	30 December 2010	SSE: www.sse.com.cn; Stock Exchange: www.hkex.com.hk; IFN Financial Press Ltd: http://ifn.com.hk/ir/tjcep/

11. Other Information

Sale and Purchase or Redemption of Shares of the Company

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

Code on Corporate Governance Practice

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

Model Code for Securities Transactions by the Directors

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

Public Float

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

Pre-emptive Rights

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

Tax Concession

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

Charge of Assets

The Company did not charge any assets of the Company.

11. Other Information

Audit Committee

On 31st July, 2001, the Board approved the establishment of the Audit Committee to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31st December 2010 with the Directors.

Publication of Financial Information

The Company's 2010 annual report which sets out all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules is published on the website of the Stock Exchange (http://www.hkex.com.hk).

12. Financial Accounting Report

For details, please refer to the accounting statements and audited reports for 2010 of Tianjin Capital Environmental Protection Group Company Limited.

13. Report of the Auditors

PRICEWATERHOUSECOOPERS
普 华 永 道

普华永道中天会计师事务所有限公司
11/F PricewaterhouseCoopers Center
202 Hu Bin Road
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PwC ZT Shen Zi (2011) No. 10042

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To the shareholders of
Tianjin Capital Environmental Protection Group Company Limited;

We have audited the accompanying financial statements of Tianjin Capital Environmental Protection Group Company Limited ("the Company"), which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the year then ended and notes to these financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

13. Report of the Auditors

PwC ZT Shen Zi (2011) No. 10042

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as of 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China

24 March 2011

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

Balance Sheet

As at 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

ASSETS	Notes 6	Group 31 December 2010	Group 31 December 2009 (Restated)	Company 31 December 2010	Company 31 December 2009 (Restated)
CURRENT ASSETS					
Cash and bank balances	(1)	**540,330**	603,161	**161,861**	234,354
Trade receivables	(2)	**996,949**	503,466	**913,618**	429,063
Prepayments	(3)	**103,759**	194,160	**55,106**	142,623
Other receivables	(4)	**53,540**	55,299	**145,280**	169,464
Inventories	(5)	**32,476**	9,653	**3,977**	3,556
Other current assets		**—**	—	**50,000**	25,000
Total current assets		**1,727,054**	1,365,739	**1,329,842**	1,004,060
NON-CURRENT ASSETS					
Long-term receivables	(6)	**405,080**	573,146	**405,080**	573,146
Long-term equity investments	(7)	**45,583**	44,135	**1,155,881**	1,108,481
Investment properties	(8)	**119,628**	123,301	**94,827**	97,995
Fixed assets	(9)	**2,526,459**	1,960,394	**2,279,506**	1,729,439
Construction in progress	(9)	**703,651**	374,804	**649,964**	323,388
Intangible assets	(10)	**2,890,650**	2,750,899	**446,079**	370,936
Other non-current assets		**7,458**	3,230	**26,290**	19,290
Total non-current assets		**6,698,509**	5,829,909	**5,057,627**	4,222,675
TOTAL ASSETS		**8,425,563**	7,195,648	**6,387,469**	5,226,735

As at 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes 6	Group 31 December 2010	Group 31 December 2009 (Restated)	Company 31 December 2010	Company 31 December 2009 (Restated)
CURRENT LIABILITIES					
Short-term borrowings	(12)	**73,000**	156,000	**55,000**	138,000
Short-term debenture	(12)	**600,000**	500,000	**600,000**	500,000
Trade payables	(11)	**22,729**	22,952	**9,730**	8,362
Advances	(11)	**310,478**	305,085	**63,386**	110,908
Wages payable		**7,374**	3,848	**4,766**	1,481
Taxes payable	(11)	**16,431**	10,000	**9,162**	1,871
Dividend payable	(16)(c)	**1,056**	2,014	**1,056**	733
Other payables	(11)	**274,991**	231,426	**235,198**	232,270
Long-term borrowings due within one year	(12)	**360,180**	98,530	**240,710**	9,000
Other current liabilities	(12)	**21,216**	20,260	**16,364**	16,364
Total current liabilities		**1,687,455**	1,350,115	**1,235,372**	1,018,989
NON-CURRENT LIABILITIES					
Long-term borrowings	(12)	**2,309,560**	2,107,930	**1,064,100**	786,000
Deferred revenue	(13)	**284,974**	143,100	**203,288**	68,100
Deferred income tax liabilities	(14)	**38,427**	30,198	**17,467**	14,275
Long-term payables	(12)	**399,604**	—	**399,604**	—
Other non-current liabilities	(12)	**129,374**	148,794	**98,181**	114,545
Total non-current liabilities		**3,161,939**	2,430,022	**1,782,640**	982,920
TOTAL LIABILITIES		**4,849,394**	3,780,137	**3,018,012**	2,001,909
SHAREHOLDERS' EQUITY					
Share capital	(15)	**1,427,228**	1,427,228	**1,427,228**	1,427,228
Capital surplus	(16)(a)	**383,338**	383,338	**380,788**	380,788
General reserves	(16)(b)	**302,005**	276,124	**302,005**	276,124
Undistributed profits		**1,338,002**	1,206,901	**1,259,436**	1,140,686
Equity attributable to owners of the parent		**3,450,573**	3,293,591	**3,369,457**	3,224,826
Minority Interests	(17)	**125,596**	121,920	**—**	—
Total shareholders' equity		**3,576,169**	3,415,511	**3,369,457**	3,224,826
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**8,425,563**	7,195,648	**6,387,469**	5,226,735

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

Zhang Wenhui	**Shi Zhenjuan**	**Shi Zhenjuan**
Company Representative	Person in charge of accounting function	Person in charge of accounting department

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

	Notes 6	Group 2010	Group 2009	Company 2010	Company 2009
Income from operations	(18)	**1,467,768**	1,256,793	**955,194**	816,119
Less: Cost for operations	(18)	**(793,672)**	(578,927)	**(425,517)**	(294,056)
Business tax andsurcharges	(19)	**(43,109)**	(42,973)	**(40,480)**	(40,199)
Administrative expenses		**(89,959)**	(99,830)	**(57,207)**	(55,759)
Financial expenses - net	(20)	**(135,790)**	(186,743)	**(54,444)**	(104,868)
Assets impairment losses		—	(6,000)	—	(4,500)
Add: Investment income	(7)	**1,448**	457	**8,072**	200
Including: Share of profit of an associate		**1,448**	257	—	—
Operation profit		**406,686**	342,777	**385,618**	316,937
Add: Non-operating income		**7,993**	7,934	**925**	815
Less: Non-operating expenses	(21)	**(47,853)**	(12,990)	**(44,985)**	(9,260)
Including: Loss on disposal of non-current assets		**(47,553)**	(12,834)	**(44,950)**	(9,160)
Total profit		**366,826**	337,721	**341,558**	308,492
Less: Income tax	(22)	**(91,670)**	(91,319)	**(82,749)**	(78,187)
Net profit		**275,156**	246,402	**258,809**	230,305
Attributable to owners of the parent		**271,160**	242,978	**258,809**	230,305
Minority interests		**3,996**	3,424	—	—
Earnings per share (in Rmb Yuan)	(23)				
– Basic		**0.19**	0.17		
– Diluted		**0.19**	0.17		
Other comprehensive income		—	—	—	—
Total comprehensive income		**275,156**	246,402	**258,809**	230,305
Attributable to owners of the parent		**271,160**	242,978	**258,809**	230,305
Minority interests		**3,996**	3,424	—	—

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

Zhang Wenhui	**Shi Zhenjuan**	**Shi Zhenjuan**
Company Representative	Person in charge of accounting function	Person in charge of accounting department

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2010	2009	**2010**	2009
1. **Cash flows from operating activities**				
Cash received from sales of goods and rendering of services	**1,144,788**	2,001,377	**602,449**	1,550,163
Cash received relating to other operating activities	**43,340**	34,392	**25,453**	9,733
Sub-total of cash inflows	**1,188,128**	2,035,769	**627,902**	1,559,896
Cash paid for goods and services	**(457,387)**	(343,711)	**(235,949)**	(154,933)
Cash paid to and on behalf of employees	**(115,039)**	(105,394)	**(63,323)**	(60,094)
Payments of taxes and levies	**(123,651)**	(149,822)	**(117,120)**	(140,487)
Cash payments relating to otheroperating activities	**(38,748)**	(46,529)	**(14,540)**	(25,634)
Sub-total of cash outflows	**(734,825)**	(645,456)	**(430,932)**	(381,148)
Net cash flows from operating activities	**453,303**	1,390,313	**196,970**	1,178,748
2. **Cash flows from investing activities**				
Cash received from returns on investments	**—**	200	**13,585**	200
Net cash received from disposalof fixed assets	**4,016**	2,016	**1,962**	479
Cash received from release of restricted bank deposits	**10,000**	22,000	**10,000**	13,000
Cash received from subsidiaries	**—**	—	**41,500**	227,810
Other cash received relating to investing activities	**133,700**	33,100	**125,700**	20,100
Sub-total of cash inflows	**147,716**	57,316	**192,747**	261,589
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(821,398)**	(714,467)	**(647,765)**	(165,219)
Cash paid to acquire equity investments	**—**	—	**(47,400)**	(18,000)
Payments of restricted bank deposit	**—**	(10,900)	**—**	(10,000)
Cash paid to subsidiaries	**—**	—	**(59,310)**	(84,380)
Sub-total of cash outflows	**(821,398)**	(725,367)	**(754,475)**	(277,599)
Net cash flows from investing activities	**(673,682)**	(668,051)	**(561,728)**	(16,010)

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

		Group		Company	
		2010	2009	**2010**	2009
3.	**Cash flows from financing activities**				
	Cash received from borrowings	**1,302,100**	1,849,000	**1,244,100**	1,435,000
	Cash received from release of restricted bank deposits	**—**	31,000	**—**	31,000
	Sub-total of cash inflows	**1,302,100**	1,880,000	**1,244,100**	1,466,000
	Repayments of amounts borrowed	**(872,075)**	(2,628,226)	**(764,364)**	(2,488,254)
	Payments for interest expenses	**(147,021)**	(211,699)	**(63,616)**	(121,447)
	Payments for distribution of dividendsor profits	**(115,456)**	(57,123)	**(113,855)**	(57,123)
	Sub-total of cash outflows	**(1,134,552)**	(2,897,048)	**(941,835)**	(2,666,824)
	Net cash flows from financing activities	**167,548**	(1,017,048)	**302,265**	(1,200,824)
4.	**Effect of foreign exchange rate changes on cash**	**—**	—	**—**	—
5.	**Net decrease in cash**	**(52,831)**	(294,786)	**(62,493)**	(38,086)
	Add: Cash and bank balances at beginning of year	**592,261**	887,047	**224,354**	262,440
6.	**Cash and bank balances at end of year** (Note 6(24)(b))	**539,430**	592,261	**161,861**	224,354

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

Zhang Wenhui	**Shi Zhenjuan**	**Shi Zhenjuan**
Company Representative	Person in charge of accounting function	Person in charge of accounting department

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Consolidated statement of changes in equity

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

	Attributable to owners of the parent					
	Share capital	Capital surplus	Generalreserve	Undistributed profits	Minority interests	Total shareholders' equity
Balance at 1 January 2009	1,427,228	383,338	253,093	1,044,043	118,496	3,226,198
Changes in 2009						
Net profit	—	—	—	242,978	3,424	246,402
Profit appropriation						
– Appropriation to statutory common reserve	—	—	23,031	(23,031)	—	—
– Dividend appropriation to shareholders	—	—	—	(57,089)	—	(57,089)
Balance at 31 December 2009	1,427,228	383,338	276,124	1,206,901	121,920	3,415,511
Changes in 2010						
Net profit	—	—	—	271,160	3,996	275,156
Profit appropriation						
– Appropriation to statutory common reserve	—	—	25,881	(25,881)	—	—
– Dividend appropriation to shareholders	—	—	—	(114,178)	(320)	(114,498)
Balance at 31 December 2010	**1,427,228**	**383,338**	**302,005**	**1,338,002**	**125,596**	**3,576,169**

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

Zhang Wenhui	**Shi Zhenjuan**	**Shi Zhenjuan**
Company Representative	Person in charge of accounting function	Person in charge of accounting department

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
Company statement of changes in equity

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

	Share capital	Capital surplus	Generalreserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2009	1,427,228	380,788	253,093	990,501	3,051,610
Changes in 2009					
Net profit	—	—	—	230,305	230,305
Profit appropriation					
– Appropriation to statutory common reserve	—	—	23,031	(23,031)	—
– Dividend appropriation to shareholders	—	—	—	(57,089)	(57,089)
Balance at 31 December 2009	1,427,228	380,788	276,124	1,140,686	3,224,826
Changes in 2010					
Net profit	—	—	—	258,809	258,809
Profit appropriation					
– Appropriation to statutory common reserve	—	—	25,881	(25,881)	—
– Dividend appropriation to shareholders	—	—	—	(114,178)	(114,178)
Balance at 31 December 2010	**1,427,228**	**380,788**	**302,005**	**1,259,436**	**3,369,457**

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

Zhang Wenhui	**Shi Zhenjuan**	**Shi Zhenjuan**
Company Representative	Person in charge of accounting function	Person in charge of accounting department

(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 City of 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, construction and management of related facility, supply of 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 processing services via the following plants:

Plant Location	Agreement date	Customer
Dong Jiao, Tianjin	10 October 2000	Tianjin Sewage Company("TSC")
Ji Zhuang Zi, Tianjin	10 October 2000	TSC
Xian Yang Lu, Tianjin	10 October 2000	TSC
Bei Cang, Tianjin	10 October 2000	TSC
Gui Yang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Bao Ying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chi Bi, Hubei	15 July 2005	Chibi Construction Bureau
Fu Yang, Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qu Jing, Yunnan	25 December 2005	Qujing City Water General Company
Hong Hu, Hubei	29 December 2005	Honghu Construction Bureau
Hang Zhou, Zhejiang	20 November 2006	Hangzhou Sewage Company
Jing Hai, Tianjin	12 September 2007	Tianyu Science Technology Park
Wen Deng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi An, Shanxi	18 March 2008	Xi'an Infrastructure Investment Group
An Guo, Hebei	14 October 2008	An Guo Municipal Government
Xian Ning, Hubei	16 October 2008	Xianning Construction Committee
Ying Dong, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau

Except for four Tianjin plants including Dong Jiao, Ji Zhuang Zi, Xian Yang Lu and Bei Cang, all other plants above are governed by service concession arrangements which fall into the scope of Accounting Standards interpretation No.2 (CAS Int-No.2) (note 4(14)(b)).

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(a) **Processing of sewage water** (Continued)

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

Dong Jiao:

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

(i) earn a return of 15% per annum of the average balances of the monthly net book value of fixed assets (as defined in the agreement) of the plants; and

(ii) incentive pricing adjustments will be made for cost saving and/or when actual processing volume exceeds the minimum processing volume stipulated in the agreement.

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

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

All other sewage processing plants:

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

All sewage processing plants 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) **Construction and management of sewage water facility**

The Group provides design, construction and operations of sewage processing facility and financing, construction and transfer of sewage processing facility project services.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(c) Supply of tap water

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

(d) 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 24 March 2011.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

3 STATEMENT OF COMPLIANCE WITH CAS

The financial statements of the Company for the year ended 31 December 2010 truly and completely present the financial position as of 31 December 2010 and the operating results, cash flows and other information for the year then ended of the Group and the Company in compliance with the Accounting Standards for Business Enterprises.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Accounting period

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

(2) Recording currency

The recording currency is Renminbi ("Rmb").

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(3) Preparation of consolidated financial statements

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

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

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

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

(4) Cash and cash equivalents

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

(5) Foreign currency translation

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

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Financial instruments

(a) Financial assets

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

(i) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. The related transaction cost of other financial assets is included in the initial recognition amounts.

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

(ii) Impairment of financial assets

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

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

(iii) Derecognition of financial assets

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

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) **Financial instruments** (Continued)

(b) *Financial liabilities*

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

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

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

(7) **Receivables**

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Inventories

Inventories include raw materials, finished goods, low cost consumables and construction in progress, and are stated at the lower of cost and net realisable value.

Except for construction in progress, cost for raw materials, finished goods and low cost consumables is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The amount of construction contract costs incurred, plus profits and less losses recognized and progress billings is determined on an individual contract basis. Where positive, this amount is recognized in assets as construction in progress. Where negative, it is recognized in liabilities.

(9) Long-term equity investments

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

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

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

(a) 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.

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments (Continued)

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

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

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

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

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

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

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments (Continued)

(d) Impairment of long-term equity investments

The carrying value of investments in subsidiaries, joint ventures and associates are written down to its recoverable amount when its recoverable amount is lower than the carrying value(Note 4(15)). When other equity investments which are not quoted in active market and whose fair value can not be reliably measured are impaired, the differences between its carrying value and its discounted present value of future cash flows using return rate of similar financial assets under current market. Once the impairment loss is recognised, it is not allowed to be reversed for the value recovered in the subsequent periods.

(10) Investment properties

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

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

	Estimated useful lives	Estimated residual value rate	Annual depreciation (amortisation) rate
Buildings	40-50 years5%	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(Note 4(15)).

(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Fixed assets

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

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

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

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

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

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

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

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

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

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation 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 (Note 4(15)).

(13) Borrowing costs

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets

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

(a) Land use rights

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

(b) Concession rights

As described in Note 1(a), the Group engages with government bodies and participates in the development, financing, operation and maintenance of infrastructure for public sewage processing services (concession services) over a specified period of time (concession services period). The Group has access to operate the infrastructure to provide the concession services in accordance with the terms specified in the arrangement. The arrangement is governed by the relevant Sewage Water Processing Agreements that sets out performance standards, mechanisms for adjusting prices. The concession services arrangement is within the scope of Accounting Standards interpretation No.2(CAS Int-No.2), and the Group recognise the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (licence) to charge users of the public service and shall recognize a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum traffic volume from the grantor. Therefore intangible assets - concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortized on a straight-line basis over the terms of operation ranging from 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 (Note 4(15)).

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Impairment of long-term assets

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

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

(16) Employee benefits

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Deferred tax assets and deferred tax liabilities

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

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

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

Deferred tax assets and liabilities are offset when:

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

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Revenue recognition

Revenue comprises 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, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) Sewage water processing

Revenue from sewage water processing is recognised when services are rendered.

(b) Construction contract

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(c) Sales of tap water and recycled water

Revenue from the sale of tap water and recycled water is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the tap water and recycled water are delivered to customers.

(d) Operating lease revenue

Revenue from operating lease is recognized on a straight-line basis over the period of the lease.

(e) Interest income

Interest income is recognised using the effective interest method.

(f) Dividend income

Dividend income is recognised when the right to receive payment is established.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Dividend distribution

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

(20) Government grants

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

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

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

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

(21) Segment information

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

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

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Critical accounting estimate and judgments

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:

(i) Impairment for receivables

The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 31 December 2010 are not impaired.

(ii) Income Tax

The Group is subject to income taxes in numerous regions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. The Group recognises income taxes in each regions based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(23) Significant changes in accounting policies

Prior to 1 January 2010, the Group classified term loans that contain a repayment on demand clause as current or non-current liability in accordance with the agreed repayment schedule.

In November 2011, the Hong Kong Institute of Certified Public Accountants(“HKICPA”) issued Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (“Hong Kong Interpretation 5”), which clarified the classification of the term loans. The Interpretation is effective immediately upon its issuance. The Group’s consolidated financial statements as at 31 December 2010 which was prepared in accordance with Hong Kong Financial Reporting Standards has adopted Hong Kong Interpretation 5. As in compliance with the requirements of Hong Kong Interpretation 5, the Group changed its accounting policy and the new accounting policy has been applied retrospectively by restatement of the ending balances as at 31 December 2009.

Pursuant to the convergence principle set out in Interpretations of Accounting Standards for Business Enterprises - No.2 stipulated by China Ministry of Finance, the Group shall follow the same accounting treatment for term loans under Accounting Standard for Business Enterprises and HKFRS.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(23) **Significant changes in accounting policies** (Continued)

The change of accounting policy was approved by the Group's authority. The reclassification has had no effect on reported income statement, cash flow statement and statement of changes in equity, and no significant effect on gearing ratio, liquidity risk and financial position.

Effect of adoption of this new accounting policy on the balance sheet.

	At 31 December 2010	At 31 December 2009	At 1 January 2009
Increase in current liabilities			
Bank borrowings	**73,000**	56,000	—
Decrease in non-current liabilities			
Bank borrowings	**(73,000)**	(56,000)	—

5 TAXATION

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

Tax by category	**Basis of Tax**	**Tax rate**
Enterprise income tax	Taxable income	12.5% - 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	3%-5%
City construction and maintenance tax	The amount of business tax and VAT	7%

6 NOTES TO THE FINANCIAL STATEMENTS

(1) CASH AND BANK BALANCES

	Group		**Company**	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Cash on hand and in bank	**540,330**	603,161	**161,861**	234,354
Including:				
Special funds for constructionin progress (note (a))	**111,179**	67,647	**102,883**	65,540
Restricted bank deposits due within one year (note (b))	**900**	10,900	—	10,000

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

(b) The bank deposits represented deposits for project bids due within one year of Rmb 900 thousand (2009: Rmb10,900 thousand).

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES

Details of trade receivables are as follows:

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Due from TSC for				
– Sewage processing service	**691,168**	350,863	**691,168**	350,863
– Construction of sewage processing plants (note (b))	**241,792**	241,792	**241,792**	241,792
	932,960	592,655	**932,960**	592,655
Due from Tianjin Toll Collection Office				
– Toll road fee	**38,200**	78,200	**38,200**	78,200
Less: Non-current portion (note (b))	**(68,794)**	(241,792)	**(68,794)**	(241,792)
Individual items with significant amount	**902,366**	429,063	**902,366**	429,063
Other items with insignificant amount	**94,583**	74,403	**11,252**	—
	996,949	503,466	**913,618**	429,063

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

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Within one year	**785,601**	497,119	**702,420**	429,063
One to two years	**38,350**	1,361	**38,200**	—
Over two years	**241,792**	246,778	**241,792**	241,792
	1,065,743	745,258	**982,412**	670,855

(b) Rmb 173 million of construction fee from TSC has been received subsequently in 2011. This amount is shown as current receivable as at 31 December 2010.

(c) As at 31 December 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).

(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

(d) As at 31 December 2010, the trade receivables from the top five debtors is analysed as below:

	relationship with the Group	**amount**	**aging**	**% of total balance**
TSC				
– Sewage processing service	customer	691,168	within 1 year	65%
– Construction of sewage processing plants	customer	241,792	over 2 years	23%
Tianjin Toll Collection Office	agent	38,200	1 to 2 years	3%
Qujing City Water General Company	customer	28,742	within 1 year	3%
Hangzhou Sewage Company	customer	12,363	within 1 year	1%
Chibi Construction Bureau	customer	7,440	within 1 year	1%
		1,019,705		96%

(3) PREPAYMENTS

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

	Group		**Company**	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Within one year	**69,157**	152,798	**48,994**	113,583
One to two years	**20,949**	37,568	**6,080**	28,899
Over two years	**13,653**	3,794	**32**	141
	103,759	194,160	**55,106**	142,623

As at 31 December 2010, the prepayments aged over one year were mainly for plant construction projects and recycled water pipeline connection for which the projects have not been completed and hence balances remain outstanding.

(b) As at 31 December 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).

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(3) PREPAYMENTS (Continued)

(c) As at 31 December 2010, the prepayments from the top five debtors is analysed as below:

	relationship with the Group	amount	% of total balance	Prepayment time	reason for not settled
Tianjin Machinery & Electric Equipment IMP. & EXP. Co., Ltd.	equipment supplier	29,925	29%	2010	equipment under inspection
Tianjin Motimo Membrane Technology Ltd.	equipment supplier	5,960	6%	2009 and 2010	equipment under inspection
MCC TianGong Group Corporation Limited	contractor	4,900	5%	2010	project in progress
Tianjin Shijikanghua Trade Co., Ltd.	equipment supplier	3,831	3%	2009 and 2010	equipment under inspection
Tianjin Machinery & Electric Equipment Installation Co. Ltd.	equipment supplier	3,225	3%	2010	equipment under inspection
		47,841	46%		

(4) OTHER RECEIVABLES

Other receivables include:

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Project deposits	**26,776**	29,650	**26,720**	27,300
Other receivables from customers	**1,683**	7,971	**—**	—
Receivables from subsidiaries	**—**	—	**111,346**	127,136
Others	**25,081**	17,678	**7,214**	15,028
	53,540	55,299	**145,280**	169,464

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

	31 December 2010		31 December 2009	
	amount	% of total balance	amount	% of total balance
Within 1 year	**16,119**	**30**	14,747	27
1 to 2 years	**7,021**	**13**	5,403	10
2 to 3 years	**3,461**	**7**	30,260	55
Over 3 years	**26,939**	**50**	4,889	8
	53,540	**100**	55,299	100

(b) As at 31 December 2010, the aging of certain project deposits is over 3 years. Management believes that there is no indication of impairment based on their assessment and other related professional advice.

(c) As at 31 December 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).

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) OTHER RECEIVABLES

(d) As at 31 December 2010, the prepayments from the top five debtors is analysed as below:

	relationship with the Group	amount	aging	% of total balance
E'zhou Tap Water Co., Ltd.	Project bidding	25,000	over 3 years	47%
Hangzhou Urban Construction Investment (Group) Co., Ltd.	customer	11,549	within 2 years	22%
Tianjin Sunco Property Co., Ltd.	customer	3,000	within 1 year	5%
Guiyang Construction Investment Holding Co., Ltd.	customer	2,650	2 to 3 years	5%
Tianjin Saida Hengjie Environment Protection Technology Co., Ltd.	customer	2,614	within 1 year	5%
		44,813		84%

(5) INVENTORIES

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Raw materials	**10,127**	8,526	**3,570**	3,423
Finished goods	**3,682**	3,768	**—**	—
Spare parts and low cost consumables	**756**	359	**407**	133
Construction in progress	**20,911**	—	**—**	—
	35,476	12,653	**3,977**	3,556
Less: Provision for declinesin the value of inventories	**(3,000)**	(3,000)	**—**	—
	32,476	9,653	**3,977**	3,556

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Receivables from toll road concession (note (a))	**336,286**	331,354	**336,286**	331,354
Receivables from TSC (note 6(2)(b))	**68,794**	241,792	**68,794**	241,792
	405,080	573,146	**405,080**	573,146

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Investment in subsidiaries (note (a))	**—**	—	**1,178,381**	1,130,981
Less: Impairment provision for long-term investment (note (c))	**—**	—	**(26,500)**	(26,500)
	—	—	**1,151,881**	1,104,481
Investment in an associate (note (b))	**41,583**	40,135	**—**	—
Other long-term equity investments	**4,000**	4,000	**4,000**	4,000
	45,583	44,135	**1,155,881**	1,108,481

(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			Interest held / Voting shares %
		31 December 2009	Addition	**31 December 2010**	
Xi'an Capital Water Co., Ltd.	270,000	270,000	—	**270,000**	100
Hangzhou Tianchuang Water Co., Ltd	180,212	180,212	—	**180,212**	70
Qujing Capital Water Co., Ltd.	108,081	108,081	—	**108,081**	90
Tianjin Water Recycling Co., Ltd.	98,000	98,000	—	**98,000**	98
Guizhou Capital Water Co., Ltd.	95,000	95,000	—	**95,000**	95
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,988	62,988	—	62,988	100
Wendeng Capital Water Co., Ltd.	52,000	48,000	4,000	**52,000**	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 Zichuang Project Investment Co., Ltd.	23,400	—	23,400	**23,400**	100
Tianjin Jinning Capital Water Co., Ltd.	15,000	—	15,000	**15,000**	100
Tianjin Capital Water Co., Ltd.	5,000	—	5,000	**5,000**	100
		1,130,981	47,400	**1,178,381**	

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

(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Investment in an associate

	Registered capital	Interest & voting shares held	31 December 2010 Total assets	31 December 2010 Total liabilities	2010 Revenue	2010 Profit
Tianjin international Machinery Co., Ltd.	120,000	27.5%	505,041	339,760	1,604,027	1,488

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	**31 December 2010**
TIMC	33,000	40,135	—	1,448	**41,583**

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

(8) INVESTMENT PROPERTIES

Buildings

	Group	Company
Cost		
At 31 December 2009 and 2010	137,374	110,648
Accumulated depreciation		
At 31 December 2009	(14,073)	(12,653)
Charge for the year	(3,673)	(3,168)
At 31 December 2010	(17,746)	(15,821)
Net book value		
At 31 December 2010	119,628	94,827
At 31 December 2009	123,301	97,995

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS

(a) Group

	Buildings & structure (note (i))	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2009	2,433,113	251,364	111,871	2,796,348
Transfer from construction in progress	—	94,445	406	94,851
Addition	903	11,637	4,786	17,326
Disposal	(4,373)	(17,939)	(17,956)	(40,268)
Transfer to investment properties	(8,369)	—	—	(8,369)
At 31 December 2009	2,421,274	339,507	99,107	2,859,888
Reclassification(note ii)	(793,973)	748,562	45,411	—
Transfer from construction in progress	35,198	89,581	1,221	126,000
Addition	49,322	599,751	64,070	713,143
Transfer to intangible assets (note 6(10)&note ii)	(97,602)	—	—	(97,602)
Disposal	(24,035)	(86,703)	(11,797)	(122,535)
At 31 December 2010	1,590,184	1,690,698	198,012	3,478,894
Accumulated depreciation				
At 1 January 2009	(554,334)	(183,956)	(62,643)	(800,933)
Charge for the year	(87,360)	(12,794)	(8,447)	(108,601)
Disposal	1,833	8,041	15,544	25,418
Transfer to investment properties	622	—	—	622
At 31 December 2009	(639,239)	(188,709)	(55,546)	(883,494)
Reclassification(note ii)	132,319	(113,882)	(18,437)	—
Charge for the year	(59,543)	(43,296)	(11,314)	(114,153)
Transfer to intangible assets(note 6(10)&note ii)	7,348	—	—	7,348
Disposal	13,401	37,202	3,261	53,864
At 31 December 2010	(545,714)	(308,685)	(82,036)	(936,435)
Impairment				
At 1 January 2009	(5,000)	(4,068)	(932)	(10,000)
Charge for the year	(6,000)	—	—	(6,000)
At 31 December 2009 and 2010	(11,000)	(4,068)	(932)	(16,000)
Net book value				
At 31 December 2010	1,033,470	1,377,945	115,044	2,526,459
At 31 December 2009	1,771,035	146,730	42,629	1,960,394

(i) All of the Group's buildings, structures and plants are located in the PRC.

(ii) In 2010, based on final completion report of relevant newly constructed sewage processing plants as approved by authorities, management reclassified certain property, plant and equipment among different categories, which were previously classified as per budget in 2007.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Group (Continued)

(iii) The Group's depreciation expense of Rmb104 million (2009:Rmb98 million) has been included in cost of revenue and Rmb10 million (2009: Rmb11 million) in administrative expenses.

(iv) Ownership of certain land and buildings included in property, plant and equipment, investment properties and land use rights with cost of Rmb332 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 in due course without additional significant cost to the Group, if any.

(b) Company

	Buildings & structure	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2009	2,314,587	204,660	82,215	2,601,462
Transfer from construction in progress	—	—	406	406
Addition	—	3,371	956	4,327
Disposal	(2,066)	(15,081)	(15,347)	(32,494)
Transfer to investment properties	(8,369)	—	—	(8,369)
At 31 December 2009	2,304,152	192,950	68,230	2,565,332
Reclassification(note(ii))	(819,358)	778,298	41,060	—
Transfer from construction in progress	—	89,510	359	89,869
Addition	49,971	598,802	55,670	704,443
Transfer to intangible assets(note 6(10)&note(ii))	(92,850)	—	—	(92,850)
Disposal	(23,922)	(82,132)	(11,074)	(117,128)
At 31 December 2010	1,417,993	1,577,428	154,245	3,149,666
Accumulated depreciation				
At 1 January 2009	(540,236)	(166,506)	(56,976)	(763,718)
Charge for the year	(82,701)	(6,655)	(6,296)	(95,652)
Disposal	1,102	7,004	14,749	22,855
Transfer to investment properties	622	—	—	622
At 31 December 2009	(621,213)	(166,157)	(48,523)	(835,893)
Reclassification(note(ii))	133,303	(115,594)	(17,709)	—
Charge for the year	(54,419)	(30,571)	(9,587)	(94,577)
Transfer to intangible assets (note 6(10)&note(ii))	7,196	—	—	7,196
Disposal	13,401	36,397	3,316	53,114
At 31 December 2010	(521,732)	(275,925)	(72,503)	(870,160)
Net book value				
At 31 December 2010	896,261	1,301,503	81,742	2,279,506
At 31 December 2009	1,682,939	26,793	19,707	1,729,439

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Budget	31 December 2009	Addition	Transfer to fixed assets	31 December 2010	Sources of funds	Incurred costs to budget costs ratio (%)
Water recycling plants:							
– Dong Jiao water recycling plants	83,307	77,189	6,118	(83,307)	—	Self-raised fund	—
– Bei Chen water recycling plants	97,000	43,567	13,651	—	57,218	Self-raised fund	59
Sewage water processing plants:							
– XianYang Lu (Project BNR)	6,089	5,240	849	(6,089)	—	Self-raised fund	—
– Dong Jiao (upgrade project)	340,918	40,561	179,095	—	219,656	Self-raised fund	64
– XianYang Lu (upgrade project)	163,327	70,271	62,425	—	132,696	Self-raised fund	81
– Bei Cang (upgrade project)	141,945	55,132	60,364	—	115,496	Self-raised fund	81
– Ji Zhuang Zi (upgrade project)	171,536	28,166	83,503	—	111,669	Self-raised fund	65
Others		3,262	10,440	(473)	13,229	Self-raised fund	
Total -Company		323,388	416,445	(89,869)	649,964		
Water recycling plants:							
– Ji Zhuang Zi (expansion project)	87,573	18,565	34,151	—	52,716	Self-raised fund	60
– Office buildings	35,869	31,618	4,251	(35,869)	—	Self-raised fund	—
Others		1,233	—	(262)	971	Self-raised fund	
Total -Group		374,804	454,847	(126,000)	703,651		
Including: Capitalised borrowing costs		957	12,772	(453)	13,276		

Borrowing costs have been capitalized for the year ended 31 December 2010 at an average interest rate of 5.83% per annum (2009: 5.35%).

(10) INTANGIBLE ASSETS

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Concession rights (note (a))	**2,427,782**	2,367,696	**—**	—
Land use rights (note (b))	**462,868**	383,203	**446,079**	370,936
	2,890,650	2,750,899	**446,079**	370,936

(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(10) INTANGIBLE ASSETS (Continued)

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

	Group
Cost	
At 31 December 2009	2,585,543
Addition	159,321
At 31 December 2010	2,744,864
Accumulated amortisation	
At 31 December 2009	(217,847)
Charge for the year	(99,235)
At 31 December 2010	(317,082)
Net book value	
At 31 December 2010	2,427,782
At 31 December 2009	2,367,696

As at 31 December 2010, certain of concession rights with net book value of Rmb252 million (Cost: Rmb302 million) (31 December 2009: net book value: Rmb262 million; cost: Rmb302 million) have been secured against long-term borrowings of Rmb162 million (31 December 2009: Rmb175 million) (Note 6(12)(a)(i)).

(b) The movements of land use rights are as follows:

	Group	Company
Cost		
At 31 December 2009	495,927	474,416
Transfer from fixed assets(note 6(9))	97,602	92,850
At 31 December 2010	593,529	567,266
Accumulated amortisation		
At 31 December 2009	(112,724)	(103,480)
Charge for the year	(10,589)	(10,511)
Transfer from fixed assets(note 6(9))	(7,348)	(7,196)
At 31 December 2010	(130,661)	(121,187)
Net book value		
At 31 December 2010	462,868	446,079
At 31 December 2009	383,203	370,936

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(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Trade payables (note (a))	**22,729**	22,952	**9,730**	8,362
Advances (note (b))	**310,478**	305,085	**63,386**	110,908
Other payables (note (c))	**274,991**	231,426	**235,198**	232,270
Taxes payable (note (d))	**16,431**	10,000	**9,162**	1,871
	624,629	569,463	**317,476**	353,411

(a) As at 31 December 2010, the majority of trade payables are aged within one year.

(b) Advances comprise:

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
For pipeline connection	**245,167**	194,024	**—**	—
Received from project of Han Gu	**59,612**	110,504	**59,612**	110,504
Other advances	**5,699**	557	**3,774**	404
	310,478	305,085	**63,386**	110,908

As at 31 December 2010, advances of Rmb148 million (31 December 2009: Rmb150 million) are aged over one year, which mainly represent advances in relation to those projects of recycled water pipeline connection and project of Han Gu. The balances are yet to be settled as those projects have not been completed.

(c) Other payables comprise:

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Construction costs payable	**168,316**	116,715	**109,499**	97,553
Payable for purchase of fixed assets and concession rights of plants	**67,337**	83,389	**—**	—
Others	**39,338**	31,322	**125,699**	134,717
	274,991	231,426	**235,198**	232,270

As at 31 December 2010, other payables of Rmb116 million (31 December 2009: Rmb70 million) are aged over year, which mainly represent unsettled payables for assets acquisition of Hanzhou Tianchuang Water Co., Ltd.

As at 31 December 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).

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Income tax payable	**8,757**	6,082	**3,121**	(665)
Business tax payable	**5,931**	3,172	**4,899**	2,536
Others	**1,743**	746	**1,142**	
	16,431	10,000	**9,162**	1,871

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

	Note	Group		Company	
		31 December 2010	31 December 2009 (Restated)	**31 December 2010**	31 December 2009 (Restated)
Non-current:					
Long-term bank borrowings	(a)	**2,639,030**	2,206,460	**1,274,100**	795,000
Less: Current portion	(a)	**(329,470)**	(98,530)	**(210,000)**	(9,000)
		2,309,560	2,107,930	**1,064,100**	786,000
Long-term payable	(d)	**399,604**		**399,604**	
Other non-current liabilities	(e)	**129,374**	148,794	**98,181**	114,545
		2,838,538	2,256,724	**1,561,885**	900,545
Current:					
Current portion of long-term bank borrowings	(a)	**329,470**	98,530	**210,000**	9,000
Current portion of long-term payable	(d)	**30,710**		**30,710**	
Short-term borrowings	(b)	**73,000**	156,000	**55,000**	138,000
Short-term debenture	(c)	**600,000**	500,000	**600,000**	500,000
Other current liabilities	(e)	**21,216**	20,260	**16,364**	16,364
		1,054,396	774,790	**912,074**	663,364

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(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings

		Group		Company	
	Note	**31 December 2010**	31 December 2009 (Restated)	**31 December 2010**	31 December 2009 (Restated)
Borrowings from:					
China Construction Bank	(i)	**936,850**	970,000	**367,100**	375,000
Industrial and Commercial Bank of China	(ii)	**456,000**	494,000	**—**	—
State Development Bank	(iii)	**342,500**	218,000	**157,000**	72,000
Shanghai Bank	(iv)	**250,000**	—	**250,000**	—
Shenzhen Development Bank	(iv)	**200,000**	—	**200,000**	—
Agricultural Bank of China	(v)	**198,680**	309,460	**100,000**	198,000
China CITIC Bank	(iv)	**100,000**	100,000	**100,000**	100,000
China Everbright Bank	(vi)	**50,000**	50,000	**50,000**	50,000
Industrial Bank	(iv)	**50,000**	—	**50,000**	—
Bank of China	(vii)	**40,000**	45,000	**—**	—
Shanghai Pudong Development Bank	(viii)	**15,000**	20,000	**—**	—
		2,639,030	2,206,460	**1,274,100**	795,000

(i) Includes Rmb162 million (31 December 2009: Rmb175 million) secured by the right to receive tap water and sewage processing fees (Note 6(10)(a)). Includes Rmb389 million (31 December 2009: Rmb395 million) and Rmb18.75 million (31 December 2009: Rmb25 million) secured by the guarantee of TICIG and the Company, respectively. The remaining balance of about Rmb367.1 million (31 December 2009: Rmb375 million) is unsecured.

(ii) Secured by the Company's guarantee (31 December 2009: Rmb494 million).

(iii) Includes Rmb185.5 million secured by the Company's guarantee and the remaining Rmb157 million is unsecured.

(iv) The borrowing is unsecured.

(v) Includes Rmb100 million and Rmb98.68 million (31 December 2009: Rmb198 million and Rmb50 million) secured by the guarantee of TICIG and the Company, respectively.

(vi) Secured by TSC's right to receive sewage water processing fees.

(vii) Secured by the Company's guarantee.

(viii) Secured by the Company's holding company's guarantee (31 December 2009: Rmb20 million).

(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings (Continued)

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

	Group		Company	
	31 December 2010	31 December 2009 (Restated)	**31 December 2010**	31 December 2009 (Restated)
Pledge	**212,000**	175,000	**50,000**	—
Guarantee	**1,302,930**	1,484,460	**100,000**	248,000
Unsecured	**1,124,100**	547,000	**1,124,100**	547,000
	2,639,030	2,206,460	**1,274,100**	795,000

(x) These long term bank borrowings are all interest bearing with weighted average interest rate in 2010 of 5.4% (2009: 5.6%).

(xi) These borrowings mature as follows:

	Group		Company	
	31 December 2010	31 December 2009 (Restated)	**31 December 2010**	31 December 2009 (Restated)
Within one year	**329,470**	98,530	**210,000**	9,000
In the second year	**841,720**	467,470	**636,000**	349,000
In the third to fifth year	**888,160**	941,150	**415,000**	437,000
After the fifth year	**579,680**	699,310	**13,100**	—
	2,639,030	2,206,460	**1,274,100**	795,000

(xii) Current portion of top five long-term bank borrowings is analysed as follows:

					Group	
	Grant date	Expiry date	Currency	Rate(%)	**31 December 2010**	31 December 2009 (Restated)
China CITIC Bank	12/08/2009	06/02/2011	RMB	5.27%	**100,000**	—
Agricultural Bank of China	17/03/2008	28/02/2011	RMB	4.86%	**50,000**	—
Agricultural Bank of China	07/03/2008	28/02/2011	RMB	4.86%	**50,000**	—
Industrial and Commercial Bank of China	31/01/2008	21/06/2016	RMB	4.86%	**26,000**	18,000
Industrial and Commercial Bank of China	23/11/2006	22/11/2016	RMB	4.86%	**26,000**	20,000
					252,000	38,000

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(b) Short-term borrowings

	Note	Group		Company	
		31 December 2010	31 December 2009 (Restated)	**31 December 2010**	31 December 2009 (Restated)
Borrowings from:					
Shanghai Pudong Development Bank (note 4(23))	(i)	**73,000**	56,000	**55,000**	38,000
China Minsheng Bank	(i)	**—**	100,000	**—**	100,000
		73,000	156,000	**55,000**	138,000

(i) Includes Rmb18 million (31 December 2009: Rmb18 million) secured by the Company's holding company's guarantee. The remaining balance of about Rmb55 million (31 December 2009: Rmb138 million) is unsecured. The weighted average interest rate of short-term bank borrowings in 2010 is 5.35% (2009: 4.78%) per annum.

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

	Group		Company	
	31 December 2010	31 December 2009 (Restated)	**31 December 2010**	31 December 2009 (Restated)
Guaranteed	**18,000**	18,000	**—**	—
Unsecured	**55,000**	138,000	**55,000**	138,000
	73,000	156,000	**55,000**	138,000

(c) Short-term debenture

	31 December 2009	Issuance	Repayment	**31 December 2010**
Short-term debenture	500,000	600,000	(500,000)	**600,000**

Summary of terms of long-term bank borrowings:

	Par value	**Issuance date**	**Maturity**	**Balance**
Short-term debenture(note i)	500,000	2009-7-28	1 year	500,000
Short-term debenture(note ii)	600,000	2010-7-8	1 year	600,000

(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 were repaid in full on maturity.

(ii) On 8 July 2010, the Company issued a short-term debenture of Rmb600 million at par with maturity period of one year. The debenture bears interest rate at 3.48% per annum and will be repaid in lump sum upon maturity.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Long-term payable and the current portion of long-term payable (Continued)

	Group				Company			
	31 December 2010 Payable amount	31 December 2010 unrecognized finance charge	31 December 2010 Payable amount	31 December 2010 unrecognized finance charge	31 December 2010 Payable amount	31 December 2010 unrecognized finance charge	31 December 2010 Payable amount	31 December 2010 unrecognized finance charge
Payables for assets acquisition	834,230	(403,916)	—	—	834,230	(403,916)	—	—

(i) Summary of terms of long-term payable above:

	Duration	Original Balance	Effective Interest rate	Ending Balance	Due within one year
TSC	30 years to 2041-3-20	430,314	5.94%	399,604	30,710

Balance of the long-term payable to TSC is the consideration payable in respect of the acquisition of sewage processing assets from TSC, net of unrecognized financing charges.

Pursuant to "Assets transfer agreement from foreign banks loans about Haihe River Tianjin sewage processing project and Beicang sewage processing project" (the "Transfer Agreement"), TSC sold to the Company certain sewage processing assets at a consideration of 691 million. The Company has paid the first instalment of Rmb261 million in cash and the remaining balance will be settled in Renminbi translating at exchange rates prevailing on each repayment date over the next 30 years. The fair value of the initial recognition of the payable balance is based on discounting future cash payments using an effective interest rate of 5.94%.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Long-term payable and the current portion of long-term payable (Continued)

(ii) The payable amounts of long-term payable (including interest) are denominated in the following currencies.

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
JPY	**656,952**	—	**656,952**	—
US dollar	**177,278**	—	**177,278**	—
	834,230	—	**834,230**	—

The balance denominated in US dollar bears an interest rate at 6 month LIBOR plus 0.6%, whilst the balance denominated in JPY bears fixed interest rates at 1% and 1.55% per annum respectively.

(iii) The long-term payable mature as follows, and as at December 31, 2010, the current portion of long- term payable of Rmb30.7 million was classified as current liabilities

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Within one year	**30,710**	—	**30,710**	—
In the second year	**29,203**	—	**29,203**	—
In the third to fifth year	**79,684**	—	**79,684**	—
After the fifth year	**290,717**	—	**290,717**	—
	430,314	—	**430,314**	—

(e) Other liabilities

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Non-current:				
–Tianjin Municipal Engineering Bureau (“TMEB”) (note(i))	**98,181**	114,545	**98,181**	114,545
–Others	**31,193**	34,249	—	—
	129,374	148,794	**98,181**	114,545
Current:				
–TMEB				
Current portion of long-term loan (note(i))	**16,364**	16,364	**16,364**	16,364
–Others	**4,852**	3,896	—	—
	21,216	20,260	**16,364**	16,364

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(e) Other liabilities

(i) A loan was taken from TMEB during 2005 specifically for construction of sewage water processing plants. The current portion of the long-term loan is Rmb16 million at the end of year 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.

(13) DEFERRED REVENUE

	Group		Company	
	31 December 2010	31 December 2009	**31 December 2010**	31 December 2009
Deferred revenue	**284,974**	143,100	**203,288**	68,100

Deferred revenue represents the subsidies received from governmental bodies in relation to Group's certain construction and research & development projects.

(14) DEFERRED INCOME TAX LIABILITIES

	31 December 2010		31 December 2009	
	Deferred income tax liabilities	**Taxable temporary differences**	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	**38,427**	**153,708**	30,198	120,792

(15) SHARE CAPITAL

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

	A shares			H shares	
	Restricted circulating shares	Circulating shares	Subtotal	Circulating shares	Total
At 1 January 2009	664,087	423,141	1,087,228	340,000	1,427,228
Release of restricted circulating shares	(664,087)	664,087	—	—	—
At 31 December 2009 and2010	—	1,087,228	1,087,228	340,000	1,427,228

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) RESERVES AND DIVIDEND

(a) Capital reserve principally comprises share premium arising from the issuance of shares. This reserve can be utilised to offset prior years' losses or for issuance of bonus shares.

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

As at 31 December 2010, undistributed profits include Rmb8,117 thousand subsidiaries' common reserve attributable to the Company (31 December 2009: Rmb6,208 thousand), of which Rmb1,909 thousand has been appropriated for the current year (31 December 2009: Rmb1,610 thousand).

(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 2 July 2010, amounting to a total dividend of Rmb114 million, was approved at the Annual General Meeting on 13 May 2010 (2009: Rmb0.4 (gross tax) every 10 shares, amounting to a total dividend of Rmb57 million).

On 24 March 2011, the Directors proposed a dividend of Rmb1.1 for every 10 shares held, total shares of 1,427 million, amounting to a total dividend of Rmb 157 million. This proposed dividend is yet to be approved at the Annual General Meeting. These financial statements do not reflect this dividend payable.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(17) MINORITY INTERESTS

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

	Group	
	31 December 2010	31 December 2009
Hangzhou Tianchuang Capital Water Co., Ltd.	**90,548**	87,811
Baoying Capital Water Co., Ltd.	**12,737**	12,583
Qujing Capital Water Co., Ltd.	**11,795**	11,514
Guizhou Capital Water Co., Ltd.	**6,853**	6,715
Honghu Capital Water Co., Ltd.	**2,150**	1,983
Tianjin Water Recycling Co., Ltd.	**1,409**	1,218
Chibi Capital Water Co., Ltd.	**85**	82
Fuyang Capital Water Co., Ltd.	**19**	14
	125,596	121,920

(18) INCOME FROM AND COST OF OPERATIONS

	Group			
	2010		2009	
	Income from operations	**Cost of operations**	Income from operations	Cost of operations
Income from principal operations (Note 7)	**1,394,821**	762,991	1,226,466	561,983
Other operating income	**72,947**	30,681	30,327	16,944
	1,467,768	793,672	1,256,793	578,927

	Company			
	2010		2009	
	Income from operations	**Cost of operations**	Income from operations	Cost of operations
Income from principal operations	**911,500**	415,662	**788,356**	278,694
Other operating income	**43,694**	9,855	**27,763**	15,362
	955,194	425,517	**816,119**	294,056

(a) Income from and cost of principal operations

The income and cost categorised by the nature of service is analysed as below:

	Group			
	2010		2009	
	Income from operations	**Cost of operations**	Income from operations	Cost of operations
Processing of sewage water and construction of related facility	**1,220,294**	679,377	**1,066,337**	488,156
Water recycling and connection project	**69,918**	51,396	**56,494**	39,043
Tap water supplying	**37,583**	25,098	**36,598**	27,664
Others	**67,026**	7,120	**67,037**	7,120
	1,394,821	762,991	**1,226,466**	561,983

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(18) INCOME FROM AND COST FOR OPERATIONS (Continued)

(b) Income from and cost of other operating

	Group			
	2010		2009	
	Income from operations	**Cost of operations**	Income from operations	Cost of operations
Technical service	**37,036**	14,629	**14,021**	2,957
Rental	**19,272**	4,961	**12,285**	4,501
Others	**16,639**	11,091	**4,021**	9,486
	72,947	30,681	**30,327**	16,944

(c) As at 31 December 2010, the income from the top five debtors is analysed as below:

The total revenue of the Group's top 5 customers is Rmb1,127,622 thousand for the year ended 31 December 2010, which account for about 77% of the Group's total revenue (2009: Rmb1,039,493 thousand and 83%).

	Revenue	**% of total balance**
TSC	727,924	50%
Hangzhou Sewage Company	141,476	10%
Tianjin Hanbin Investment Co., Ltd.	116,549	8%
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd.	74,646	5%
Tianjin Toll Collection Office	67,027	4%
	1,127,622	77%

(19) BUSINESS TAX AND SURCHARGES

	Group		Company	
	2010	2009	**2010**	2009
Business tax	**42,217**	42,662	**40,066**	40,199
City construction and maintenance fee	**596**	202	**290**	—
Education fee surcharge and others	**296**	109	**124**	—
	43,109	42,973	**40,480**	40,199

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(20) FINANCIAL EXPENSES - NET

	Group		Company	
	2010	2009	**2010**	2009
Interest expenses of borrowings	**168,884**	213,812	**79,440**	122,220
Less: Capitalised interest	**(17,350)**	(4,185)	**(11,796)**	(773)
Net interest expenses	**151,534**	209,627	**67,644**	121,447
Less: Interest income	**(18,379)**	(28,016)	**(15,714)**	(18,644)
- long-term receivables	**(11,266)**	(11,263)	**(11,266)**	(11,263)
- bank deposits	**(7,113)**	(16,753)	**(4,448)**	(7,381)
Others	**2,635**	5,132	**2,514**	2,065
	135,790	186,743	**54,444**	104,868

(21) Non-operating expenses

	2010	2009	Recognised in extraordinary gain or loss
Loss on disposal of fixed assets (note(a))	**47,553**	12,834	47,553
Others	**300**	156	300
	47,853	12,990	47,853

(a) Disposal of fixed assets is analysed as follows:

	2010	2009
Net book value of the disposed assets (note 9(a))	**68,671**	14,850
Proceeds from disposal of assets	**(21,118)**	(2,016)
Loss on disposal of fixed assets	**47,553**	12,834

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) INCOME TAX

	Group		Company	
	2010	2009	**2010**	2009
Current income tax	**83,441**	84,761	**79,557**	76,170
Deferred income tax	**8,229**	6,558	**3,192**	2,017
	91,670	91,319	**82,749**	78,187

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

	Group	
	2010	2009
Profit before income tax	**366,826**	337,721
Calculated at applicable income tax rates	**91,707**	84,430
Effect of different income tax rates applicable to certain subsidiaries	**(3,126)**	—
Income not subject to tax	**(1,685)**	(50)
Expenses not deductible for taxation purposes	**255**	2,061
Utilization of previously deductible tax losses for which no deferred income tax was recognised	**(690)**	(184)
Current year tax losses for which no deferred income tax asset was recognised	**5,209**	5,062
Income tax expenses	**91,670**	91,319

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(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(23) EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb271 million (2009: Rmb243 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2009: 1,427 million shares).

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

	Group	
	2010	2009
Profit attributable to owners of the parent	**271,160**	242,978
Weighted average number of ordinary shares in issue (million shares)	**1,427**	1,427
Basic earnings per share (Rmb Yuan)	**0.19**	0.17

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

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

	Group		Company	
	2010	2009	**2010**	2009
Net profit	**275,156**	246,402	**258,809**	230,305
Adjustments for:				
Provision for assets impairment	—	6,000	—	4,500
Depreciation of fixed assets and investment properties	**117,826**	111,739	**97,745**	98,280
Amortisation of intangible assets	**109,824**	89,469	**10,511**	9,795
Losses on disposal of fixed assets	**47,553**	12,834	**44,950**	9,160
Financial expenses-net	**151,534**	209,627	**67,644**	121,447
Investment income	**(1,448)**	(457)	**(8,072)**	(200)
Amortisation of deferred revenue	**(1,314)**	—	—	—
Increase in deferred tax liabilities	**8,229**	6,558	**3,192**	2,017
Increase in inventories	**(22,823)**	(205)	**(421)**	(196)
(Increase)/decrease in operating receivables	**(274,268)**	760,346	**(251,067)**	576,534
Increase/(decrease) in operating payables	**43,034**	(52,000)	**(26,321)**	127,106
Net cash flows from operating activities	**453,303**	1,390,313	**196,970**	1,178,748
Net changes in cash and bank balances				
Cash at end of year	**539,430**	592,261	**161,861**	224,354
Less: cash at beginning of year	**(592,261)**	(887,047)	**(224,354)**	(262,440)
Net decrease in cash and bank balances	**(52,831)**	(294,786)	**(62,493)**	(38,086)

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Group		Company	
	2010	2009	**2010**	2009
Cash and bank balances	**540,330**	603,161	**161,861**	234,354
Less: Restricted bank deposit	**(900)**	(10,900)	**—**	(10,000)
Cash and bank balances shown in the cash flow statements	**539,430**	592,261	**161,861**	224,354

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

	Group		Company	
	2010	2009	**2010**	2009
Interest income from bank deposits	**7,113**	16,753	**4,448**	7,381
Release of deposit on project bids	**13,863**	3,000	**4,062**	—
Subsidies received	**16,465**	6,584	**10,328**	—
Others	**5,899**	8,055	**6,615**	2,352
	43,340	34,392	**25,453**	9,733

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

	Group		Company	
	2010	2009	**2010**	2009
Sewage processing charge payment on behalf of customers	**—**	1,706	**—**	—
Expenses of board of directors	**2,454**	4,800	**2,454**	4,800
Audit and consulting fee	**9,951**	11,546	**8,155**	7,898
Travelling, meeting and entertainment expenses	**11,650**	8,929	**3,656**	2,502
Others	**14,693**	19,548	**275**	10,434
	38,748	46,529	**14,540**	25,634

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(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT REPORTING

Reportable segment of the Group was identified as the business unit providing different products or services or operating in different regions. Considering the different requirements of technology and market strategy for different business and geographic segments, the Group managed the production and business activities of each segment independently and evaluated the operating results separately in order to determine resource allocation and assesses performance.

The Company 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).

(a) Segment information as at and for the year ended 31 December 2010 is as follows:

	Sewage processing and facility construction services						
	Tianjin plants	Hangzhou plant	Other plants	Recycled water and pipeline connection	Tap water	All other segments	Group
Income from third parties (Note 6(18))	865,384	141,867	213,043	69,918	37,583	139,973	1,467,768
Interest income (Note 6(20))	2,245	316	1,212	2,905	61	11,640	18,379
Interest expenses(Note 6(20))	(67,645)	(26,134)	(42,595)	(6,141)	(9,019)	—	(151,534)
Investment profit from associate	—	—	—	—	—	1,448	1,448
Depreciation & Amortisation	(103,260)	(36,249)	(56,380)	(18,082)	(8,683)	(4,996)	(227,650)
Total profit	290,591	8,561	2,148	8,014	680	56,832	366,826
Income tax expense	(72,648)	(2,060)	(854)	(2,344)	—	(13,764)	(91,670)
Net profit	217,943	6,501	1,294	5,670	680	43,068	275,156
Segment assets	4,430,461	814,646	1,656,493	619,697	280,618	623,648	8,425,563
Segment liabilities	2,820,941	512,807	759,565	543,806	164,355	47,920	4,849,394
investment in associate	—	—	—	—	—	45,583	45,583
Non-current assets addition other than related to long-term investment	1,096,234	562	154,786	41,297	12,816	9,184	1,314,879

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT REPORTING (Continued)

(b) Segment information as at and for the year ended 31 December 2009 is as follows:

	Sewage processing and facility construction services			Recycled water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Income fromthird parties(Note 6(18))	721,319	128,678	216,340	56,494	36,598	97,364	1,256,793
Interest income (Note 6(20))	7,381	5,787	1,311	2,140	—	11,397	28,016
Interest expenses(Note 6(20))	(121,447)	(31,487)	(51,464)	(5,229)	—	—	(209,627)
Investment profit from associate	—	—	—	—	—	457	457
Depreciation & Amortisation	(104,413)	(21,957)	(50,107)	(9,883)	(8,683)	(6,165)	(201,208)
Total profit	247,140	18,049	20,716	6,936	(4,508)	49,388	337,721
Income taxexpense	(61,735)	(2,548)	(8,912)	—	—	(18,124)	(91,319)
Net profit	185,405	15,501	11,804	6,936	(4,508)	31,264	246,402
Segment assets	3,282,014	837,823	1,593,393	540,010	290,527	651,881	7,195,648
Segment liabilities	1,941,867	545,119	627,910	487,266	149,691	28,284	3,780,137
investment in associate	—	—	—	—	—	44,135	44,135
Non-current assets addition other than related to long-term investment	199,777	341,926	205,257	73,347	22,114	407	842,828

8 FINANCIAL INSTRUMENT AND RISK

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

(a) Market risk:

(i) Foreign currency risk:

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign currency exposure of the Group arises from fluctuation of US dollar and Japanese Yen ("JPY") pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from TSC on 9 November 2010 (note 6(12)(d)).

At 31 December 2010, if RMB had weakened/strengthened by 5 % against the US dollar with all other variables held constant, post-tax profit for the year would have been Rmb4 million (2009: Nil) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated portion of long-term payable. Similarly, if RMB had weakened/strengthened by 5 % against the JPY with all other variables held constant, post-tax profit for the year would have been Rmb12 million (2009: Nil) lower/higher.

(ii) Interest rate risk

The Group's interest rate risk arises mainly from cash and bank balances, long-term receivables, long-term borrowings and long-term payable.

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK

(a) Market risk: (continued)

(ii) Interest rate risk (continued)

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

	Group				Company		
	Fixed	Floating	Non-interest bearing	Total	Fixed	Floating	Total
At 31 December 2010							
Assets							
Cash and bank balances	900	539,430	—	540,330	—	161,861	161,861
Long-term receivables	336,286	—	—	336,286	336,286	—	336,286
Liabilities							
Current borrowings	16,364	405,526	1,796	423,686	16,364	265,000	281,364
Non-current borrowings	148,181	2,280,140	10,613	2,438,934	148,181	1,014,100	1,162,282
Long-term payables due within 1 year	24,371	6,339	—	30,710	24,371	6,399	30,710
Long-term payables	299,043	100,561	—	399,604	299,043	100,561	399,604
Short-term debenture	600,000	—	—	600,000	600,000	—	600,000
At 31 December 2009 (Restated)							
Assets							
Cash and bank balances	10,900	592,261	—	603,161	10,000	224,354	234,354
Long-term receivables	331,354	—	—	331,354	331,354	—	331,354
Liabilities							
Current borrowings	16,364	257,712	714	274,790	16,364	147,000	163,364
Non-current borrowings	164,545	2,081,566	10,613	2,256,724	164,545	736,000	900,545
Short-term debenture	500,000	—	—	500,000	500,000	—	500,000

At 31 December 2010, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, profit for the year would have been lower/higher by Rmb22.6 million (2009: Rmb30 million).

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

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(b) Credit risk :

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

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

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

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

(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(c) Liquidity risk:

Cash flow forecasting is performed in the operating entities and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and external regulatory or legal requirements - for example, currency restrictions.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2010					
Long-term bank borrowings	471,626	950,320	1,064,759	639,677	3,126,382
Long-term payables	32,038	32,278	98,809	671,105	834,230
Other non-current liabilities	22,091	21,273	53,473	70,696	167,533
Trade and other payables	297,720	—	—	—	297,720
Short-term borrowings	76,902	—	—	—	76,902
Short-term debenture	612,180	—	—	—	612,180
At 31 December 2009 (Restated)					
Long-term bank borrowings	216,843	570,176	1,133,479	787,451	2,707,949
Other non-current liabilities	22,910	22,091	54,725	92,245	191,971
Trade and other payables	254,378	—	—	—	254,378
Short-term borrowings	161,652	—	—	—	161,652
Short-term debenture	508,167	—	—	—	508,167

(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(d) Capital risk management

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

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

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

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

	31 December 2010	31 December 2009
Total borrowings	**3,462,620**	3,031,514
Less: Cash and cash equivalents	**(539,430)**	(592,261)
Net debt	**2,923,190**	2,439,253
Total equity	**3,576,169**	3,415,511
Total capital	**6,499,359**	5,854,764
Gearing ratio	**45%**	42%

The increase in gearing ratio of the Group during 2010 primarily resulted from additional bank borrowings to finance certain construction projects, meet the Group's working capital requirement, and the long-term payables (Note 6(12)(d)) to TSC for acquisition of sewage processing assets.

(e) Fair value estimation

Long-term borrowings, long-term payable, and debentures that are not traded in an active market, are estimated at fair value that is determined by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar cash flows.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Related parties that have controlling relationship

Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Tianjin Municipal Investment Company Limited ("TMICL")	Tianjin, the PRC	Development, construction and management of municipal infrastructures	Controlling shareholder of the Company	Limited company	Xiong Guang Yu
Tianjin Infrastructure Construction Investment Group Co., Ltd. ("TICIG")	Tianjin, the PRC	Investment and construction of urban environmental infrastructure, market establishment and development services, lease of private properties, lease of infrastructures, and development and operation of public facilities projects	Ultimate holding company	Limited company	Wang Zhou Xi
Qu Jing Capital Water Co., Ltd.	Qujing, the PRC	Sewage processing, tap water supply	Subsidiary of the Company	Limited company	Yang Guang
Gui Zhou Capital Water Co., Ltd.	Guizhou, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Yang Guang
Fu Yang Capital Water Co., Ltd.	Fuyang, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhong Hui Fang
Bao Ying Capital Water Co., Ltd.	Baoying, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhong Hui Fang
Chi Bi Capital Water Co., Ltd.	Chibi, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Wang Hui
Hong Hu Capital Water Co., Ltd.	Honghu, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhang Wen Hui
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Hong Kong, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Lin Wen Bo
Hang Zhou Tianchuang Capital Water Co., Ltd.	Hangzhou, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhong Hui Fang
Wen Deng Capital Water Co., Ltd.	Wendeng, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhong Hui Fang
Tianjin Jing Hai Capital Water Co., Ltd.	Tianjin, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Gu Qi Feng
Tianjin Water Recycling Co., Ltd.	Tianjin, the PRC	Product ion 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 processing	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	Lin Wen Bo
Anguo Capital Water Co., Ltd.	Anguo, the PRC	Sewage and tap water	Subsidiary of the Company	Limited company	Li Yu Qing

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(a) Related parties that have controlling relationship (Continued)

Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
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 processing,	Subsidiary of the Company	Limited company	Li Yu Qing
Tianjin Zichuang Project Investment Co., Ltd.	Tianjin, the PRC	Construction project investment	Subsidiary of the Company	Limited company	Lin Wen Bo
Tianjin Jinning Capital Water Co., Ltd.	Tianjin, the PRC	Sewage processing,	Subsidiary of the Company	Limited company	Li Yu Qing
Environmental Digital Management System (Hongkong) Co., Ltd.	Hongkong, the PRC	Sofeware development, environment monitoring and consultance & maintainance service	Subsidiary of the Company	Limited company	Zhong Wei Liang

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

	31 December 2009	Additions	**31 December 2010**
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	4,000	**52,000**
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**
Tianjin Zichuang Project Investment Co., Ltd.	—	23,400	**23,400**
Tianjin Jinning Capital Water Co., Ltd.	—	15,000	**15,000**

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

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

	31 December 2009 USD'000	Additions USD'000	**31 December 2010 USD'000**
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	7,840	—	**7,840**
	HK$'000	HK$'000	**HK$'000**
Environmental Digital Management System (HongKong) Co., Ltd.	—	2,040	**2,040**

(c) Share or equity of the Company held by controlling shareholder and its movements

	31 December 2009		Reduction for the year		**31 December 2010**	
	Amount	%	Amount	%	**Amount**	**%**
TMICL	757,333	53.06	(17,552)	(1.23)	**739,781**	**51.83**

(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 within the Group of TICIG entered into in the ordinary course of the business between the Group and its related parties during the year:

(i) Income

Related party	**Nature of transaction**	**2010**	2009
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant	**20,911**	—
TICIG	Rental income from TCEP building	**7,053**	4,854
Tianjin City Infrastructure Construction Project Management & Consultant Co., Ltd.	Rental income from TCEP building	**861**	—
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building	**674**	—
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects	**6,530**	—

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(d) Related party transactions (Continued)

The Group's pricing on construction contract service with related parties is based on the reference price for construction market stipulated by government. Rental income from related parties are negotiated by both parties involved in the lease and by making reference to the market price.

(ii) Key management compensation

	2010	2009
Key management compensation	**7,677**	10,232

(e) Receivables from and payables to related parties

Receivables from related parties

	Related party	**31 December 2010**	31 December 2010
Trade receivables	TICIG	**4,038**	—
	Tianjin City Resource Operation Co., Ltd.	**674**	—

(f) Transactions/ balances with other state owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as "state-controlled entities").

During the year, the Group's significant transactions with these state controlled entities include processing of sewage water and construction and management of related facility and processing of tap water. As at year end, majority of the Group's cash and bank balances and borrowings are with state controlled banks.

For the year ended 31 December 2010
(All amounts in RMB thousand unless otherwise stated)

10 COMMITMENTS

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

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2010 Rmb' million	31 December 2009 Rmb' million	**31 December 2010 Rmb' million**	31 December 2009 Rmb' million
Sewage water processing plants in:				
– Jing Hai	**—**	16	**—**	—
– Wu Han	**—**	162	**—**	24
– Qu Jing	**—**	30	**—**	45
– Ji Zhuang Zi (upgrade project)	**59**	115	**—**	120
– Xian Yang Lu (upgrade project)	**29**	50	**2**	154
– Bei Cang (upgrade project)	**26**	53	**1**	90
– Dong Jiao (upgrade project)	**52**	96	**69**	138
Water recycling plants in:				
– Dong Jiao water recyclingplants	**—**	1	**—**	48
– Bei Chen water recyclingplants	**—**	—	**—**	51
– Ji Zhuang Zi (expansion project)	**—**	18	**35**	36
	166	541	**107**	706

15. Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the shareholders of
Tianjin Capital Environmental Protection Group Company Limited
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Tianjin Capital Environmental Protection Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 159 to 217, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2011

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

As at 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December 2010	As at 31 December 2009 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**3,230,110**	2,335,198
Intangible assets	7	**2,427,782**	2,367,696
Land use rights	8	**462,868**	383,203
Investment properties	9	**119,628**	123,301
Investment in an associate	11	**41,583**	40,135
Available-for-sale financial assets	12	**4,000**	4,000
Long-term receivables	13	**336,286**	331,354
Trade receivables due after one year	15	**68,794**	241,792
Other non-current assets		**7,458**	3,230
		6,698,509	5,829,909
Current assets			
Inventories	14	**32,476**	9,653
Trade receivables	15	**996,949**	503,466
Prepayments	16	**103,759**	194,160
Other receivables	17	**53,540**	55,299
Cash and bank balances	18	**540,330**	603,161
		1,727,054	1,365,739
Total assets		**8,425,563**	7,195,648

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

As at 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December **2010**	2009 (Restated)
EQUITY			
Equity attributable to owners of the parent			
Share capital	19	**1,427,228**	1,427,228
Other reserves	20	**685,343**	659,462
Retained earnings	20	**1,338,002**	1,206,901
– Proposed final dividend		**156,995**	114,178
– Others		**1,181,007**	1,092,723
		3,450,573	3,293,591
Non-controlling interests		**125,596**	121,920
Total equity		**3,576,169**	3,415,511
LIABILITIES			
Non-current liabilities			
Borrowings	21	**2,838,538**	2,256,724
Deferred revenue	22	**284,974**	143,100
Deferred income tax liabilities	23	**38,427**	30,198
		3,161,939	2,430,022
Current liabilities			
Trade payables	24	**22,729**	22,952
Advances from customers	24	**310,478**	305,085
Wages payables		**7,374**	3,848
Income tax payable		**8,757**	6,082
Other taxes payable		**7,674**	3,918
Dividend payable		**1,056**	2,014
Other payables	24	**274,991**	231,426
Borrowings	21	**1,054,396**	774,790
		1,687,455	1,350,115
Total liabilities		**4,849,394**	3,780,137
Total equity and liabilities		**8,425,563**	7,195,648
Net current assets		**39,599**	15,624
Total assets less current liabilities		**6,738,108**	5,845,533

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

Zhang Wenhui — *Director*

Lin Wenbo — *Director*

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

As at 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December 2010	2009 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,929,470**	2,052,827
Land use rights	8	**446,079**	370,936
Investment properties	9	**94,827**	97,995
Investments in subsidiaries	10	**1,151,881**	1,104,481
Available-for-sale financial assets	12	**4,000**	4,000
Long-term receivables	13	**336,286**	331,354
Trade receivables due after one year	15	**68,794**	241,792
Other non-current assets		**26,290**	19,290
		5,057,627	4,222,675
Current assets			
Inventories	14	**3,977**	3,556
Trade receivables	15	**913,618**	429,063
Prepayments	16	**55,106**	142,623
Other receivables	17	**145,280**	169,464
Other current assets		**50,000**	25,000
Cash and bank balances	18	**161,861**	234,354
		1,329,842	1,004,060
Total assets		**6,387,469**	5,226,735

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

As at 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December 2010	2009 (Restated)
EQUITY			
Equity attributable to owners of the parent			
Share capital	19	**1,427,228**	1,427,228
Other reserves	20	**682,793**	656,912
Retained earnings	20	**1,259,436**	1,140,686
– Proposed final dividend		**156,995**	114,178
– Others		**1,102,441**	1,026,508
Total equity		**3,369,457**	3,224,826
LIABILITIES			
Non-current liabilities			
Borrowings	21	**1,561,885**	900,545
Deferred revenue	22	**203,288**	68,100
Deferred income tax liabilities		**17,467**	14,275
		1,782,640	982,920
Current liabilities			
Trade payables	24	**9,730**	8,362
Advances from customers	24	**63,386**	110,908
Wages payables		**4,766**	1,481
Income tax payable		**3,121**	(665)
Other taxes payable		**6,041**	2,536
Dividend payable		**1,056**	733
Other payables	24	**235,198**	232,270
Borrowings	21	**912,074**	663,364
		1,235,372	1,018,989
Total liabilities		**3,018,012**	2,001,909
Total equity and liabilities		**6,387,469**	5,226,735
Net current assets/(liabilities)		**94,470**	(14,929)
Total assets less current liabilities		**5,152,097**	4,207,746

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

Zhang Wenhui — *Director*

Lin Wenbo — *Director*

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	2010	2009
Revenue	5(a)	**1,394,821**	1,226,466
Business tax		**(43,109)**	(42,973)
Cost of sales	25	**(762,991)**	(561,983)
Gross profit		**588,721**	621,510
Administrative expenses	25	**(89,959)**	(99,830)
Other income - net	5(b)	**42,266**	13,583
Other losses - net		**(39,860)**	(11,056)
Operating profit		**501,168**	524,207
Finance income		**18,379**	28,016
Finance costs		**(154,169)**	(214,759)
Finance costs-net	27	**(135,790)**	(186,743)
Share of profits of an associate	11	**1,448**	257
Profit before income tax		**366,826**	337,721
Income tax expense	28	**(91,670)**	(91,319)
Profit/total comprehensive income for the year		**275,156**	246,402
Profit and total comprehensive income for the year attributable to:			
Owners of the parent		**271,160**	242,978
Non-controlling interests		**3,996**	3,424
		275,156	246,402
Earnings per share for profit attributable to the owners of the parent (in Rmb Yuan)			
- basic	30	**0.19**	0.17
- diluted		**0.19**	0.17
Proposed final dividends	31	**156,995**	114,178

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

Zhang Wenhui — *Director*

Lin Wenbo — *Director*

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

For the Year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	Attributable to owners of parent					
	Note	Share capital	Other reserves	Retained earnings	Sub-total	Non-controlling Interests	Total
Balance at 1 January 2009		**1,427,228**	**636,431**	**1,044,043**	**3,107,702**	**118,496**	**3,226,198**
Comprehensive income							
- Profit for the year		—	—	242,978	242,978	3,424	246,402
Total comprehensive income		**—**	**—**	**242,978**	**242,978**	**3,424**	**246,402**
Transactions with owners							
- Profit appropriation to statutory common reserves, net	20(a)	—	23,031	(23,031)	—	—	—
- Dividends declared		—	—	(57,089)	(57,089)	—	(57,089)
Total transactions with owners		**—**	**23,031**	**(80,120)**	**(57,089)**	**—**	**(57,089)**
Balance at 31 December 2009		**1,427,228**	**659,462**	**1,206,901**	**3,293,591**	**121,920**	**3,415,511**
Comprehensive income							
- Profit for the year		—	—	271,160	271,160	3,996	275,156
Total comprehensive income		**—**	**—**	**271,160**	**271,160**	**3,996**	**275,156**
Transactions with owners							
- Profit appropriation to statutory common reserves, net	20(a)	—	25,881	(25,881)	—	—	—
- Dividends declared		—	—	(114,178)	(114,178)	(320)	(114,498)
Total transactions with owners		**—**	**25,881**	**(140,059)**	**(114,178)**	**(320)**	**(114,498)**
Balance at 31 December 2010		**1,427,228**	**685,343**	**1,338,002**	**3,450,573**	**125,596**	**3,576,169**

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

Zhang Wenhui
Director

Lin Wenbo
Director

Consolidated Cash Flow Statement

For the Year Ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	2010	2009
Cash flows from operating activities			
Cash generated from operations	32	**526,956**	1,467,555
PRC income tax paid		**(80,766)**	(93,995)
Interest received	27	**7,113**	16,753
Net cash generated from operating activities		**453,303**	1,390,313
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(821,398)**	(714,467)
Deposits for new project bids		**—**	(10,900)
Release of deposit on project bids		**10,000**	22,000
Government grant received		**133,700**	33,100
Proceeds from disposal of property, plant and equipment	32	**4,016**	2,016
Dividends received		**—**	200
Net cash used in investing activities		**(673,682)**	(668,051)
Cash flows from financing activities			
Release of deposits for entrusted loans		**—**	31,000
Proceeds from borrowings		**1,302,100**	1,849,000
Repayment of borrowings		**(872,075)**	(2,628,226)
Interest paid		**(147,021)**	(211,699)
Dividends paid		**(115,456)**	(57,123)
Net cash generated from /(used in) financing activities		**167,548**	(1,017,048)
Net decrease in cash and bank balances		**(52,831)**	(294,796)
Cash and bank balances at beginning of the year		**592,261**	887,047
Cash and bank balances at end of the year	18	**539,430**	592,261

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

Zhang Wenhui — *Director*

Lin Wenbo — *Director*

(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 city of 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 and construction and management of related facility, supply of 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 processing services via the following plants:

Plant Location	Agreement date	Customer
Dong Jiao, Tianjin	10 October 2000	Tianjin Sewage Company ("TSC")
Ji Zhuang Zi, Tianjin	10 October 2000	TSC
Xian Yang Lu, Tianjin	10 October 2000	TSC
Bei Cang, Tianjin	10 October 2000	TSC
Gui Yang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Bao Ying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chi Bi, Hubei	15 July 2005	Chibi Construction Bureau
Fu Yang, Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qu Jing, Yunnan	25 December 2005	Qujing City Water General Company
Hong Hu, Hubei	29 December 2005	Honghu Construction Bureau
Hang Zhou, Zhejiang	20 November 2006	Hangzhou Sewage Company
Jing Hai, Tianjin	12 September 2007	Tianyu Science Technology Park
Wen Deng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi An, Shanxi	18 March 2008	Xi'an Infrastructure Investment Group
An Guo, Hebei	14 October 2008	An Guo Municipal Government
Xian Ning, Hubei	16 October 2008	Xianning Construction Committee
Ying Dong, An hui	10 August 2009	Fuyang Yingdong Construction Bureau

Except for four Tianjin plants including Dong Jiao, Ji Zhuang Zi, Xian Yang Lu and Bei Cang, all other plants above are governed by service concession arrangements which fall into the scope HK(IFRIC) - Int 12 (note 2.6).

1 Company profile and principal activities (Continued)

(a) Processing of sewage water (Continued)

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

Dong Jiao:

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

(i) earn a return of 15% per annum of the average balances of the monthly net book value of property, plant and equipment (as defined in the agreement) of the plants; and

(ii) incentive pricing adjustments will be made for cost saving and/or when actual processing volume exceeds the minimum processing volume stipulated in the agreement.

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

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

All other sewage processing plants:

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

All sewage processing plants, 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, the 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) Construction and management of sewage water facility

The Group provides design, construction and operations of sewage processing facility and financing, construction and transfer of sewage processing facility project services.

1 Company profile and principal activities (Continued)

(c) Supply of tap water

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

(d) 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 24 March 2011.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policy and disclosures

(a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010

Hong Kong Interpretation 5. In November 2010 the HKICPA issued Hong Kong Interpretation 5 Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010 (Continued)

In order to comply with the requirements of Hong Kong Interpretation 5, the Company has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the balance sheet. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Company had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by restatement of the ending balances at 31 December 2009. Balances at 1 January 2009 are not re-presented since there were no loans which contains such clause that point of time. The reclassification has had no effect on reported profit or loss, total comprehensive income for any period presented and no significant effect on gearing ratio, liquidity risk and financial position.

Effect of adoption of Hong Kong Interpretation 5 on the balance sheet

	At 31 December 2010	At 31 December 2009	At 1 January 2009
Increase in current liabilities			
Bank borrowings	**73,000**	56,000	—
Decrease in non-current liabilities			
Bank borrowings	**(73,000)**	(56,000)	—

HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010 (Continued)

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. This does not have any impact on the Group's financial statements, since there has been no business combination in 2010.

HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests. This does not have any impact on the Group's financial statements, since there has been no transaction with non-controlling interest in 2010.

HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. This does not have any impact on the Group's financial statements.

(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policy and disclosures (Continued)

(b) The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Group:

HK(IFRIC) 17	"Distribution of non-cash assets to owners"
HK(IFRIC) 18	"Transfers of assets from customers"
HK(IFRIC) 9	"Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement"
HK(IFRIC) 16	"Hedges of a net investment in a foreign operation"
HKAS 38 (amendment)	"Intangible assets"
HKAS 1 (amendment)	"Presentation of financial statements"
HKAS 36 (amendment)	"Impairment of assets"
HKFRS 2 (amendments)	"Group cash-settled share-based payment transactions"
HKFRS 5 (amendment)	"Non-current assets held for sale and discontinued operations"

(c) The following new standards, 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"
Amendment to HKAS 32	"Classification of rights issues"
HK (IFRIC) - Int 19	"Extinguishing financial liabilities with equity instruments"

The Group has not yet made a comprehensive assessment of the impact of these standards, amendments and interpretations; however, the preliminary assessment made by management indicated that there would be no significant impact on the Group's consolidated financial statements.

2.2 Consolidation

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

(a) Subsidiaries

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

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income.

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(b) Transactions with non-controlling interests (Continued)

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) Associates

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

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

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

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

2.3 Segment reporting

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

2 Summary of significant accounting policies (Continued)

2.4 Translation of foreign currencies

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains - net.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2 Summary of significant accounting policies (Continued)

2.4 Translation of foreign currencies

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

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

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

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

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

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

2 Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

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

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

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

2.6 Intangible assets

As described in Note 1(a), the Group engages with government bodies and their subordinate enterprises and participates in the development, financing, operation and maintenance of infrastructure for public sewage processing services (concession services) over a specified period of time (concession services period). The Group has access to operate the infrastructure to provide the concession services in accordance with the terms specified in the arrangement.

The arrangement is governed by the relevant Sewage Water Processing Agreements which set out performance standards, mechanisms for adjusting prices.

The concession services arrangement is within the scope of HK (IFRIC) Interpretation 12 HK (IFRIC) Int-12, and the Group recognises the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (licence) to charge users of the public service and shall recognize a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum traffic volume from the grantor. Therefore intangible assets - concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortized on a straight-line basis over the terms of operation ranging from 25 to 30 years.

2.7 Land use rights

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

2 Summary of significant accounting policies (Continued)

2.8 Investment properties

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

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

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

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.14 and 2.15).

2 Summary of significant accounting policies (Continued)

2.10 Financial assets

2.10.1 Classification

(c) Available-for-sale financial assets

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

2.10.2 Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains - net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for- sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2 Summary of significant accounting policies (Continued)

2.12 Impairment of financial assets

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Impairment testing of trade and other receivables is described in note 2.14.

2.13 Inventories

Inventories include raw materials, finished goods, low cost consumables and construction in progress, and are stated at the lower of cost and net realisable value.

Except for construction in progress, cost for raw materials, finished goods and low cost consumables are determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The amount of construction contract costs incurred, plus profits and less losses recognized and progress billings is determined on an individual contract basis. Where positive, this amount is recognized in assets as construction in progress. Where negative, it is recognized in liabilities.

2 Summary of significant accounting policies (Continued)

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 Summary of significant accounting policies (Continued)

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.20 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies (Continued)

2.21 Employee benefits

(a) Retirement benefit obligation

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligation of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred.

(b) Housing fund

The Group provides housing fund based on certain percentage of the wages and with no more than the upper limit of the requirement. The housing fund is paid to government social security organisation and corresponding costs are expensed or included in the cost of sales for the current year. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods.

2.22 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Revenue recognition

Revenue comprises 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, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.23 Revenue recognition (Continued)

(a) *Sewage water processing*

Revenue from sewage water processing is recognised when services are rendered.

(b) *Construction contract*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the percentage of completion of the contract activity at the balance sheet date. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(c) *Sales of tap water and recycled water*

Revenue from the sale of tap water and recycled water is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the tap water and recycled water are delivered to customers.

(d) *Rental income*

Revenue from operating lease is recognized on a straight-line basis over the period of the lease.

(e) *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(f) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

2.24 Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the shareholders of the Company.

2 Summary of significant accounting policies (Continued)

2.25 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the consolidated statement of comprehensive income in the year in which they are incurred.

2.26 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

3 Financial risk management

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

(a) Market risk:

(i) Foreign currency risk:

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign currency exposure of the Group arises from fluctuation of US dollar and Japanese Yen ("JPY") pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from TSC on 9 November 2010(Note 21(d)).

At 31 December 2010, if RMB had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been Rmb4 million (2009: Nil) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated portion of long-term payable. Similarly, if RMB had weakened/strengthened by 5% against the JPY with all other variables held constant, post-tax profit for the year would have been Rmb12 million (2009: Nil) lower/higher.

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

3 Financial risk management (Continued)

(a) Market risk: (Continued)

(ii) Interest rate risk:

The Group's interest rate risk arises mainly from cash and bank balances, long-term receivables, long-term borrowings and long-term payable.

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

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

	Group				Company		
	Fixed	Floating	Non-interest bearing	Total	Fixed	Floating	Total
At 31 December 2010							
Assets							
Cash and bank balances	900	539,430	—	540,330	—	161,861	161,861
Long-term receivables	366,286	—	—	366,286	366,286	—	366,286
Liabilities							
Current borrowings	16,364	405,526	1,796	423,686	16,364	265,000	281,364
Non current borrowings	148,181	2,280,140	10,613	2,438,934	148,181	1,014,100	1,162,282
Long-term payable due within 1 year	24,371	6,339	—	30,710	24,371	6,339	30,710
Long-term payable	299,043	100,561	—	399,604	299,043	100,561	399,604
Short-term debenture	600,000	—	—	600,000	600,000	—	600,000
At 31 December 2009 (Restated)							
Assets							
Cash and bank balances	10,900	592,261	—	603,161	10,000	224,354	234,354
Long-term receivables	331,354	—	—	331,354	331,354	—	331,354
Liabilities							
Current borrowings	16,364	257,712	714	274,790	16,364	147,000	163,364
Non current borrowings	164,545	2,081,566	10,613	2,256,724	164,545	736,000	900,545
Short-term debenture	500,000	—	—	500,000	500,000	—	500,000

At 31 December 2010, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, profit for the year would have been lower/higher by Rmb22.6million (2009: Rmb30 million).

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

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

3 Financial risk management (Continued)

(b) Credit risk:

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

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

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

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

(c) Liquidity risk:

Cash flow forecasting is performed in the operating entities and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements - for example, currency restrictions.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2010					
Long-term bank borrowings	**471,626**	**950,320**	**1,064,759**	**639,677**	**3,126,382**
Long-term payable	**32,038**	**32,278**	**98,809**	**671,105**	**834,230**
Other non-current liabilities	**22,091**	**21,273**	**53,473**	**70,696**	**167,533**
Trade and other payables	**297,720**	**—**	**—**	**—**	**297,720**
Short-term borrowings	**76,902**	**—**	**—**	**—**	**76,902**
Short-term debenture	**612,180**	**—**	**—**	**—**	**612,180**
At 31 December 2009 (Restated)					
Long-term bank borrowings	216,843	570,176	1,133,479	787,451	2,707,949
Other non-current liabilities	22,910	22,091	54,725	92,245	191,971
Trade and other payables	254,378	—	—	—	254,378
Short-term borrowings	161,652	—	—	—	161,652
Short-term debenture	508,167	—	—	—	508,167

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

3 Financial risk management (Continued)

(d) Capital risk management

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

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

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

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

	As at 31 December	
	2010	2009
Total borrowings	**3,462,620**	3,031,514
Less: Cash and cash equivalents	**(539,430)**	(592,261)
Net debt	**2,923,190**	2,439,253
Total equity	**3,576,169**	3,415,511
Total capital	**6,499,359**	5,854,764
Gearing ratio	**45%**	42%

The increase in gearing ratio of the Group during 2010 primarily resulted from additional bank borrowings to finance certain construction projects and meet the Group's working capital requirement, and the long-term payable (Note 21 (d)) to TSC for acquisition of sewage processing assets.

(e) Fair value estimation

Long-term borrowings, long-term payable, and debentures that are not traded in an active market, are estimated at fair value that is determined by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar cash flows.

4 Critical accounting estimate and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Group's principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year is in relation to impairment of trade and other receivables.

(a) The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 31 December 2010 are not impaired.

(b) The Group is subject to income taxes in numerous regions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these regions. The Group recognizes income taxes in each region based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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(All amounts in Rmb thousand unless otherwise stated)

5 Segment information

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

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

	2009	2008
Sales turnover	**1,394,821**	1,226,466
Other income - net	**42,266**	13,583
Total revenues	**1,437,087**	1,240,049

(b) Analysis of other income

	2010		2009	
	Income	Cost	Income	Cost
Technical service	**37,036**	**14,629**	14,021	2,957
Rental	**19,272**	**4,961**	12,285	4,501
Other	**16,639**	**11,091**	4,221	9,486
	72,947	30,681	30,527	16,944

(c) Operating segment analysis

Management has determined the operating segments based on the reports reviewed by the managers operating meeting that are used to make strategic decisions.

The meeting considers the business from both service and geographical perspectives. From a service perspective, management assesses the performance of processing of sewage water and construction of related facilities, recycled water and pipeline connection and tap water operation. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants).

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

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

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

5 Segment information (Continued)

(c) **Operating segment analysis** (Continued)

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2010 and 2009 respectively is as follows:

(i) For the year ended 31 December 2010

	Sewage processing and facility construction services						
	Tianjin plants	Hangzhou plant	Other plants	Recycled water and pipeline connection	Tap water	All other segments	Group
Segment revenue	865,384	141,867	213,043	69,918	37,583	109,292	1,437,087
Segment expenses	(574,793)	(133,306)	(210,895)	(61,904)	(36,903)	(53,908)	(1,071,709)
Results before share of profits of an associate	290,591	8,561	2,148	8,014	680	55,384	365,378
Share of profits of an associate (note11)							1,448
Profit before tax							366,826
Income tax expense							(91,670)
Profit for the year							275,156
Segment assets	4,430,461	814,646	1,656,493	619,697	280,618	582,065	8,383,980
Investment in an associate	—	—	—	—	—	41,583	41,583
Total assets	4,430,461	814,646	1,656,493	619,697	280,618	623,648	8,425,563
Total liabilities	2,820,941	512,807	759,565	543,806	164,355	47,920	4,849,394
Other information							
-Interest income	2,245	316	1,212	2,905	61	11,640	18,379
-Interest expenses	(67,645)	(26,134)	(42,595)	(6,141)	(9,019)	—	(151,534)
-Depreciation	(92,748)	—	(2,077)	(18,082)	—	(4,919)	(117,826)
-Amortization	(10,512)	(36,249)	(54,303)	—	(8,683)	(77)	(109,824)
-Capital expenditures	1,096,234	562	154,786	41,297	12,816	9,184	1,314,879

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

5 Segment information (Continued)

(c) Operating segment analysis (Continued)

(ii) For the year ended 31 December 2009

	Sewage processing and facility construction services						
	Tianjin plants	Hangzhou plant	Other plants	Recycled water and pipeline connection	Tap water	All other segments	Group
Segment revenue	721,319	128,678	216,340	56,494	36,598	80,620	1,240,049
Segment expenses	(474,179)	(110,629)	(195,624)	(49,558)	(41,106)	(31,489)	(902,585)
Results before share of profits of an associate	247,140	18,049	20,716	6,936	(4,508)	49,131	337,464
Share of profits of an associate (note 11)							257
Profit before tax							337,721
Income tax expense							(91,319)
Profit for the year							246,402
Segment assets	3,282,014	837,823	1,593,393	540,010	290,527	611,746	7,155,513
Investment in an associate	—	—	—	—	—	40,135	40,135
Total assets	3,282,014	837,823	1,593,393	540,010	290,527	651,881	7,195,648
Total liabilities	1,941,867	545,119	627,910	487,266	149,691	28,284	3,780,137
Other information							
-Interest income	7,381	5,787	1,311	2,140	—	11,397	28,016
-Interest expenses	(121,447)	(31,487)	(51,464)	(5,229)	—	—	(209,627)
-Depreciation	(94,618)	—	(1,351)	(9,858)	—	(5,912)	(111,739)
-Amortization	(9,795)	(21,957)	(48,756)	(25)	(8,683)	(253)	(89,469)
-Capital expenditures	199,777	341,926	205,257	73,347	22,114	407	842,828

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

6 Property, plant and equipment

(a) Group

	Buildings and structures (Note (i))	Machinery and equipment	Motor vehicles and others	Construction in progress ("CIP") (Note (c))	Total
Cost					
At 1 January 2009	2,433,113	251,364	111,871	207,122	3,003,470
Additions	903	11,637	4,786	262,533	279,859
Transferred to investment properties (Note 9)	(8,369)	—	—	—	(8,369)
Transfers	—	94,445	406	(94,851)	—
Disposals	(4,373)	(17,939)	(17,956)	—	(40,268)
At 31 December 2009	2,421,274	339,507	99,107	374,804	3,234,692
Reclassification(note(ii))	(793,973)	748,562	45,411	—	—
Additions	49,322	599,751	64,070	454,847	1,167,990
Transfers	35,198	89,581	1,221	(126,000)	—
Disposals	(24,035)	(86,703)	(11,797)	—	(122,535)
Transferred to land use rights (Note8 and note(ii))	(97,602)	—	—	—	(97,602)
At 31 December 2010	1,590,184	1,690,698	198,012	703,651	4,182,545
Accumulated depreciation					
At 1 January 2009	(554,334)	(183,956)	(62,643)	—	(800,933)
Charge for the year	(87,360)	(12,794)	(8,447)	—	(108,601)
Transferred to investment properties (Note 9)	622	—	—	—	622
Disposals	1,833	8,041	15,544	—	25,418
At 31 December 2009	(639,239)	(188,709)	(55,546)	—	(883,494)
Reclassification (note(ii))	132,319	(113,882)	(18,437)	—	—
Charge for the year	(59,543)	(43,296)	(11,314)	—	(114,153)
Disposals	13,401	37,202	3,261	—	53,864
Transferred to land use rights (Note8 and note(ii))	7,348	—	—	—	7,348
At 31 December 2010	(545,714)	(308,685)	(82,036)	—	(936,435)
Impairment					
At 1 January 2009	(5,000)	(4,068)	(932)	—	(10,000)
Charge for the year	(6,000)	—	—	—	(6,000)
At 31 December 2009 and 2010	(11,000)	(4,068)	(932)	—	(16,000)
Net book value					
At 31 December 2010	**1,033,470**	**1,377,945**	**115,044**	**703,651**	**3,230,110**
At 31 December 2009	**1,771,035**	**146,730**	**42,629**	**374,804**	**2,335,198**

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

6 Property, plant and equipment (Continued)

(b) Company

	Buildings and structures (Note (i))	Machinery and equipment	Motor vehicles and others	Construction in progress ("CIP") (Note (c))	Total
Cost					
At 1 January 2009	2,314,587	204,660	82,215	111,767	2,713,229
Additions	—	3,371	956	212,027	216,354
Transferred to investment properties (Note9)	(8,369)	—	—	—	(8,369)
Transfers	—	—	406	(406)	—
Disposals	(2,066)	(15,081)	(15,347)	—	(32,494)
At 31 December 2009	2,304,152	192,950	68,230	323,388	2,888,720
Reclassification (note(ii))	(819,358)	778,298	41,060	—	—
Additions	49,971	598,802	55,670	416,445	1,120,888
Transfers	—	89,510	359	(89,869)	—
Disposals	(23,922)	(82,132)	(11,074)	—	(117,128)
Transfer to Land use rights (Note8 and note(ii))	(92,850)	—	—	—	(92,850)
At 31 December 2010	1,417,993	1,577,428	154,245	649,964	3,799,630
Accumulated depreciation					
At 1 January 2009	(540,236)	(166,506)	(56,976)	—	(763,718)
Charge for the year	(82,701)	(6,655)	(6,296)	—	(95,652)
Transferred to investment properties (Note9)	622	—	—	—	622
Disposals	1,102	7,004	14,749	—	22,855
At 31 December 2009	(621,213)	(166,157)	(48,523)	—	(835,893)
Reclassification (note(ii))	133,303	(115,594)	(17,709)	—	—
Charge for the year	(54,419)	(30,571)	(9,587)	—	(94,577)
Disposals	13,401	36,397	3,316	—	53,114
Transfer to Land use rights (Note8 and note(ii))	7,196	—	—	—	7,196
At 31 December 2010	(521,732)	(275,925)	(72,503)	—	(870,160)
Net book value					
At 31 December 2010	**896,261**	**1,301,503**	**81,742**	**649,964**	**2,929,470**
At 31 December 2009	**1,682,939**	**26,793**	**19,707**	**323,388**	**2,052,827**

Note:

(i) All of the Group's buildings, structures and plants are located in the PRC.

(ii) In 2010, based on final completion report of relevant newly constructed sewage processing plants as approved by authorities, management reclassified certain property, plant and equipment among different categories, which were previously classified as per budget in 2007.

(iii) The Group's depreciation expense of Rmb104 million (2009:Rmb98 million) has been included in cost of revenue and Rmb10 million (2009: Rmb11 million) in administrative expenses.

(iv) Ownership of certain land and buildings included in property, plant and equipment, investment properties and land use rights with cost of Rmb332 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 in due course without additional significant cost to the Group, if any.

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

6 Property, plant and equipment *(Continued)*

(c) Construction in progress comprised the following projects:

	Budget	As at 31 December 2009	Additions	Transfer to property, plant and equipment	As at 31 December 2010	Sources of fund	Incurred cost to budget cost ratio (%)
Water recycling plants:							
– Dong Jiao recycling plants	83,307	77,189	6,118	(83,307)	—	Self-raised fund	—
– Bei Chen recycling plants	97,000	43,567	13,651	—	57,218	Self-raised fund	59
Sewage water processing plants:							
– XianYang Lu (project BNR)	6,089	5,240	849	(6,089)	—	Self-raised fund	—
– Dong Jiao (upgrade project)	340,918	40,561	179,095	—	219,656	Self-raised fund	64
– XianYang Lu (upgrade project)	163,327	70,271	62,425	—	132,696	Self-raised fund	81
– Bei Cang (upgrade project)	141,945	55,132	60,364	—	115,496	Self-raised fund	81
– Ji Zhuang Zi (upgrade project)	171,536	28,166	83,503	—	111,669	Self-raised fund	65
Others		3,262	10,440	(473)	13,229	Self-raised fund	
Total -Company		**323,388**	**416,445**	**(89,869)**	**649,964**		
Water recycling plants:							
– Ji Zhuang Zi (expansion project)	87,573	18,565	34,151	—	52,716	Self-raised fund	60
– Office buildings	35,869	31,618	4,251	(35,869)	—	Self-raised fund	—
Others		1,233	—	(262)	971	Self-raised fund	
Total -Group		**374,804**	**454,847**	**(126,000)**	**703,651**		
Including: Capitalised borrowing costs							
– Group		957	12,772	(453)	13,276		

(All amounts in Rmb thousand unless otherwise stated)

7 Intangible assets

The movements of the Group's concession rights are as follows:

Cost	
At 1 January 2009	2,022,574
Addition	562,969
At 31 December 2009	2,585,543
Addition	159,321
At 31 December 2010	2,744,864
Amortisation	
At 1 January 2009	(138,310)
Charge for the year	(79,537)
At 31 December 2009	(217,847)
Charge for the year	(99,235)
At 31 December 2010	(317,082)
Net book value	
At 31 December 2010	2,427,782
At 31 December 2009	2,367,696

(a) Certain of concession rights with net book value of Rmb252 million (2009: Rmb262 million) have been secured against loan facilities (Note 21(a)(i)).

(b) In 2010, borrowing cost of Rmb4,578 thousand (2009: Rmb2,515 thousand) have been capitalised in concession right at an average interest of 6.02% (2009: 5.35%).

(c) The remaining amortisation period of concession rights range from 18 to 29 years.

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(All amounts in Rmb thousand unless otherwise stated)

8 Land use rights

All the Group's and Company's land use rights are located in the PRC and are held on medium term leases of 25 to 50 years. The Group's and Company's interests in land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

	Group	Company
Cost		
At 1 January 2009	495,927	485,454
Transfer to subsidiary	—	(11,038)
At 31 December 2009	495,927	474,416
Transfer from plant, property and equipment (Note 6(ii))	97,602	92,850
At 31 December 2010	593,529	567,266
Amortisation		
At 1 January 2009	(102,792)	(95,893)
Charge for the year	(9,932)	(9,795)
Transferred to subsidiary	—	2,208
At 31 December 2009	(112,724)	(103,480)
Charge for the year	(10,589)	(10,511)
Transfer from plant, property and equipment (note 6 (ii))	(7,348)	(7,196
At 31 December 2010	(130,661)	(121,187)
Net book value		
At 31 December 2010	462,868	446,079
At 31 December 2009	383,203	370,936

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(All amounts in Rmb thousand unless otherwise stated)

9 Investment properties

	Group	Company
Cost		
At 1 January 2009	129,005	102,279
Transfer from property, plant and equipment (Note 6)	8,369	8,369
At 31 December 2009 and 2010	137,374	110,648
Accumulated depreciation		
At 1 January 2009	(10,313)	(9,403)
Charge for the year	(3,138)	(2,628)
Transfer from property, plant and equipment (Note 6)	(622)	(622)
At 31 December 2009	(14,073)	(12,653)
Charge for the year	(3,673)	(3,168)
At 31 December 2010	(17,746)	(15,821)
Net book value		
At 31 December 2010	119,628	94,827
At 31 December 2009	123,301	97,995

The Company's investment properties represent the apportioned cost of its office building located in Tianjin leased to third parties. The fair value of the entire office building at 31 December 2010 based on the Directors' assessment was approximately Rmb173 million (2009: Rmb169 million) against cost of Rmb167 million.

10 Investments in subsidiaries- Company

	2010	2009
Subsidiaries	**1,178,381**	1,130,981
Less: Impairment of subsidiaries (Note(i))	**(26,500)**	(26,500)
	1,151,881	1,104,481

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

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(All amounts in Rmb thousand unless otherwise stated)

10 Investments in subsidiaries- Company (Continued)

All subsidiaries are limited liability companies.

	Investment cost	Carrying Value 31 Dec 2009	Carrying Value Addition	Carrying Value 31 Dec 2010 share %	Interest held /Voting %
Xi'an Capital Water Co., Ltd.	270,000	270,000	—	**270,000**	100
Hangzhou Tianchuang Water Co., Ltd	180,212	180,212	—	**180,212**	70
Qujing Capital Water Co., Ltd.	108,081	108,081	—	**108,081**	90
Tianjin Water Recycling Co., Ltd.	98,000	98,000	—	**98,000**	98
Guizhou Capital Water Co., Ltd.	95,000	95,000	—	**95,000**	95
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,988	62,988	—	**62,988**	100
Wendeng Capital Water Co., Ltd.	52,000	48,000	4,000	**52,000**	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. (note (i))	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 Zichuang Investment Co., Ltd	23,400	—	23,400	**23,400**	100
Tianjin Jinning Capital Water Co., Ltd	15,000	—	15,000	**15,000**	100
Tianjin Capital Water Co., Ltd	5,000	—	5,000	**5,000**	100
		1,130,981	47,400	**1,178,381**	

(i) Full provision has been made for investment in this subsidiary of approximately Rmb26.5 million as at 31 December 2010 (31 December 2009: Rmb26.5 million).

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

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

11 Investment in an associate - Group

	2009	2008
Beginning of the year	**40,135**	39,878
Share of profit	**1,448**	257
End of the year	**41,583**	40,135

(a) The Group's share of the results of its associate, and its assets and liabilities, are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit	% interest held
2009						
Tianjin International Machinery Co., Ltd.	PRC	155,843	112,065	317,754	257	27.5%
2010						
Tianjin International Machinery Co., Ltd.	**PRC**	**505,041**	**339,760**	**1,604,027**	**1,448**	**27.5%**

(b) 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.

12 Available-for-sale financial assets

	Group		Company	
	2010	2009	**2010**	2009
Unquoted equity investments, at cost	**4,000**	4,000	**4,000**	4,000

13 Long-term receivables

	Group		Company	
	2010	2009	**2010**	2009
Receivables from toll road concession	**336,286**	331,354	**336,286**	331,354

Receivables from toll road concession represent amortised cost using effective interest method, calculated with reference to a guaranteed future traffic flow over the concession period.

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(All amounts in Rmb thousand unless otherwise stated)

14 Inventories

	Group		Company	
	2010	2009	**2010**	2009
Raw materials	**10,127**	8,526	**3,570**	3,423
Finished goods	**3,682**	3,768	**—**	—
Spare parts and low cost consumables	**756**	359	**407**	133
Construction in progress	**20,911**	—	**—**	—
	35,476	12,653	**3,977**	3,556
Less: Write-down to net realisable value	**(3,000)**	(3,000)	**—**	—
	32,476	9,653	**3,977**	3,556

15 Trade receivables

	Group		Company	
	2010	2009	**2010**	2009
Due from TSC for:				
- Sewage processing service	**691,168**	350,863	**691,168**	350,863
- Construction of sewage processing plants (note(b))	**241,792**	241,792	**241,792**	241,792
	932,960	592,655	**932,960**	592,655
Toll road fee receivable	**38,200**	78,200	**38,200**	78,200
Less: Non-current portion (note (b))	**(68,794)**	(241,792)	**(68,794)**	(241,792)
	902,366	429,063	**902,366**	429,063
Due from others - current	**94,583**	74,403	**11,252**	-
	996,949	503,466	**913,618**	429,063

(a) Aging of trade receivables prior to the classification to non-current is as follows:

	Group		Company	
	2010	2009	**2010**	2009
Within one year	**785,601**	497,119	**702,420**	429,063
One to two years	**38,350**	1,361	**38,200**	-
Over two years	**241,792**	246,778	**241,792**	241,792
	1,065,743	745,258	**982,412**	670,855

(b) Rmb173 million of construction fee due from TSC has been received subsequently in 2011. This amount is shown as current receivable as at 31 December 2010.

(c) The balance of trade receivables for construction fee due from TSC and toll road fee are over due at 31 December 2010. Since the customers are the Chinese government agencies or their subordinate enterprises which have good creditability history, the management believes that are not impaired.

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

16 Prepayments

The aging of prepayments is analysed below:

	Group		Company	
	2010	2009	**2010**	2009
Within 1 year	**69,157**	152,798	**48,994**	113,583
1 to 2 years	**20,949**	37,568	**6,080**	28,899
Over 2 years	**13,653**	3,794	**32**	141
	103,759	194,160	**55,106**	142,623

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

17 Other receivables

	Group		Company	
	2010	2009	**2010**	2009
Project deposits	**26,776**	29,650	**26,720**	27,300
Other receivables from customers	**1,683**	7,971	**—**	-
Receivables from subsidiaries	**—**	—	**111,346**	127,136
Others	**25,081**	17,678	**7,214**	15,028
	53,540	55,299	**145,280**	169,464

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

	2010		2009	
	Amount	**% of total balance**	Amount	% of total balance
Within 1 year	**16,119**	**30**	14,747	27
1 to 2 years	**7,021**	**13**	5,403	10
2 to 3 years	**3,461**	**7**	30,260	55
Over 3 years	**26,939**	**50**	4,889	8
	53,540	**100**	55,299	100

As at 31 December 2010, the aging of certain project deposits is over 3 years. Management believes that there is no indication of impairment based on their assessment and related professional advice.

(All amounts in Rmb thousand unless otherwise stated)

18 Cash and bank balances

Majority of the bank balances as at 31 December 2010 were deposited with state owned banks.

	Group		Company	
	2010	2009	**2010**	2009
Cash on hand and in bank	**540,330**	603,161	**161,861**	234,354
Including:				
Special funds for construction in progress (note (a))	**111,179**	67,647	**102,883**	65,540
Restricted bank deposits due within one year (note (b))	**900**	10,900	**—**	10,000

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

(b) Represented deposits for project bids due within one year.

Cash and bank balances comprise the following for the purposes of the cash flow statement:

	Group	
	2010	2009
Cash and bank balances	**540,330**	603,161
Restricted bank deposits	**(900)**	(10,900)
	539,430	592,261

19 Share capital

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

	A shares			H shares	
	Restricted circulating shares	Circulating shares	Subtotal	Circulating shares	Total
At 1 January 2009	664,087	423,141	1,087,228	340,000	1,427,228
Release of restricted circulating shares	(664,087)	664,087	—	—	-
At 31 December 2009 and 2010	**—**	**1,087,228**	**1,087,228**	**340,000**	**1,427,228**

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

(All amounts in Rmb thousand unless otherwise stated)

20 Reserves and retained earnings

The reconciliation and movement of other reserves and retained earnings are as follows:

(a) Group

	Capital reserve (Note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2009	383,338	253,093	636,431	1,044,043	1,680,474
Profit for the year	—	—	—	242,978	242,978
Profit appropriation to statutory common reserves, net (Note (ii))	—	23,031	23,031	(23,031)	—
Dividends declared for 2008	—	—	—	(57,089)	(57,089)
Balance at 31 December 2009	383,338	276,124	659,462	1,206,901	1,866,363
Profit for the year	—	—	—	271,160	271,160
Profit appropriation to statutory common reserve, net (Note (ii))	—	25,881	25,881	(25,881)	—
Dividends declared for 2009	—	—	—	(114,178)	(114,178)
Balance at 31 December 2010	**383,338**	**302,005**	**685,343**	**1,338,002**	**2,023,345**

(b) Company

	Capital reserve (Note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2009	380,788	253,093	633,881	990,501	1,624,382
Profit for the year	—	—	—	230,305	230,305
Profit appropriation to statutory common reserves, net (Note (ii))	—	23,031	23,031	(23,031)	—
Dividends declared for 2008	—	—	—	(57,089)	(57,089)
Balance at 31 December 2009	380,788	276,124	656,912	1,140,686	1,797,598
Profit for the year	—	—	—	258,809	258,809
Profit appropriation to statutory common reserve, net (Note (ii))	—	25,881	25,881	(25,881)	—
Dividends declared for 2009	—	—	—	(114,178)	(114,178)
Balance at 31 December 2010	**380,788**	**302,005**	**682,793**	**1,259,436**	**1,942,229**

Notes:

(i) Capital reserve principally comprises share premium arising from the issuance of shares. This reserve can be utilised to offset prior years' losses or for issuance of bonus shares.

(ii) General reserve represents the statutory common reserve.

According to the PRC Companies Law and the Company's Articles of Association, a Company is required to transfer 10% of its net profit for the year to the statutory common reserve, which can be ceased till the reserve reaches 50% of the registered capital. This reserve shall only be used to make up losses; or to increase the capital of the Company upon approval from the shareholders.

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(All amounts in Rmb thousand unless otherwise stated)

21 Borrowings

	Note	Group 2010	Group 2009 (Restated)	Company 2010	Company 2009 (Restated)
Non-current:					
Long-term bank borrowings	(a)	**2,639,030**	2,206,460	**1,274,100**	795,000
Less: Current portion	(a)	**(329,470)**	(98,530)	**(210,000)**	(9,000)
		2,309,560	2,107,930	**1,064,100**	786,000
Long-term payable	(d)	**399,604**	—	**399,604**	—
Other non-current liabilities	(e)	**129,374**	148,794	**98,181**	114,545
		2,838,538	2,256,724	**1,561,885**	900,545
Current:					
Current portion of long-term bank borrowings	(a)	**329,470**	98,530	**210,000**	9,000
Current portion of long-term payable	(d)	**30,710**	—	**30,710**	—
Short-term bank borrowings	(b)	**73,000**	156,000	**55,000**	138,000
Short-term debenture	(c)	**600,000**	500,000	**600,000**	500,000
Other current liabilities	(e)	**21,216**	20,260	**16,364**	16,364
		1,054,396	774,790	**912,074**	663,364

(a) Long-term bank borrowings

	Note	Group 2010	Group 2009 (Restated)	Company 2010	Company 2009 (Restated)
Borrowings from:					
China Construction Bank	(i)	**936,850**	970,000	**367,100**	375,000
Industrial and Commercial Bank of China	(ii)	**456,000**	494,000	**—**	—
State Development Bank	(iii)	**342,500**	218,000	**157,000**	72,000
Shanghai Bank	(iv)	**250,000**	—	**250,000**	—
Shenzhen Development Bank	(iv)	**200,000**	—	**200,000**	—
Agricultural Bank of China	(v)	**198,680**	309,460	**100,000**	198,000
China CITIC Bank	(iv)	**100,000**	100,000	**100,000**	100,000
China Everbright Bank	(vi)	**50,000**	50,000	**50,000**	50,000
Industrial Bank	(iv)	**50,000**	—	**50,000**	—
Bank of China	(vii)	**40,000**	45,000	**—**	—
Shanghai Pudong Development Bank	(viii)	**15,000**	20,000	**—**	—
		2,639,030	2,206,460	**1,274,100**	795,000

Notes:

(i) Includes Rmb162 million (2009: Rmb175 million) secured by the right to receive tap water and sewage processing fees (Note 7(a)). Includes Rmb389 million and Rmb18.75 million (2009: Rmb395 million and Rmb25 million) secured by the guarantee of Tianjin City Infrastructure Construction and Investment Group Company Limited ("TICIG") and the Company, respectively. The remaining balance of about Rmb367.1 million (2009: Rmb375 million) is unsecured.

(ii) Secured by the Company's guarantee (2009: Rmb494 million).

(iii) Includes Rmb185.5 million secured by the Company's guarantee and the remaining Rmb157 million is unsecured.

(iv) The borrowing is unsecured.

(All amounts in Rmb thousand unless otherwise stated)

21 Borrowings (Continued)

(a) Long-term bank borrowings (Continued)

Notes: (Continued)

(v) Includes Rmb100 million and 98.68 million (2009:RMB198 million and 50 million) secured by the guarantee of TICIG and the Company, respectively.

(vi) Secured by TSC's right to receive sewage water processing fees.

(vii) Secured by the Company's guarantee.

(viii) Secured by the Company's holding Company's guarantee (2009: Rmb20 million) .

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

	Group		Company	
	2010	2009 (Restated)	**2010**	2009 (Restated)
Pledge	**212,000**	175,000	**50,000**	—
Guarantee	**1,302,930**	1,484,460	**100,000**	248,000
Unsecured	**1,124,100**	547,000	**1,124,100**	547,000
	2,639,030	2,206,460	**1,274,100**	795,000

(x) These long term bank borrowings are all interest bearing with weighted average effective interest rate at the balance sheet date of 5.4% (2009: 5.6%)

(xi) These borrowings mature as follows:

	Group		Company	
	2010	2009 (Restated)	**2010**	2009 (Restated)
Within one year	**329,470**	98,530	**210,000**	9,000
In the second year	**841,720**	467,470	**636,000**	349,000
In the third to fifth year	**888,160**	941,150	**415,000**	437,000
After the fifth year	**579,680**	699,310	**13,100**	—
	2,639,030	2,206,460	**1,274,100**	795,000

(xii) As at 31 December 2010, the fair value of the long-term fixed-rate bank borrowings is Rmb54 million (2009: Rmb55 million).

(xiii) Bank borrowings which are exposed to interest-rate changes and the contractual repricing dates are as follows:

	Group		Company	
	2010	2009 (Restated)	**2010**	2009 (Restated)
6 months or less	**1,619,680**	1,246,460	**1,000,000**	598,000
6- 12 months	**969,350**	910,000	**224,100**	147,000

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

21 Borrowings (Continued)

(b) Short-term bank borrowings

	Note	Group 2010	Group 2009 (Restated)	Company 2010	Company 2009 (Restated)
Borrowings from:					
Shanghai Pudong Development Bank (Note 2.1.1 (a))	(i)	**73,000**	56,000	**55,000**	38,000
China Minsheng Bank	(i)	**—**	100,000	**—**	100,000
		73,000	156,000	**55,000**	138,000

Notes:

(i) Includes Rmb18 million (2009:Rmb18 million) secured by the Company's holding Company's guarantee and Rmb55 million (2009:Rmb138 million) is unsecured. The weighted average interest rate of short-term bank borrowings in 2010 is 5.35% (2009: 4.78%) per annum.

(ii) The carrying amounts of short-term bank borrowings approximate their fair values as at 31 December 2010 either due to their short-term maturity or because they bear interest at prevailing market rates throughout their maturity period.

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

	Group 2010	Group 2009 (Restated)	Company 2010	Company 2009 (Restated)
Guarantee	**18,000**	18,000	**—**	—
Unsecured	**55,000**	138,000	**55,000**	138,000
	73,000	156,000	**55,000**	138,000

(c) Short-term debenture

	2009	Issue	Repayment	2010
Short-term debenture	500,000	600,000	(500,000)	600,000

Related information is as follows:

	Par value	Issuance date	Maturity	Balance
Short-term debenture (i)	500,000	28 July 2009	1 year	500,000
Short-term debenture (ii)	600,000	8 July 2010	1 year	600,000

(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 were repaid in full on maturity.

(ii) On 8 July 2010, the Company issued a short-term debenture of Rmb600 million at par with maturity period of one year. The debenture bears interest rate at 3.48% per annum and will be repaid in lump sum upon maturity.

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(All amounts in Rmb thousand unless otherwise stated)

21 Borrowings (Continued)

(d) Long-term payable and current portion of long-term payable

	Group				Company			
	2010		2009		**2010**		2009	
	Payable	**Unrecognized financial charges**	Payable	Unrecognized financial charges	**Payable**	**Unrecognized financial charges**	Payable	Unrecognized financial charges
Payable to TSC for assets acquisition	**834,230**	**(403,916)**	—	—	**834,230**	**(403,916)**	—	—

(i) Summary of terms of long-term payable above:

	Duration	**Original balance**	**Effective interest rate**	**Ending balance**	**Due within 1 year**
TSC	30 years to 2041-3-20	430,314	5.94%	399,604	30,710

Balance of the long-term payable to TSC is the consideration payable in respect of the acquisition of sewage processing assets from TSC, net of unrecognized financing charges.

Pursuant to "Assets transfer agreement from foreign banks loans about Haihe River Tianjin sewage processing project and Beicang sewage processing project" (the "Transfer Agreement"), TSC sold to the Company certain sewage processing assets at a consideration of 691 million. The Company has paid the first instalment of Rmb261 million in cash and the remaining balance will be settled in Renminbi translating at exchange rates prevailing on each repayment date over the next 30 years. The fair value of the initial recognition of the payable balance is based on discounting future cash payments using an effective interest rate of 5.94%.

(ii) The payable amounts of long-term payable (including interest) are denominated in the following currencies.

	Group		**Company**	
	2010	2009	**2010**	2009
JPY	**656,952**	—	**656,952**	—
US dollar	**177,278**	—	**177,278**	—
	834,230	—	**834,230**	—

The balance denominated in US dollar bears an interest rate at 6 month LIBOR plus 0.6%, whilst the balance denominated in JPY bears fixed interest rates at 1% and 1.55% per annum respectively.

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

21 Borrowings (Continued)

(d) Long-term payable and current portion of long-term payable (Continued)

(iii) The long-term payable mature as follows, and as at 31 December 2010, the current portion of long-term payable of Rmb30.7 million was classified as current liabilities.

	Group		Company	
	2010	2009	**2010**	2009
Within one year	**30,710**	—	**30,710**	—
In the second year	**29,203**	—	**29,203**	—
In the third to fifth year	**79,684**	—	**79,684**	—
After the fifth year	**290,717**	—	**290,717**	—
	430,314	—	**430,314**	—

(e) Other liabilities

	Group		Company	
	2010	2009	**2010**	2009
Non-current:				
- Tianjin Municipal Engineering Bureau ("TMEB") (note(i))	**98,181**	114,545	**98,181**	114,545
-Others	**31,193**	34,249	—	-
	129,374	148,794	**98,181**	114,545
Current:				
-TMEB				
• Current portion of long- term loan (note(i))	**16,364**	16,364	**16,364**	16,364
-Others	**4,852**	3,896	—	-
	21,216	20,260	**16,364**	16,364

Notes:

(i) A loan was taken from TMEB during 2005 specifically for construction of sewage water processing plants. The current portion of the long-term loan is Rmb16 million at the end of year 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.

(f) As at year end, the Group has the following committed undrawn banking facilities:

	Group	
	2010	2009
Floating rate expiring within one year	**445,900**	741,000

(All amounts in Rmb thousand unless otherwise stated)

22 DEFERRED REVENUE

	Group		Company	
	2010	2009	**2010**	2009
Deferred revenue	**284,974**	143,100	**203,288**	68,100

Deferred revenue represents the subsidies received which was granted from governmental bodies in relation to Group's certain construction projects and scientific research projects invested by the Group.

23 DEFERRED INCOME TAX LIABILITIES

	2010		2009	
	Deferred income tax liabilities	**Taxable temporary differences**	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	**38,427**	**153,708**	30,198	120,792

24 Trade payables, advances from customers and other payables

	Group		Company	
	2010	2009	**2010**	2009
Trade payables (note (a))	**22,729**	22,952	**9,730**	8,362
Advances from customers (note (b))	**310,478**	305,085	**63,386**	110,908
Other payables (note (c))	**274,991**	231,426	**235,198**	232,270
	608,198	559,463	**308,314**	351,540

(a) As at 31 December 2010, the majority of trade payables are aged within one year.

(b) Advances from customers comprise:

	Group		Company	
	2010	2009	**2010**	2009
For pipeline connection	**245,167**	194,024	**—**	—
Received from project Han Gu	**59,612**	110,504	**59,612**	110,504
Other advances	**5,699**	557	**3,774**	404
	310,478	305,085	**63,386**	110,908

(c) Other payables comprise:

	Group		Company	
	2010	2009	**2010**	2009
Construction costs payable	**168,316**	116,715	**109,499**	97,553
Payable for purchase of property, plant and equipment and concession rights of plants	**67,337**	83,389	**—**	—
Others	**39,338**	31,322	**125,699**	134,717
	274,991	231,426	**235,198**	232,270

The carrying value of trade and other payables approximates their fair value due to their short-term maturities.

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

25 Expense by nature

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

	2010	2009
Utilities	**162,521**	157,127
Employee benefit expense (Note 26)	**118,566**	103,440
Depreciation of property, plant and equipment and investment properties	**117,826**	111,739
Project construction cost	**116,549**	—
Amortisation of intangible assets and land use right	**109,824**	89,469
Repair and maintenance expenses	**65,163**	45,262
Raw materials and consumables used	**48,692**	30,851
Construction for water recycling facilities	**14,706**	17,396
Management fee to Toll Fee Collection Office	**7,120**	7,122
Other taxes	**6,944**	8,433
Auditors' remuneration	**3,800**	3,500
Operating lease rentals for land and buildings	**860**	564
Outgoings in relation to investment properties	**798**	1,222
Others	**79,581**	85,688
	852,950	661,813

26 Employee benefit expense

(a) The analysis of employee benefits is as follows:

	2010	2009
Wages and salaries	**82,657**	76,436
Social security costs	**16,750**	10,790
Pension costs - defined contribution plans	**12,266**	10,321
Other benefits	**6,893**	5,893
	118,566	103,440

(b) The aggregate amounts of emoluments payable to the Directors during the year are as follows:

	2010	2009
Fees	**540**	1,107
Salaries and other emoluments	**2,654**	1,091
Contribution to retirement benefit scheme	**80**	37
	3,274	2,235

Emoluments paid to the Company's independent non-executive directors amounted to Rmb510 thousand during the year have been included in the above balance (2009: Rmb457 thousand).

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(All amounts in Rmb thousand unless otherwise stated)

26 Employee benefit expense (Continued)

(c) **Details of emoluments of individual directors are set out as below:**

	2010	2009
Executive Directors:		
Zhang Wenhui	**835**	—
Lin Wenbo	**710**	—
Fu Yana	**541**	506
Zhong Huifang	**498**	—
An Pindong	**100**	100
Chen Yinxing	**100**	—
Gu Qifeng	—	822
Ma Baiyu	—	150
Tan Zhaofu	—	100
Wang Zhanying	—	100
Non-executive Directors:		
Xie Rong	**170**	150
Di Xiaofeng	**170**	150
Li Jieying	**170**	—
Gao Baoming	—	157
	3,274	2,235

None of the Directors of the Company received emoluments in excess of HK$1,000,000 during the year.

(d) The five individuals whose emoluments were the highest in the Group for the year include 4 (2009: 2) Directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2009: 3) individual during the year are as follows:

	2010	2009
Salaries and other emoluments	**427**	1,778
Contribution to retirement benefit scheme	**20**	56
	447	1,834

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

27 Finance costs - net

	2010	2009
Interest expenses of borrowings	**168,884**	213,812
Less: Capitalised interest	**(17,350)**	(4,185)
Net interest expenses	**151,534**	209,627
Less: Interest income	**(18,379)**	(28,016)
- long-term receivables	***(11,266)***	*(11,263)*
- bank deposits	***(7,113)***	*(16,753)*
Others	**2,635**	5,132
	135,790	186,743
Interest rate per annum at which finance costs were capitalised	**5.83%**	5.35%

28 Income tax expense

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong (2009: Nil). PRC income tax is calculated at the statutory rate of 12.5% to 25% (2009: 7.5% to 25%).

	2010	2009
Tax charge comprises:		
Current income tax	**83,441**	84,761
Deferred income tax	**8,229**	6,558
	91,670	91,319

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

	2010	2009
Profit before income tax	**366,826**	337,721
Calculated at applicable income tax rates (25%)	**91,707**	84,430
Effect of different income tax rate applicable to certain subsidiaries	**(3,126)**	—
Income not subject to tax	**(1,685)**	(50)
Expenses not deductible for taxation purposes	**255**	2,061
Utilisation of previously deductible tax losses for which no deferred income tax assets was recognised	**(690)**	(184)
Current year tax losses for which no deferred income tax asset was recognised	**5,209**	5,062
Income tax expense	**91,670**	91,319

29 Profit attributable to owners of the parent

The profit attributable to equity holders of the Company for the year is dealt with in the financial statements of the Company to the extent of approximately Rmb259 million (2009: Rmb230million).

30 Earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb271 million (2009: Rmb243 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2009: 1,427 million shares).

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

	2010	2009
Profit attributable to owners of the parent	**271,160**	242,978
Weighted average number of ordinary shares in issue (million shares)	**1,427**	1,427
Basic earnings per share (Rmb Yuan)	**0.19**	0.17

31 Dividends

The dividends paid in 2010 and 2009 were RMB114 million (RMB0.08 per share) and RMB57 million (RMB0.04 per share) respectively. A dividend in respect of the year ended 31 December 2010 of RMB0.11 per share, amounting to a total dividend of RMB157 million, is to be approved at the annual general meeting. These financial statements do not reflect this dividend payable.

For the year ended 31 December 2010
(All amounts in Rmb thousand unless otherwise stated)

32 Cash generated from operations

	2010	2009
Profit for the year	**275,156**	246,402
Adjustments for:		
– Taxation	**91,670**	91,319
– Amortisation of deferred revenue	**(1,314)**	—
– Depreciation and amortisation	**227,650**	201,208
– Impairment of assets	**—**	6,000
– Share of profit of an associate	**(1,448)**	(257)
– Investment income from available-for-sale financial assets	**—**	(200)
– Loss on disposal of property, plant and equipment	**47,553**	12,834
– Interest income	**(7,113)**	(16,753)
– Interest expense-net	**151,534**	209,627
Changes in working capital		
– Increase in inventories	**(22,823)**	(205)
– (Increase)/decrease in trade receivables, other receivables and prepayments	**(274,268)**	760,346
– Increase/(decrease) in trade payables, advance from customers and other payables	**40,359**	(42,766)
Cash generated from operations	**526,956**	1,467,555

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2010	2009
Net book amount	**68,671**	14,850
Loss on disposal of property, plant and equipment (Note (i))	**(47,553)**	(12,834)
Proceeds to be received from sales of property, plant and equipment	**(17,102)**	—
Proceeds from sale of property, plant and equipment	**4,016**	2,016

(i) Loss on disposal of property, plant and equipment is included in *Other losses - net* in Consolidated statement of comprehensive income.

(All amounts in Rmb thousand unless otherwise stated)

33 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	
	2010	2009	**2010**	2009
	Rmb' million	Rmb' million	**Rmb' million**	Rmb' million
Sewage water processing plants in:				
– Jing Hai	—	16	—	—
– Wu Han	—	162	—	24
– Qu Jing	—	30	—	45
– Ji Zhuang Zi (upgrade project)	**59**	115	—	120
– Xian Yang Lu (upgrade project)	**29**	50	**2**	154
– Bei Cang (upgrade project)	**26**	53	**1**	90
– Dong Jiao (upgrade project)	**52**	96	**69**	138
Water recycling plants in:				
– Dong Jiao recycling plants	—	1	—	48
– Bei Chen recycling plants	—	—	—	51
– Ji Zhuang Zi (expansion project)	—	18	**35**	36
	166	541	**107**	706

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34 Related party transactions

The Group is controlled by Tianjin Municipal Investment Company Limited (incorporated in PRC), which owns 51.83% of the Company's shares. The remaining 48.17% of the shares are widely held. The ultimate parent of the Group is Tianjin City Infrastructure Construction and Investment Group Company Limited ("TICIG", incorporated in the PRC, and funded by State-owned Assets Supervision and Administration Commission of Tianjin government).

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

(i) *Income:*

Related party	Nature of transaction	2010	2009
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant	**20,911**	—
TICIG	Rental income from TCEP building	**7,053**	4,854
Tianjin City Infrastructure Construction Project Management & Consultant Co., Ltd.	Rental income from TCEP building	**861**	—
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building	**674**	—
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects	**6,530**	—

The Group's pricing on construction contract service with related parties is based on the reference price for construction market stipulated by government. Rental income from related parties is negotiated by both parties involved in the lease and by making reference to the market price.

(ii) Key management compensation is disclosed in Note 26(d).

(iii) Trade receivables

	2010	2009
Trade receivables from related parities		
– TICIG	**4,038**	—
– Tianjin City Resource Operation Co., Ltd.	**674**	—

(b) Transactions/ balances with other state owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (hereinafter collectively referred to as "state-controlled entities").

During the year, the Group's significant transactions with these state controlled entities include processing of sewage water and construction and management of related facility and processing of tap water. As at year end, majority of the Group's cash and bank balances and borrowings are with state controlled banks.

35 Financial guarantee contracts

As at 31 December 2010, the Company had given guarantees of approximately RMB 799 million (2009: RMB 915 million) to banks of certain subsidiaries in respect of their banking facilities, of which RMB 749 million of the facilities had been drawn by the subsidiaries.

The Directors consider the subsidiaries to be financially resourceful to settle their obligations.

17. List of Documents Available for Inspection

1. The 2010 Annual Report and its summary signed by the Chairman of the Company;
2. The financial statements signed and sealed by the legal representatives of the Company, the officer-in-charge of the accounting work and the Officer-in-charge of the Accounting Department;
3. Originals of all documents and announcements publicly disclosed in newspapers designated by the CSRC during the reporting period;
4. The Articles of Association of the Company.