



*Interim Report for the six  
months ended 30th June 2011*



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

## I. IMPORTANT

- (1) The board of directors (the “**Board**”) and supervisory committee (the “**Supervisory Committee**”) of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) and its directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management confirm that the information in this 2011 interim report (the “**Interim Report**”) does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of the contents of this report.
- (2) The interim financial statements of the Company for the six months ended 30 June 2011 are unaudited.
- (3) The person in charge of the Company  
Officer in charge of the accounting work  
Officer in charge of the accounting department (the chief accountant)

Mr. Zhang Wenhui  
Ms. Shi Zhenjuan  
Ms. Shi Zhenjuan

Mr. Zhang Wenhui, the person in charge of the Company, and Ms. Shi Zhenjuan, the officer in charge of the accounting work and the accounting department (the chief accountant), have warranted the truthfulness and completeness of the financial reports contained in this Interim Report.

- (4) Did the controlling shareholder of the Company and its connected persons misappropriate the Company’s funds?

No.

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

No.

## II. COMPANY PROFILE

### (I) Information of the Company

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

## (II) Contact Persons and Contact Details

	<b>Secretary to the Board</b>	<b>Company Secretary in Hong Kong</b>	<b>Securities Affairs Representative</b>
Name	Ms. Fu Yana	Mr. Lo Wai Keung, Eric	Ms. Guo Fengxian
Correspondence address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, The People's Republic of China (the "PRC")	22/F, Worldwide House, Central, Hong Kong	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Telephone number	86-22-23930128	852-22180920	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
E-mail	fu_yn@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

## (III) Basic Information

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

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

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

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

Type of Shares	Place of Listing	Stock Short Name	Stock Code	Stock Short Name Before Change
A shares	Shanghai Stock Exchange (the “SSE”)	創業環保	600874	渤海化工
H shares	The Stock Exchange of Hong Kong Limited (the “HKSE”)	Tianjin Capital	1065	Tianjin Bohai

## (VI) Other Basic Information of the Company

Date of first registration of the Company	8 June 1993
The first registered address of the Company	No. 10 Hubei Road, Heping District, Tianjin, the PRC
Last changes	8 February 2010
Date of change in registration of the Company	
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

### III. PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS (AS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS)

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

Unit: '000 Currency: RMB

	As at the end of the current reporting period	As at the end of last year	Increase/Decrease as at the end of the current reporting period as compared to the end of last year (%)
Total assets	8,516,210	8,425,563	1.08
Equity interest attributable to the owners of the Company (or shareholders' equity)	3,431,252	3,450,573	-0.56
Net assets per share (RMB/share) attributable to the shareholders of the Company	2.40	2.42	-0.83
	Reporting period (January – June)	Same period of last year	Increase/Decrease for the current reporting period as compared to the same period last year (%)
Operating profit	194,800	188,528	3.33
Total profit	185,698	177,434	4.66
Net profit attributable to the shareholders of the Company	137,674	129,701	6.15
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	144,500	138,021	4.69
Basic earnings per share (RMB)	0.10	0.09	11.11
Basic earnings per share after deduction of extraordinary items (RMB)	0.10	0.10	—
Diluted earnings per share (RMB)	0.10	0.09	11.11
Return on net assets ratio (%)	4.00	4.00	—
Net cash flow from operating activities	355,697	56,723	527.08
Net cash flow per share from operating activities (RMB)	0.25	0.04	525

## 2. Extraordinary profit and loss items and amounts

Unit: '000 Currency: RMB

<b>Extraordinary items</b>	<b>Amount</b>
Profit/loss from disposal of non-current assets	-13,468
Other non-operating income and expenses except for the above items	4,366
Income tax effect	2,276
Total	-6,826

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

No differences exist in net profit and net assets.

## IV. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### (I) Table of share changes

There were no changes in the total number of shares and share capital structure of the Company during the reporting period.

### (II) Shareholders and actual controller

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

Total number of shareholders as at the end of the reporting period 98,773 shareholders, including 108 shareholders holding H shares

## Shareholdings of the top ten shareholders

Shareholders	Nature of shareholders	Percentage of shareholding (%)	Total number of shares held (shares)	Increase/Decrease during the reporting period (shares)	Number of restricted circulating shares held (shares)	Number of shares pledged or frozen (shares)
Tianjin Municipal Investment Company Limited (“TMICL”)	State-owned	51.83	739,781,100	0	0	Pledged 251,940,000
HKSCC Nominees Limited	Others	23.36	333,406,900	-1,174,000	0	Unknown
Zhou Jun	Others	0.42	5,975,000	-202,700	0	Unknown
Shenyang Railway Coal Dealing Co., Ltd.	Others	0.21	3,000,000	0	0	Unknown
Agricultural Bank of China - Soochow CSI Emerging Industry Index Fund (中國農業銀行股份有限公司－東吳中證新興產業指數證券投資基金)	Others	0.16	2,318,354	2,318,354	0	Unknown
China Resources SZITIC Trust Company Limited - 3rd Round Sanyany Securities Investment Collective Fund Trust Scheme (華潤紳國投信託有限公司一三羊卓越3期證券集合資金信託計劃)	Others	0.16	2,308,550	2,308,550	0	Unknown
HO MAN PING	Others	0.14	2,014,000	0	0	Unknown
Wang Gen Yi	Others	0.11	1,536,147	1,536,147	0	Unknown
FUNG CHUN KIT	Others	0.08	1,130,000	0	0	Unknown
Chen Ceng	Others	0.07	1,005,000	-230,000	0	Unknown

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

Shareholders	Number of non-restricted circulating shares held	Type of shares
TMICL	739,781,100	RMB Ordinary Shares
HKSCC Nominees Limited	333,406,900	H Shares
Zhou Jun	5,975,000	RMB Ordinary Shares
Shenyang Railway Coal Dealing Co., Ltd.	3,000,000	RMB Ordinary Shares
Agricultural Bank of China - Soochow CSI Emerging Industry Index Fund (中國農業銀行股份 有限公司－東吳中證新興 產業指數證券投資基金)	2,318,354	RMB Ordinary Shares
China Resources SZITIC Trust Company Limited - 3rd Round Sanyany Securities Investment Collective Fund Trust Scheme (華潤紳國投信託有限公司 一三羊卓越3期證券 集合資金信託計劃)	2,308,550	RMB Ordinary Shares
HO MAN PING	2,014,000	H Shares
Wang Gen Yi	1,536,147	RMB Ordinary Shares
FUNG CHUN KIT	1,130,000	H Shares
Chen Ceng	1,005,000	RMB Ordinary Shares

Notes on the connected relationship or parties acting in concert among the above shareholders

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

- (1) According to the register of members of the Company as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. There was no client who owned 5% or more interest in the total share capital of the Company.
- (2) The top ten shareholders are not strategic investors of the Company.



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

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

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

As at 30 June 2011, the following entity, other than the Directors, Supervisors or chief executive of the Company, had interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

Name of shareholder	Capacity	Number and class of securities (Note)	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 Shares A Shares (L)	68.04%	51.83%
Edmond de Rothschild Asset Management	Investment manager	33,900,000 Shares H Shares (L)	9.97%	2.38%
Edmond de Rothschild Asset Management Hong Kong Limited	Investment manager	33,300,000 Shares H Shares (L)	9.79%	2.33%
ISIS Asset Management Plc.	Investment manager	17,286,000 Shares H Shares (L)	5.08%	1.21%
HSBC Asset Management (Hong Kong) Limited	Investment manager	20,000,000 Shares H Shares (L)	5.88%	1.40%

*Note:* The letter "L" represents the entity's long positions in the shares.

Save as disclosed above, there is no person (other than the Directors, Supervisors or chief executive of the Company) who, as at 30 June 2011, had an interest and/or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

## V. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

As at 30 June 2011, the interests and/or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Rules Governing the Listing of Securities on the HKSE (the “Listing Rules”), to be notified to the Company and the HKSE were as follows:

Name	The Company / name of associated corporations	Capacity	Number and class of securities (Note)	Approximate percentage in the total issued share capital of the Company / associated corporations
<b>Supervisor</b>				
Nie Youzhuang	The Company	Beneficial owner	959 domestic shares (non-restricted circulating shares) (L)	0.00007

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

Save as disclosed above, none of the Directors, Supervisors or chief executives of the Company, who, as at 30 June 2011, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the HKSE.

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

Due to work allocation, Ms. Zhong Huifang, the Director and deputy general manager of the Company, resigned as the deputy general manager of the Company on 8 April 2011. Ms. Zhong Huifang continues to be the Director of the Company.

## **VI. REPORT OF THE BOARD**

### **(I) Discussion and analysis of the overall operations during the reporting period**

The year 2011 is the commencement year of the Twelfth Five-year Plan for the Company and its subsidiaries (“**the Group**”). Facing development opportunities and challenges of the industry and under the economic background of inflation and macro-economic controls during the first half of 2011, the Group under the leadership of the Board had strengthened internal control management and increased technology research and development in accordance with the operation strategies and operational plans for 2011, to further enhance the competitive advantages and market position of the Group in the sewage water treatment area, and further drive the extension of the industrial chain in the Group’s construction business, energy business as well as the business of research and development, export and conversion of technologies. In the first half of 2011, the overall operations of the Group were as follows:

As at the end of the reporting period, the Group had total assets in the amount of RMB8.52 billion and net assets in the amount of RMB3.43 billion. During the reporting period, the operating income of the Group was RMB750.479 million, increased by 11% as compared to the same period last year. The operating profit was RMB194.80 million, increased by 3.3% as compared to the same period last year. The net profit was RMB137.674 million (excluding profit and loss attributable to minority shareholders), increased by 6.1% as compared to the same period last year. These were mainly attributable to the availability of business tax preferential policy on sewage water treatment for the Company in the current period and the increased profitability of some subsidiaries during the current period.

## (II) Principal business of the Group and its operations

As at the end of the reporting period, the capacity of the sewage water treatment business of the Group was 3.145 million cubic metres per day (excluding entrusted operation projects), increased by 35,000 cubic metres per day as compared to the same period last year. During the reporting period, the Group had a total sewage water treatment volume of 406.786 million cubic metres, increased by 5.2% as compared to the same period last year. These were mainly attributable to an increase in the incoming volume of sewage water at the four sewage water treatment plants of the Company, namely in Jizhuangzi and the sewage water treatment plants of three subsidiaries in Qujing, Fuyang and Baoying. Income from sewage water treatment services during the reporting period was RMB552.514 million, increased by 6% as compared to the same period last year. The profit margin of the business had declined as costs increased by 14%.

During the reporting period, the Group continued to apply great efforts to boost the sewage water treatment plant operation services and technical services, and generated a revenue of RMB17.09 million, representing an increase of 11.92% as compared to the same period last year.

As at the end of the reporting period, the production capacity of recycled water business of the Group was 190,000 cubic metres per day, in line with the capacity for the same period last year. During the reporting period, the sales volume of recycled water of the Group was 5.955 million cubic metres, increased by 10.8% as compared to the same period last year. The increase in the sales volume was mainly attributable to the entry of the mature water usage period by the users of the Dongjiao recycled water plant with an increasing trend of water usage volume. Revenue from the recycled water pipeline connection business was RMB23.33 million, representing an increase of 112.99% as compared to the same period last year, which was mainly attributable to an increase in the volume of such business during the reporting period.

As at the end of the reporting period, the production capacity of tap water of the Group was 240,000 cubic metres per day, at the same level as the same period last year. During the reporting period, the sales volume of tap water business of the Group was 19.715 million cubic metres, increased by 10.6% as compared to the same period last year. This was mainly attributable to a significant increase in the water sales volume by the subsidiary in Anguo as compared to the same period last year. The tap water business generated a sales revenue of RMB19.836 million, representing an increase of 13% as compared to the same period last year. With further enhancement in operational management and more efforts to reduce operational costs, the operational costs only increased by approximately 2% as compared to last year, with an increase in operating profit margin as compared to the same period last year.

During the reporting period, the toll collection business of the Group realized RMB33.51 million in revenue, which was similar to the level recorded during the same period last year. According to the relevant national requirements, the collection of toll for Tianjin City Indebted Road ceased on 1 January 2010, and the toll collection from 6 toll stations in which the Company owned the rights of toll collection also ceased. 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 was still able to recognize income from the road toll business based on the amount stated in the “Subcontracting Toll Collection Agreement” during the reporting period.

### **(III) New business of the Group**

During the reporting period, in order to enhance the comprehensive competitiveness of the Group and create new spots for profit growth, the Company established Tianjin Jiayuanxing Innovative Energy Technology Company Limited (天津佳源興創新能源科技有限公司) in February 2011 out of its own funds, with a registered capital of RMB10 million, and the capital contribution ratio was 100%. This company has undertaken the construction work and operational management of the Tianjin Cultural Centre centralized energy station project. The Tianjin Cultural Centre centralized energy station project is the first non-water project operated by way of licensed operation by the Group, implying the successful expansion of the Group into new business areas.

During the reporting period, the Company had changed the name of Tianjin Kaiying Environmental Engineering Technology Consulting Limited to Tianjin Kaiying Technology Development Company Limited (天津凱英科技發展有限公司). After the capital injection of RMB3 million by the Company, the business scope of this company was changed, which mainly comprises the development of environmental protection technologies and products, mechanical equipment, and the development, consultancy services and transfer of computer software, etc.

## 1. Principal businesses by industry

Unit: '000 Currency: RMB

By industry	Operating revenue	Operating cost	Operating profit margin (%)	Increase/decrease in operating revenue as compared to the same period last year (%)	Increase/decrease in operating cost as compared to the same period last year (%)	Increase/decrease in operating profit margin as compared to the same period last year (%)
Sewage water treatment and sewage water treatment plant construction business	635,163	369,558	41.82	8.5	16.81	-4.14
Toll collection business	33,518	3,560	89.38	0.02	0	0
Tap water supply business	19,836	13,056	34.18	13.05	1.91	7.19
Recycled water pipeline connection and water supply business (Note (1))	33,856	24,905	26.44	57.14	43.68	6.89
Other business (Note(2))	2,862	2,097	26.75	—	—	—

### Notes:

- (1) There was a new additional project of pipeline connection business of Tianjin Water Recycling Company Limited, hence both revenue and costs increased year-on-year;
- (2) This includes the revenue of ancillary engineering projects of Tianjin Kaiying Technology Development Company Limited and the revenue from integrated system and software technology services of Environmental Data Management System (Hong Kong) Company Limited (環境數據管理系統(香港)有限公司) newly acquired by Tianjin Capital Environmental Protection (Hong Kong) Company Limited in 2010.

## 2. Principal businesses by geographical regions

Unit: '000 Currency: RMB

Region	Operating revenue	Increase/Decrease in operating revenue as compared to the same period last year (%)
Tianjin	515,577	10.08
Qijing	37,757	69.29 <sup>(Note)</sup>
Guizhou	12,118	-1.58
Fuyang	17,034	-1.07
Baoying	6,082	20
Hangzhou	68,235	3.08
Hong Kong	385	—
Wendeng	11,446	-0.48
Xi'an	37,171	1.06
Anguo	6,244	2.18
Wuhan	13,186	8.2
Total	725,235	10.21

Note: Revenue from principal operations of Qijing Capital Water Company Limited increased by a larger extent as compared to the same period last year, which was mainly attributable to the water price adjustments for the sewage water business and the receipt of compensation for price differences, and revenue for the current period was also recognized according to the post-adjustment water price.

**(IV) Explanation on significant changes in principal financial data as compared to the same period last year**

As at 30 June 2011, the Group had total assets in the amount of RMB8.51621 billion, increased by 1.08% or RMB90.647 million as compared to the beginning of the year. Total liabilities were RMB4.957325 billion, increased by 2.23% or RMB107.931 million as compared to the beginning of the year. Equity interest attributable to the shareholders of the Company was RMB3.431252 billion, decreased by 0.56% or RMB19.321 million as compared to the beginning of the year. Net profit attributable to the Company for the first half of 2011 was RMB137.674 million, increased by 6.15% as compared to the same period last year. Analysis of items with more significant changes is set out below:

Unit: '000 Currency: RMB

Items	As at 30 June 2011	As at 31 December 2010	Amount increased/ decreased	Change (%)	Explanation of change
Inventory	58,686	32,476	26,210	80.71	Increase in inventory was mainly new inventories added during the current period by the BT project of the subsidiary, Tianjin Zichuang Engineering Investment Company Limited.
Non-current liabilities due within one year	813,688	360,180	453,508	125.91	Were the medium to long term floating loans of the Company due within one year.
Items	Jan-Jun 2011	Jan-Jun 2010	Amount increased/ decreased	Change (%)	Explanation of change
Business tax and surcharge	3,608	20,010	-16,402	-81.97	A significant reduction in business tax and surcharge was attributable to the availability of sewage water treatment business tax preferential policy to the Company since 2011.
Non-operating income	4,422	2,120	2,302	108.59	Non-operating income mainly comprises income from government subsidies received during the current period by the Chibi subsidiary of the Wuhan subsidiary.



Items	Jan-Jun 2011	Jan-Jun 2010	Amount increased/ decreased	Change (%)	Explanation of change
Net cash flows from operating activities	355,697	56,723	298,974	527.08	Recovery of accounts receivables of the Company for the current period was better than the same period last year, as a result of the recovery of part of the outstanding sewage water treatment fees and construction and management fees carried forward from the previous year.
Net cash flows from investing activities	-209,666	-285,194	75,528	-26.48	The new construction and restructuring projects of the sewage water treatment plant and recycled water plant of the Group were close to completion during the current period, infrastructural expenditure incurred was less than the same period last year.
Net cash flows from financing activities	-175,322	168,960	-344,282	-203.77	Borrowings of the Group during the current period was less than the repayment amount, resulting in a net outflow from financing activities.
Net increase in cash and cash equivalents	-29,291	-59,511	30,220	-50.78	As a result of the cash flows from the above three activities, a net outflow of cash and cash equivalents was recorded for the current period.

## (V) Investment of the Company

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

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

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

(1) The upgrading and renovation projects of four sewage water treatment plants in Tianjin, namely, Xianyanglu, Beicang, Jizhuangzi and Dongjiao: The investor was the Company and the estimated total investment amount was approximately RMB1.178 billion. During the reporting period, an investment of RMB85 million in these projects was completed, and the cumulative completed investment amount was RMB716 million. During the reporting period, the project had completed test run and achieved target performance. Currently, the projects are in the stage of project finishing and settlement of project accounts.

- (2) Jizhuangzi recycled water plant reconstruction and expansion project: The investor was the Group's subsidiary, Tianjin Water Recycling Company Limited, and the estimated total investment amount of the project was RMB87.57 million. During the reporting period, an investment of RMB2.04 million in this project was completed, and the cumulative completed investment amount was RMB74.14 million. The project has been basically completed and is in the stage of joint testing and trial operation. Currently, the project is in the stage of project finishing and settlement of project accounts.
- (3) Tianjin Cultural Centre centralized energy station project: The investor was the Group's subsidiary, Tianjin Jiayuanxing Innovative Energy Technology Company Limited (天津佳源興創新能源科技有限公司), and the estimated total investment amount of the project was approximately RMB433 million. During the reporting period, an investment of RMB30 million was completed and the cumulative completed investment amount was RMB30 million.
- (4) The Yongan sewage water system project under the Xianning City River Gan sewage water integrated treatment engineering project: The investor was the Group's subsidiary, Wuhan Tianchuang Environmental Protection Company Limited, and the estimated total investment amount of the project was approximately RMB198 million. During the reporting period, an investment of RMB2.67 million was completed, and the cumulative completed investment amount was RMB85 million. The project has been basically completed and is currently in the stage of project finishing and settlement of project accounts.
- (5) Wendeng City Gejia Town sewage water treatment plant project: The investor was the Group's subsidiary, Wendeng Capital Water Company Limited, and the estimated total investment amount of the project was RMB18.10 million. During the reporting period, an investment of RMB4.70 million was completed, and the cumulative completed investment amount was RMB12.55 million. The project has been basically completed, and is currently in the test run and trial operation stage.
- (6) Purchase and installation of equipment with capacity of 50,000 tonnes per day for Phase 1 of the Qige sewage water treatment plant project: The investor was the Group's subsidiary, Hangzhou Tianchuang Water Company Limited, and the estimated total investment amount of the project was RMB22.99 million. During the reporting period, an investment of RMB10.34 million was completed and the cumulative completed investment amount was RMB11.69 million. It is currently in the testing stage for water connection and trial operation.
- (7) Phase 2 of the Baoying Xianhe sewage water treatment plant project: The investor was the Group's subsidiary, Baoying Capital Water Company Limited. The estimated total investment amount of the project was RMB44.68 million. During the reporting period, an investment of RMB7.33 million was completed and the cumulative completed investment amount was RMB7.33 million.

- (8) Ninghe Modern Industrial Zone sewage water treatment plant project: The investor was the Group's subsidiary, Jinning Capital Environmental Water Company Limited. The estimated total investment amount of the project was RMB46.61 million. During the reporting period, an investment of RMB650,000 was completed and the cumulative completed investment amount was RMB650,000.
- (9) City water supply system of Anguo City reconstruction and expansion project: The investor was the Group's subsidiary, Anguo Capital Water Company Limited. The estimated total investment amount of the project was RMB33.01 million. During the reporting period, an investment of RMB2.19 million was completed and the cumulative completed investment amount was RMB25.59 million. Currently, the project has been fully completed and is in the process of settlement of project accounts.
- (10) Tianjin Ziya Circular Economy Industrial Zone sewage water treatment plant (Phase 1) project: The project was a BT project financed and constructed by the Group's subsidiary, Tianjin Zichuang Engineering Investment Company Limited. The project investment (the winning bid price) was approximately RMB76.80 million. During the reporting period, an investment of RMB11.50 million was completed and the cumulative completed investment amount was RMB32.27 million.
- (11) During the reporting period, the Group established Tianjin Jiayuanxing Innovative Energy Technology Company Limited (天津佳源興創新能源科技有限公司) out of its own funds, with a registered capital of RMB10 million, and the capital contribution ratio by the Group was 100%. In addition, capital injections were made by the Group to its subsidiaries, Wendeng Capital Water Company Limited, Tianjin Kaiying Technology Development Company Limited and Qujing Capital Water Company Limited according to their project operations. The amounts of capital injections were RMB4 million, RMB3 million and RMB25.2196 million, respectively. Subsequent to the capital injections, the registered capital of the above subsidiaries were RMB52 million, RMB5 million and RMB148 million, respectively. The Group's capital contribution ratio remained unchanged. It is still holding 100% equity interest in Wendeng Capital Water Company Limited, 100% equity interest in Tianjin Kaiying Technology Development Company Limited and 90.07% equity interest in Qujing Capital Water Company Limited.
- (12) During the reporting period, the Group completed the acquisition of equity interest in Tianjin Water Recycling Company Limited and Fuyang Capital Water Company Limited by acquiring the 2% equity interest in Tianjin Water Recycling Company Limited held by Tianjin Municipal Highway Assets Management Centre and 1.43% equity interest in Fuyang Capital Water Company Limited held by Guizhou Company. As a result, Tianjin Water Recycling Company Limited and Fuyang Capital Water Company Limited became wholly-owned subsidiaries of the Group.

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

There were no seasonal changes in the Group's borrowings requirement. As at 30 June 2011, there were no outstanding bank loans and interests not repaid upon maturity. Details of the bank borrowings of the Group are stated in the notes to the condensed consolidated financial statements of the Company as at 30 June 2011.

According to the accounting report prepared in accordance with the PRC Enterprise Accounting Standards, the gearing ratio was 58.21% as at 30 June 2011.

## **(VII) Foreign exchange risk**

The operations and customers of the Group's subsidiaries are located in the PRC. Most of the operating assets and transactions are settled in RMB, and all of the Group's borrowings are denominated in RMB. Therefore, the Group has no significant foreign exchange risk. The sole foreign exchange exposure of the Group arises from long-term payables. Such long-term payables are resulted from the Asset Transfer Agreement signed between the Company and Tianjin Sewage Company on 9 November 2011 for the purchase of assets generated from foreign bank loans, involving mainly US dollars and Japanese Yen.

As at 30 June 2011, if RMB had weakened/strengthened by 5% against the US dollar, with all other variables held constant, the after tax profit for the year would have been RMB6 million (2010: RMB4 million) lower/higher, mainly as a result of the foreign exchange losses/gains on the translation of US dollar-denominated portion of long-term payables. As at 30 June 2011, if RMB had weakened/strengthened by 5% against Japanese Yen, with all other variables held constant, the after tax profit for the year would have been RMB12 million lower/higher (2010: RMB12 million).

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

As at 30 June 2011, the Group had 1,355 employees. During the reporting period, total remuneration paid to employees of the Group was approximately RMB53,862,400. The Group adopted a wage system in accordance with post ranks. An employee's income was also pegged with his own length of service, education, skills as well as the economic benefits to the Group.

#### (IV) Risk factors analysis

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 rights for operating existing municipal public utility projects within the scope of regulation may be granted directly to the original operator after being reviewed by the municipal construction and administration authority and approved by the Municipal People’s Government, and a licensed operation agreement will be signed between the municipal construction and administration authority and the operator. The Group had submitted applications for the licensed operation of four sewage water treatment plants located at the Tianjin city central area to the Tianjin construction and administration authority after the implementation of the Administrative Measures (in November 2005).

The major provisions of the Administrative Measures in respect of licensed operation are as follows:

- a. Licensed operators of new projects shall be ascertained by public tenders;
- b. The municipal construction and administration 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 maximum term of licensed operation shall not exceed 30 years;
- e. License rights for operating existing municipal public utility projects may be granted directly to the original operator after being reviewed by the municipal construction and administration authority and approved by the Municipal People’s Government, and a licensed operation agreement will be signed between the municipal construction and administration authority and the operator.

Currently, the Group is in the negotiation process with the relevant authority of Tianjin on the license rights.

#### (X) Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2011.

## **(XI) Rights of debt**

As at 30 June 2011, pursuant to the “Sewage Water Processing Agreement”, “Sewage Water Processing Interim Service Agreement” and “Construction in Progress Fee Agreement” entered into between the Company and Tianjin Sewage Company, total receivables and long-term receivables of the Company from Tianjin Sewage Company amounted to RMB950,970,000, representing approximately 13.35% of the total market capitalization of the Company as at 30 June 2011.

During the reporting period, Tianjin Sewage Company repaid a total of approximately RMB172,410,000 of the outstanding sewage water treatment fees to the Group and repaid approximately RMB173,000,000 of construction fees of sewage water treatment plant to the Group.

## **(XII) Charge on assets**

The Group did not charge any assets of the Company and its subsidiaries as at 30 June 2011.

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

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

## **VII. SIGNIFICANT MATTERS**

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

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

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

As at the end of the reporting period, the Group had established a sound internal control system. The year 2011 was the first year of implementing the “Corporate internal control package guidelines”. The Group had formulated a detailed work plan at the beginning of the year which was followed strictly to facilitate better implementation of the internal control system in the Group. In the first half of 2011, the Group had completed all the improvements to various systems of the Group and the subsidiaries by reference to the “Package Guidelines” on existing basis.

In the second half of the year, the focus of internal control work in the Group will shift from system establishment to systems design and implementation appraisals. Through facilitating the implementation of the “Corporate internal control package guidelines” in the Group, the internal control system of the Group can enter into a good circulating cycle that will further enhance the building of the Group’s internal control system.

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

In the 2010 Annual General Meeting, the 2010 profit appropriation plan was considered and approved. The Company made a payment of RMB0.11 (including tax) in cash per share to holders of A shares and RMB0.11 (equivalent to HK\$0.13157) (including tax) per share to holders of H shares. The Company published an announcement relating to dividend payment to A shares shareholders in the PRC on 30 June 2011. The shareholding registration date was 5 July 2011. The Company also published a notice of 2010 Annual General Meeting in Hong Kong on 24 March 2011. The shareholding registration date was 12 April 2011. Distribution of the dividends to the holders of A shares and H shares has been completed on 12 July 2011.

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

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

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

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

In the 2010 Annual General Meeting, the 2010 profit appropriation plan was considered and approved. The Company made a payment of RMB0.11 (including tax) in cash per share to holders of A shares and RMB0.11 (equivalent to HK\$0.13157) (including tax) per share to holders of H shares. The Company published an announcement relating to dividend payment to A shares shareholders in the PRC on 30 June 2011. The shareholding registration date was 5 July 2011. The Company also published a notice of 2010 Annual General Meeting in Hong Kong on 24 March 2011. The shareholding registration date was 12 April 2011. Distribution of the dividends to the holders of A shares and H shares has been completed on 12 July 2011.

### **(IV) Significant litigation and arbitration**

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



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

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

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

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

#### **(VII) Asset transactions**

On 9 November 2010, 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 Group’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 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.

The property rights of such assets were all transferred to the Company at the end of December 2010. During the reporting period, the Group paid the consideration of the transferred assets in accordance with the above payment method (b).

For details about this transaction, please see the Company's announcement dated 9 November 2010.

**(VIII) Major connected transactions**

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

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

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

**(1) Custody**

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

**(2) Subcontracting**

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

**(3) Leasing**

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

## 2. Guarantee

Unit: 0'000 Currency: RMB

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

Total amount of guarantee granted during the reporting period (excluding guarantee provided to the subsidiaries of the Company)	0
Total amount of outstanding guarantee as at the end of the reporting period (A) (excluding guarantee provided to the subsidiaries of the Company)	0

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

Total amount of guarantee provided to the subsidiaries of the Company during the reporting period	0
Total amount of outstanding guarantee provided to the subsidiaries as at the end of the reporting period (B)	76,268

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

Total amount of guarantee (A+B)	76,268
Percentage of the total amount of guarantee to the net assets of the Company (%)	22.23
Of which:	
Amount of guarantee provided to the shareholders, actual controller and other related parties (C)	0
Amount of guarantee provided directly or indirectly to the borrowers with gearing ratio of over 70% (D)	0
Total amount of guarantee exceeds 50% of net assets (E)	0
Total amount of the above three guarantees (C+D+E)	0

## 3. Entrusted financial management and entrusted loans

### (1) Entrusted financial management

The Group had no entrusted financial management matters during the reporting period.

### (2) Entrusted loans

The Group did not have any entrusted loans during the reporting period.

#### 4. Other major contracts

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

#### (X) Implementation of commitments

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

- (1) As at the date of disclosure of the Interim Report, was there any business results commitment not yet fully performed: No.
- (2) As at the date of disclosure of the Interim Report, was there any commitment for asset injection or consolidation not yet fully performed: No.

#### (XI) Appointment and removal of the accountants

Does the Group change its accountants?	No
	<b>Present Appointment</b>
Name of the PRC accountants	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
Auditing services rendered by the PRC accountants	17 years
Name of the Hong Kong accountants	PricewaterhouseCoopers
Auditing services rendered by the Hong Kong accountants	17 years

During the reporting period, the Group did not change its accountants. The PRC auditor of the Group is PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company. The Hong Kong auditor of the Group is PricewaterhouseCoopers. A total of approximately RMB4.2 million was paid to the two auditors for auditing services rendered in 2010. As at the end of the reporting period in 2010, the above two accountants have rendered auditing services to the Group for 17 years. During the past three years, the Group did not change its auditors.

#### (XII) Punishments and rectification to listed company and its directors, supervisors, senior management, shareholders and actual controllers

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

#### (XIII) Explanation of other major events

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

#### (XIV) 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 13 <sup>th</sup> Meeting of the Fifth Board	“Shanghai Securities News” page B6	24 January 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Continuing Connected Transactions		4 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Discloseable Transaction in Relation to the Project of the Centralized Energy Stations of Tianjin Cultural Centre	“Shanghai Securities News” page B57	16 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Provision of Guarantee for Loans of Qijing Capital Water Co., Ltd.	“Shanghai Securities News” page B96	24 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Social Responsibility Report 2010		24 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Report on Self-assessment of Internal Control 2010		24 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
Notice of 2010 Annual General Meeting	“Shanghai Securities News” pages B96	24 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement of Final Results for the Year Ended 31 December 2010	“Shanghai Securities News” pages B95 and B96	24 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Resolutions Passed at the 6 <sup>th</sup> Meeting of the Fifth Supervisory Committee	“Shanghai Securities News” pages B96	24 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Resolutions Passed at the 16 <sup>th</sup> Meeting of the Fifth Board	“Shanghai Securities News” page B96	24 March 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Resolution Passed at the 17 <sup>th</sup> Meeting of the Fifth Board	“Shanghai Securities News” page B23	8 April 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Continuing Connected Transaction		15 April 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Annual Report 2010		21 April 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Connected Transactions Management System		28 April 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
Detailed Implementation Rules of the Audit Committee of the Board		28 April 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Provision of Guarantee for Loans of Xi'an Capital Water Co., Ltd.	"Shanghai Securities News" page B67	28 April 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
First Quarterly Report 2011	"Shanghai Securities News" page B67	28 April 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Resolutions Passed at the 19 <sup>th</sup> Meeting of the Fifth Board	"Shanghai Securities News" page B67	28 April 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Work System of the Company Secretary to the Board		13 May 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement on Resolutions Passed at the 2010 Annual General Meeting	"Shanghai Securities News" page B29	13 May 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Provision of Guarantee for Loans of Baoying Capital Water Co., Ltd.	"Shanghai Securities News" page B22	31 May 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Provision of Guarantee for Loans of Qujing Capital Water Co., Ltd.	"Shanghai Securities News" page B22	31 May 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
Announcement in Relation to the Resolutions Passed at the 21 <sup>st</sup> Meeting of the Fifth Board	“Shanghai Securities News” page B22	31 May 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement on the Implementation of 2010 Profit Distribution for A Shares	“Shanghai Securities News” page B22	29 June 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Resolutions Passed at the 22 <sup>nd</sup> Meeting of the Fifth Board		30 June 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Announcement in Relation to the Provision of Guarantee for Loans and Performance Letters of Tianjin Jiayuanxing Innovative Energy Technology Company Limited		30 June 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>
Notice of 2011 First Extraordinary General Meeting		30 June 2011	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd: <a href="http://ifn.com.hk/ir/tjcep/">http://ifn.com.hk/ir/tjcep/</a>



## VIII. FINANCIAL ACCOUNTING REPORT (UNAUDITED)

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

#### CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2011

(All amounts in Rmb thousand unless otherwise stated)

		As at	
		30 June 2011	31 December 2010
	Note	Unaudited	Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	3,222,355	3,230,110
Investment property		117,791	119,628
Intangible assets	7	2,440,243	2,427,782
Land use rights		457,563	462,868
Investment in an associate	8	41,094	41,583
Available-for-sale financial assets		4,000	4,000
Trade receivables due after one year	9	68,794	68,794
Long-term receivables	10	337,371	336,286
Other non-current assets		7,176	7,458
		<u>6,696,387</u>	<u>6,698,509</u>
<b>Current assets</b>			
Inventories		58,686	32,476
Trade receivables	9	1,089,621	996,949
Other receivables		58,368	53,540
Prepayments		102,109	103,759
Cash and cash equivalents		511,039	540,330
		<u>1,819,823</u>	<u>1,727,054</u>
<b>Total assets</b>		<u><u>8,516,210</u></u>	<u><u>8,425,563</u></u>

		As at	
	Note	30 June 2011 Unaudited	31 December 2010 Audited
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	11	1,427,228	1,427,228
Other reserves		685,343	685,343
Retained earnings		1,318,681	1,338,002
– Proposed final dividend		—	156,995
– Undistributed		1,318,681	1,181,007
		3,431,252	3,450,573
<b>Non-controlling interests</b>		127,633	125,596
<b>Total equity</b>		3,558,885	3,576,169
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	12	2,263,778	2,838,538
Deferred revenue		288,169	284,974
Deferred income tax liabilities		42,547	38,427
		2,594,494	3,161,939
<b>Current liabilities</b>			
Trade payables	13	24,685	22,729
Advances from customers		350,719	310,478
Wages payables		5,339	7,374
Income tax payable		11,408	8,757
Other taxes payable		2,801	7,674
Dividend payable		157,982	1,056
Other payables		302,469	274,991
Borrowings	12	1,507,428	1,054,396
		2,362,831	1,687,455
<b>Total liabilities</b>		4,957,325	4,849,394
<b>Total equity and liabilities</b>		8,516,210	8,425,563
<b>Net current assests/(liabilities)</b>		(543,008)	39,599
<b>Total assets less current liabilities</b>		6,153,379	6,738,108
<b>Zhang Wenhui</b>	<b>Lin Wenbo</b>		
Director	Director		

The notes form an integral part of this condensed consolidated interim financial information.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

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

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2011</b>	<b>2010</b>
Revenue	6(a)	725,235	658,029
Business tax		(3,608)	(20,010)
Cost of sales		(413,176)	(350,079)
<b>Gross profit</b>		<u>308,451</u>	<u>287,940</u>
Other income - net	6(a)	4,237	12,465
Administrative expenses		(50,172)	(59,610)
<b>Operating profit</b>	14	262,516	240,795
Finance costs - net	15	(76,329)	(63,444)
Share of profits /(loss) of an associate		(489)	83
<b>Profit before income tax</b>		185,698	177,434
Income tax expense	16	(45,987)	(47,160)
<b>Profit for the period</b>		<u>139,711</u>	<u>130,274</u>
Other comprehensive income for the period, net of tax		—	—
<b>Total comprehensive income for the period</b>		<u><u>139,711</u></u>	<u><u>130,274</u></u>
<b>Profit /Total comprehensive income attributable to:</b>			
– equity holders of the Company		137,674	129,701
– non-controlling interests		2,037	573
		<u>139,711</u>	<u>130,274</u>
<b>Earnings per share for profit attributable to the equity holders of the Company (in Rmb per share)</b>			
– basic		<u>Rmb0.10</u>	<u>Rmb0.09</u>
– diluted		<u>Rmb0.10</u>	<u>Rmb0.09</u>
<b>Interim dividends</b>	17	—	—

The notes form an integral part of this condensed consolidated interim financial information.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

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

	Note	Equity holders of the Company			Unaudited	Non-controlling interests	Total
		Share capital	Other Reserves	Retained Earnings	Sub-total		
<b>Balance at 1 January 2011</b>		1,427,228	685,343	1,338,002	3,450,573	125,596	3,576,169
<b>Comprehensive income</b>							
– Profit for the period		—	—	137,674	137,674	2,037	139,711
<b>Total comprehensive income</b>		—	—	137,674	137,674	2,037	139,711
<b>Transactions with owners</b>							
– Dividends distributed	17	—	—	(156,995)	(156,995)	—	(156,995)
<b>Total transactions with owners</b>		—	—	(156,995)	(156,995)	—	(156,995)
<b>Balance at 30 June 2011</b>		1,427,228	685,343	1,318,681	3,431,252	127,633	3,558,885
<b>Balance at 1 January 2010</b>		1,427,228	659,462	1,206,901	3,293,591	121,920	3,415,511
<b>Comprehensive income</b>							
– Profit for the period		—	—	129,701	129,701	573	130,274
<b>Total comprehensive income</b>		—	—	129,701	129,701	573	130,274
<b>Transactions with owners</b>							
– Dividends distributed	17	—	—	(114,178)	(114,178)	—	(114,178)
<b>Total transactions with owners</b>		—	—	(114,178)	(114,178)	—	(114,178)
<b>Balance at 30 June 2010</b>		1,427,228	659,462	1,222,424	3,309,114	122,493	3,431,607

The notes form an integral part of this condensed consolidated interim financial information.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Cash generated from operation	389,246	81,840
PRC income tax paid	(39,216)	(28,082)
Interest received	5,667	2,965
	<u>355,697</u>	<u>56,723</u>
<b>Net cash flows from operating activities</b>		
<b>Cash flows from investing activities</b>		
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(208,088)	(286,409)
Net cash received from disposal of fixed assets	658	1,215
Dividend received	200	—
Cash paid to acquire equity investment	(2,436)	—
	<u>(209,666)</u>	<u>(285,194)</u>
<b>Net cash flows from investing activities</b>		
<b>Cash flows from financing activities</b>		
Payments of interest expenses and distribution of dividends of profits	(71,189)	(73,426)
Repayments of bank borrowing	(272,613)	(42,250)
Proceeds of bank borrowing	161,200	286,000
Cash received/(paid) relating to other financing activities	7,280	(1,364)
	<u>(175,322)</u>	<u>168,960</u>
<b>Net cash flows from financing activities</b>		
<b>Net decrease in cash</b>	(29,291)	(59,511)
Add: Cash and bank balances at beginning of period	539,430	592,261
	<u>510,139</u>	<u>532,750</u>
<b>Cash and cash equivalents at end of period</b>		

The notes form an integral part of this condensed consolidated interim financial information.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in Rmb thousand unless otherwise stated)

### 1 Company profile and principal activities

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

This condensed consolidated interim financial information was approved for issue on 24 August 2011.

This condensed consolidated financial information has not been audited.

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 Processing Agreements”), the Group currently provides sewage water processing services via the following plants:

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

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

*Ji Zhuang Zi, Xian Yang Lu and Bei Cang:*

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

All other sewage water processing plants :

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

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

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

**(b) 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.

**(c) Supply of tap water**

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

#### **(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.

## **2 Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with HKFRSs.

### **2.1 Going concern basis**

As at 30 June 2011, the Group's current liabilities exceeded its current assets by approximately Rmb 543 million. Despite the forgoing, these interim financial information has been prepared on a going concern basis, because the directors of the Company believe that the undrawn banking facilities are sufficient to enable the Group and the Company to meet their respective liabilities as and when they fall due.

## **3 Accounting policies**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

### **(a) New and amended standards adopted by the Group.**

The following new standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011.

Amendment to HKAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.



- (b) Standards, amendments and interpretations to existing standards effective in 2011 but not relevant to the Group.

HKAS 32 (Amendment)	Classification of rights issues
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a minimum funding requirement
HK(IFRIC)-Int 19 (Amendment)	Extinguishing financial liabilities with equity instruments

- (c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

HKFRS 9	Financial instruments (effective from 1 January 2013)
HKAS 12 (Amendment)	Deferred tax - Recovery of underlying assets (effective from 1 January 2012)
HKFRS 7 (Amendment)	Disclosures - Transfers of financial assets (effective from 1 July 2011)

#### 4 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

#### 5 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.

The condensed interim consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in the risk management department since year end 2010 or in any risk management policies.

- (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.

At 30 June 2011, if RMB had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the period would have been Rmb6 million (2010: Rmb4 million) 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 period would have been Rmb12 million (2010: Rmb12 million) 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.

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

	<b>Group</b>			<b>Total</b>
	<b>Fixed</b>	<b>Floating</b>	<b>Non-interest bearing</b>	
<b>At 30 June 2011</b>				
Assets				
Cash and bank balances	900	510,139	—	511,039
Long-term receivables	337,371	—	—	337,371
Liabilities				
Current borrowings	16,364	858,526	1,320	876,210
Non current borrowings	98,181	1,767,091	9,123	1,874,395
Long-term payable due within 1 year	24,581	6,637	—	31,218
Long-term payable	287,847	101,536	—	389,383
Short-term debenture	600,000	—	—	600,000
<b>At 31 December 2010</b>				
Assets				
Cash and bank balances	900	539,430	—	540,330
Long-term receivables	336,286	—	—	336,286
Liabilities				
Current borrowings	16,364	405,526	1,796	423,686
Non current borrowings	148,181	2,280,140	10,613	2,438,934
Long-term payable due within 1 year	24,371	6,339	—	30,710
Long-term payable	299,043	100,561	—	399,604
Short-term debenture	600,000	—	—	600,000

At 30 June 2011, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, profit for the period would have been lower/higher by Rmb26 million (2010:22.6 million)

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

(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
<b>At 30 June 2011</b>					
Long-term bank borrowings	899,308	618,481	892,872	496,555	2,907,216
Long-term payable	32,149	32,419	99,393	654,275	818,236
Other non-current liabilities	23,573	21,273	53,473	65,598	163,917
Trade and other payables	327,154	—	—	—	327,154
Short-term borrowings	77,146	—	—	—	77,146
Short-term debenture	600,458	—	—	—	600,458
	<u>899,308</u>	<u>618,481</u>	<u>892,872</u>	<u>496,555</u>	<u>2,907,216</u>
<b>At 31 December 2010</b>					
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
	<u>471,626</u>	<u>950,320</u>	<u>1,064,759</u>	<u>639,677</u>	<u>3,126,382</u>

(d) 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.

During the reporting period there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

During the reporting period there were no reclassifications of financial assets.

## 6 Revenue and segment information

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

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

	Unaudited	
	For the six months ended	
	30 June 2011	30 June 2010
Revenue from principal operation (Note 6(b))	725,235	658,029
Other income - net	4,237	12,465
	<u>729,472</u>	<u>670,494</u>

(b) Operating segment analysis

Management has determined the operating segments based on the reports reviewed by the managers operating meeting that are used to make strategic decisions.

The meeting considers the business from both service and geographical perspective. From a service perspective, management assesses the performance of processing of sewage water, recycled water and pipeline connection and tap water operation. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). Tianjin plants represent sewage water processing plants of downtown Tianjin located at Dong Jiao, Ji Zhuang Zi, Xian Yang Lu and Bei Cang respectively. Other services include tolls collection, lease of office building or apartments and other services. These are not included within the reportable operating segments, as they are not individually included in the reports provided to the managers operating meeting. The results of these operations are included in the 'all other segments' column.

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

(i) For the period ended 30 June 2011

	Sewage water processing services			Recycle water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Segment revenue	448,259	68,371	118,533	33,856	19,836	40,617	729,472
Segment expense	(309,440)	(63,759)	(110,728)	(30,396)	(19,281)	(9,681)	(543,285)
Results before share of profits of an associate	138,819	4,612	7,805	3,460	555	30,936	186,187
Share of loss of an associate							(489)
Profit before income tax							185,698
Income tax expense							(45,987)
Profit for the period							139,711
Segment assets	4,660,648	808,660	1,356,119	647,730	334,922	667,037	8,475,116
Investment in an associate	—	—	—	—	—	41,094	41,094
Total assets	4,660,648	808,660	1,356,119	647,730	334,922	708,131	8,516,210
Total liabilities	2,967,130	503,933	531,825	719,332	160,224	74,881	4,957,325
Other information							
– Interest income	2,493	171	738	1,973	37	5,972	11,384
– Interest expenses	(44,670)	(12,727)	(21,454)	(2,928)	(5,436)	—	(87,215)
– Depreciation	(60,060)	—	(1,038)	(7,651)	—	(3,004)	(71,753)
– Amortisation	(5,208)	(18,124)	(28,129)	(57)	(5,515)	(40)	(57,073)
– Capital expenditures	59,291	9,649	20,319	13,773	2,175	35,309	140,516

(ii) For the period ended 30 June 2010

	Sewage water processing services			Recycle water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Segment revenue	349,158	66,197	105,875	21,545	17,546	110,173	670,494
Segment expense	(216,141)	(61,880)	(94,347)	(21,844)	(19,016)	(79,915)	(493,143)
Results before share of profits of an associate	133,017	4,317	11,528	(299)	(1,470)	30,258	177,351
Share of profits of an associate							83
Profit before income tax							177,434
Income tax expense							(47,160)
Profit for the period							130,274
Segment assets	3,786,845	814,686	1,595,378	578,079	299,365	479,413	7,553,766
Investment in an associate	—	—	—	—	—	40,218	40,218
Total assets	3,786,845	814,686	1,595,378	578,079	299,365	519,631	7,593,984
Total liabilities	2,366,922	520,751	513,020	509,365	197,063	55,256	4,162,377
Other information							
– Interest income	925	164	439	1,374	—	5696	8,598
– Interest expenses	(31,396)	(12,544)	(20,343)	(3,083)	(4,612)	—	(71,978)
– Depreciation	(47,064)	—	(2,654)	(5,698)	—	(2,384)	(57,800)
– Amortisation	(4,554)	(18,124)	(24,612)	(12)	(4,342)	(40)	(51,684)
– Capital expenditures	198,069	—	73,146	34,596	6,139	958	312,908

## 7 Property, plant and equipment and intangible assets

	<b>Property, plant and equipment</b>	<b>Intangible assets</b>
<b>Six months ended 30 June 2010</b>		
<b>Opening net book amount 1 January 2010</b>	2,335,198	2,367,696
Additions	221,379	91,529
Disposals	(14,332)	—
Depreciation and amortisation	(56,233)	(47,587)
<b>Closing net book amount 30 June 2010</b>	<u>2,486,012</u>	<u>2,411,638</u>
<b>Six months ended 30 June 2011</b>		
<b>Opening net book amount as at 1 January 2011</b>	3,230,110	2,427,782
Additions	76,287	64,229
Disposals	(14,126)	—
Depreciation and amortisation	(69,916)	(51,768)
<b>Closing net book amount as at 30 June 2011</b>	<u><u>3,222,355</u></u>	<u><u>2,440,243</u></u>

Certain of the concession rights with net book value of Rmb247million (31 December 2010: Rmb252 million) have been secured against loan facilities.

## 8 Investment in an associate

	<b>Unaudited For the six months ended 30 June 2011</b>
Beginning of the period	41,583
Share of loss	(489)
End of the period	<u><u>41,094</u></u>

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.

## 9 Trade receivables and trade receivables due after one year

Details of the trade receivables are as follows:

	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>
Due from TSC for:		
– Water processing services	882,176	691,168
– Construction of plants	68,794	241,792
	<u>950,970</u>	<u>932,960</u>
Toll road fee	62,790	38,200
Due from others - current	144,655	94,583
	<u>1,158,415</u>	<u>1,065,743</u>
Less: Non-current portion	(68,794)	(68,794)
	<u><u>1,089,621</u></u>	<u><u>996,949</u></u>

(a) Aging of trade receivables prior to the reclassification is as follows:

	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>
Within one year	921,426	785,601
One to two years	168,195	38,350
Over two years	68,794	241,792
	<u>1,158,415</u>	<u>1,065,743</u>

## 10 Long-term receivables

	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>
Receivables from toll road concession	<u>337,371</u>	<u>336,286</u>

Receivables from toll road concession represent amortised cost using effective interest method, calculated with reference to future revenues from the toll road asset of the Company.



## 11 Share capital

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

	“A” Circulating shares	“H” Circulating shares	Total
At 31 December 2010 – Audited	1,087,228	340,000	1,427,228
At 30 June 2011 – Unaudited	1,087,228	340,000	1,427,228

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

## 12 Borrowings

	Note	Unaudited 30 June 2011	Audited 31 December 2010
<i>Non-current:</i>			
Long-term bank borrowings	(a),(b)	2,528,980	2,639,030
Less: Current portion	(a),(b)	(782,470)	(329,470)
		1,746,510	2,309,560
Long-term payables	(d)	389,383	399,604
Other non-current liabilities		127,885	129,374
		2,263,778	2,838,538
<i>Current:</i>			
Current portion of long-term bank borrowings	(a),(b)	782,470	329,470
Current portion of long-term payables	(d)	31,218	30,710
Short-term bank borrowings	(b)	73,000	73,000
Short-term debentures	(c)	600,000	600,000
Other current liabilities		20,740	21,216
		1,507,428	1,054,396

(a) Long-term bank borrowings

Movement of bank borrowings is analyzed as follows:

	<b>Unaudited</b>
<b>Six months ended 30 June 2010</b>	
Opening amount 1 January 2010	2,362,460
New borrowings	286,000
Repayments of borrowings	<u>(42,250)</u>
Closing amount as at 30 June 2010	<u>2,606,210</u>
<b>Six months ended 30 June 2011</b>	
Opening amount as at 1 January 2011	2,639,030
New borrowings	161,200
Repayments of borrowings	<u>(271,250)</u>
Closing amount as at 30 June 2011	<u><u>2,528,980</u></u>

These borrowings mature as follows:

	<b>Less than 6 months</b>	<b>6-12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>At 30 June 2011</b>						
Long-term bank borrowings	<u>58,220</u>	<u>724,250</u>	<u>537,720</u>	<u>756,710</u>	<u>452,080</u>	<u>2,528,980</u>
<b>At 31 December 2010</b>						
Long-term bank borrowings	<u>271,250</u>	<u>58,220</u>	<u>841,720</u>	<u>888,160</u>	<u>579,680</u>	<u>2,639,030</u>

(b) Summary of terms of bank borrowings:

	Unaudited 30 June 2011	Audited 31 December 2010
Long-term bank borrowings:		
Secured		
– Pledge	198,000	212,000
– Guarantee	1,188,580	1,302,930
Unsecured	1,142,400	1,124,100
	<u>2,528,980</u>	<u>2,639,030</u>
Short-term bank borrowings:		
Secured		
– Guarantee	18,000	18,000
Unsecured	55,000	55,000
	<u>73,000</u>	<u>73,000</u>

(c) Short-term debenture

	Par value	Issuance date	Maturity	Balance
Short-term debenture	<u>600,000</u>	2010-7-8	1 year	<u>600,000</u>

- (i) 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. Both the principal and interest will be repaid upon maturity of the debenture.

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

	<b>Group</b>			
	<b>Unaudited 30 June 2011</b>		<b>Audited 31 December 2010</b>	
	<b>Payable</b>	<b>Unrecognized financial charges</b>	<b>Payable</b>	<b>Unrecognized financial charges</b>
Payable to TSC for assets acquisition	818,236	(397,635)	834,230	(403,916)

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

	<b>Duration</b>	<b>Original balance</b>	<b>Effective interest rate</b>	<b>Ending balance</b>	<b>Due within 1 year</b>
TSC	30 years to 2041-3-20	430,314	5.94%	389,383	31,218

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.

	<b>Group</b>	
	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>
JPY	644,357	656,952
US dollar	173,879	177,278
	<u>818,236</u>	<u>834,230</u>

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.

### 13 Trade payables

As at 30 June 2011, the majority of trade payables are aged within one year. The carrying value of trade payables approximates their fair value due to their short-term maturities.

### 14 Operating profit

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

	Unaudited	
	For the six months ended	
	30 June 2011	30 June 2010
Crediting:		
Rental	(5,217)	(4,608)
Charging:		
Depreciation and amortisation expenses	128,826	109,484
Staff costs	72,637	56,588
Raw materials and consumables used	19,773	17,041
Repair and maintenance expenses	21,192	19,032
Loss of disposal of property, plant and equipment	13,468	13,117

### 15 Finance costs-net

	Unaudited	
	For the six months ended	
	30 June 2011	30 June 2010
Interest expenses of borrowings	96,528	78,544
Less: Capitalised interest	(9,313)	(6,566)
	87,215	71,978
Less: Interest income	(11,384)	(8,598)
– long-term receivables	(5,717)	(5,633)
– bank deposits	(5,667)	(2,965)
Others	498	64
	76,329	63,444

## 16 Income tax expense

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong as at 30 June 2011 (2010: Nil). PRC income tax is calculated at the statutory rate of 25% (2010: 25%).

Tax charge comprises:

	Unaudited	
	For the six months ended	
	30 June	30 June
	2011	2010
Current income tax	41,867	42,692
Deferred income tax	4,120	4,468
	<u>45,987</u>	<u>47,160</u>

## 17 Interim dividends

No interim dividend was proposed by the Board of Directors of the Company for the six months ended 30 June 2011 (2010: Nil).

## 18 Commitments and contingent liabilities

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

	Contracted but not provided for		Authorised but not contracted for	
	Unaudited 30 June 2011 <i>Rmb' million</i>	Audited 31 December 2010 <i>Rmb' million</i>	Unaudited 30 June 2011 <i>Rmb' million</i>	Audited 31 December 2010 <i>Rmb' million</i>
Sewage water processing plants in:				
– Bao Ying	30	—	—	—
– Jin Ning	8	—	17	—
– Ji Zhuang Zi (upgrade project)	41	59	—	—
– Xian Yang Lu (upgrade project)	21	29	1	2
– Bei Cang (upgrade project)	21	26	1	1
– Dong Jiao (upgrade project)	31	52	68	69
Water recycling plants in:				
– Ji Zhuang Zi (expansion project)	—	—	—	35
Other Project				
– Jia Yuan Xing Chuang	102	—	287	—
	<u>254</u>	<u>166</u>	<u>374</u>	<u>107</u>

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

## 19 Related party transactions

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

(i) Income:

Related parties	Nature of transaction	Unaudited	
		For the six months ended 30 June 2011	30 June 2010
TICIG	Rental income	1,912	3,230
Tianjin Zi Ya Recycled economy industry Investment development Ltd.	Construction revenue from sewage water processing plant	26,069	—
Tianjin City Infrastructure Construction Project Management & Consultant Co., Ltd.	Rental income	364	—
Tianjin City Resource Operation Co., Ltd.	Rental income	344	—
Tianjin Zi Ya Recycled economy industry Investment development Ltd.	Income from serving as construction agency	970	2,380
		<u>970</u>	<u>2,380</u>

(ii) Key management compensation for the six months ended 30 June 2011 is summarized as follows:

	Unaudited	
	For the six months ended 30 June 2011	30 June 2010
Salaries and other short-term employee benefits	3,419	3,893
Other long-term benefits	425	307
	<u>3,844</u>	<u>4,200</u>



(iii) 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 period, 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 period end, majority of the Group’s cash and bank balances and borrowings are with state controlled banks and listed banks.

## (II) Prepared in accordance with PRC Accounting Standards

### Balance Sheet

As at 30 June 2011

(All amounts in RMB thousand unless otherwise stated)

ASSETS	Notes 6	Group		Company	
		Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
<b>CURRENT ASSETS</b>					
Cash and bank balances	(1)	511,039	540,330	143,951	161,861
Trade receivables	(2)	1,089,621	996,949	956,845	913,618
Prepayments	(3)	102,109	103,759	13,034	55,106
Other receivables	(4)	58,368	53,540	146,406	145,280
Inventories	(5)	58,686	32,476	3,966	3,977
Other current assets		—	—	100,000	50,000
<b>Total current assets</b>		<u>1,819,823</u>	<u>1,727,054</u>	<u>1,364,202</u>	<u>1,329,842</u>
<b>NON-CURRENT ASSETS</b>					
Long-term receivables	(6)	406,165	405,080	406,165	405,080
Long-term equity investments	(7)	45,094	45,583	1,207,037	1,155,881
Investment properties	(8)	117,791	119,628	93,243	94,827
Fixed assets	(9)	2,449,531	2,526,459	2,210,871	2,279,506
Construction in progress	(9)	772,824	703,651	706,361	649,964
Intangible assets	(10)	2,897,806	2,890,650	440,872	446,079
Other non-current assets		7,176	7,458	33,288	26,290
<b>Total non-current assets</b>		<u>6,696,387</u>	<u>6,698,509</u>	<u>5,097,837</u>	<u>5,057,627</u>
<b>TOTAL ASSETS</b>		<u><u>8,516,210</u></u>	<u><u>8,425,563</u></u>	<u><u>6,462,039</u></u>	<u><u>6,387,469</u></u>

Liabilities and Shareholders' equity	Notes 6	Group		Company	
		Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
<b>CURRENT LIABILITIES</b>					
Short-term borrowings	(12)	73,000	73,000	55,000	55,000
Short-term debenture	(12)	600,000	600,000	600,000	600,000
Trade payables	(11)	24,685	22,729	8,392	9,730
Advances	(11)	350,719	310,478	3,212	63,386
Wages payable		5,339	7,374	3,553	4,766
Taxes payable	(11)	14,209	16,431	9,066	9,162
Dividend payable	(16)(c)	157,982	1,056	157,982	1,056
Other payables	(11)	302,469	274,991	336,660	235,198
Long-term borrowings due within one year	(12)	813,688	360,180	611,218	240,710
Other current liabilities	(12)	20,740	21,216	16,364	16,364
<b>Total current liabilities</b>		<u>2,362,831</u>	<u>1,687,455</u>	<u>1,801,447</u>	<u>1,235,372</u>
<b>NON-CURRENT LIABILITIES</b>					
Long-term borrowings	(12)	1,746,510	2,309,560	612,400	1,064,100
Deferred revenue	(13)	288,169	284,974	207,140	203,288
Deferred income tax liabilities	(14)	42,547	38,427	18,718	17,467
Long-term payables	(12)	389,383	399,604	389,383	399,604
Other non-current liabilities	(12)	127,885	129,374	98,181	98,181
<b>Total non-current liabilities</b>		<u>2,594,494</u>	<u>3,161,939</u>	<u>1,325,822</u>	<u>1,782,640</u>
<b>TOTAL LIABILITIES</b>		<u>4,957,325</u>	<u>4,849,394</u>	<u>3,127,269</u>	<u>3,018,012</u>
<b>SHAREHOLDERS' EQUITY</b>					
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	302,005	302,005	302,005
Undistributed profits		1,318,681	1,338,002	1,224,749	1,259,436
<b>Equity attributable to owners of the parent</b>		<u>3,431,252</u>	<u>3,450,573</u>	<u>3,334,770</u>	<u>3,369,457</u>
Minority Interests	(17)	127,633	125,596	—	—
<b>Total shareholders' equity</b>		<u>3,558,885</u>	<u>3,576,169</u>	<u>3,334,770</u>	<u>3,369,457</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><u>8,516,210</u></u>	<u><u>8,425,563</u></u>	<u><u>6,462,039</u></u>	<u><u>6,387,469</u></u>

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

**Zhang Wenhui**  
Company Representative

**Shi Zhenjuan**  
Person in charge of  
accounting function

**Shi Zhenjuan**  
Person in charge of  
accounting department

## Income Statement

For the six months ended 30 June 2011

(All amounts in RMB thousand unless otherwise stated)

	Notes 6	Group Unaudited		Company Unaudited	
		Six months ended 30 June		Six months ended 30 June	
		2011	2010	2011	2010
<b>Income from operations</b>	(18)	750,479	675,524	466,452	458,475
Less: Cost for operations	(18)	(425,281)	(357,229)	(223,528)	(204,505)
Business tax and surcharges	(19)	(3,608)	(20,010)	(2,155)	(19,292)
Administrative expenses		(50,172)	(46,396)	(31,968)	(27,358)
Financial expenses - net	(20)	(76,329)	(63,444)	(36,077)	(24,182)
Add: Investment income		(289)	83	2,089	1,992
Including: Share of profit of an associate	(7)	(489)	83	—	—
<b>Operation profit</b>		194,800	188,528	174,813	185,130
Add: Non-operating income		4,422	2,120	446	1,613
Less: Non-operating expenses	(21)	(13,524)	(13,214)	(12,877)	(13,111)
Including: Loss on disposal of non-current assets		(13,468)	(13,117)	(12,877)	(13,082)
<b>Total profit</b>		185,698	177,434	162,382	173,632
Less: Income tax	(22)	(45,987)	(47,160)	(40,074)	(42,910)
<b>Net profit</b>		139,711	130,274	122,308	130,722
Attributable to owners of the parent		137,674	129,701	122,308	130,722
Minority interests		2,037	573	—	—
<b>Earnings per share (in Rmb Yuan)</b>	(23)				
– Basic		0.10	0.09		
– Diluted		0.10	0.09		
<b>Other comprehensive income</b>		—	—	—	—
<b>Total comprehensive income</b>		139,711	130,274	122,308	130,722
Attributable to owners of the parent		137,674	129,701	122,308	130,722
Minority interests		2,037	573	—	—

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

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## Cash Flow Statement

### For the six months ended 30 June 2011

(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
<b>1. Cash flows from operating activities</b>				
Cash received from sales of goods and rendering of services	668,853	361,349	362,883	167,969
Cash received relating to other operating activities	99,720	87,342	160,613	89,677
<b>Sub-total of cash inflows</b>	<b>768,573</b>	<b>448,691</b>	<b>523,496</b>	<b>257,646</b>
Cash paid for goods and services	(208,189)	(174,668)	(85,399)	(89,764)
Cash paid to and on behalf of employees	(76,396)	(61,890)	(44,034)	(36,009)
Payments of taxes and levies	(56,013)	(55,008)	(45,879)	(45,652)
Cash payments relating to other operating activities	(72,278)	(100,402)	(116,316)	(91,226)
<b>Sub-total of cash outflows</b>	<b>(412,876)</b>	<b>(391,968)</b>	<b>(291,628)</b>	<b>(262,651)</b>
<b>Net cash flows from operating activities</b>	<b>355,697</b>	<b>56,723</b>	<b>231,868</b>	<b>(5,005)</b>
<b>2. Cash flows from investing activities</b>				
Cash received from returns on investments	200	—	200	7,505
Net cash received from disposal of fixed assets	658	1,215	148	1,158
<b>Sub-total of cash inflows</b>	<b>858</b>	<b>1,215</b>	<b>348</b>	<b>8,663</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(208,088)	(286,409)	(84,722)	(186,329)
Cash paid to acquire equity investments	(2,436)	—	(51,156)	(5,000)
<b>Sub-total of cash outflows</b>	<b>(210,524)</b>	<b>(286,409)</b>	<b>(135,878)</b>	<b>(191,329)</b>
<b>Net cash flows from investing activities</b>	<b>(209,666)</b>	<b>(285,194)</b>	<b>(135,530)</b>	<b>(182,666)</b>

	Group		Company	
	Unaudited		Unaudited	
	Six months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
<b>3. Cash flows from financing activities</b>				
Cash received from borrowings	161,200	286,000	118,300	242,000
Cash received from investment	7,280	—	—	—
<b>Sub-total of cash inflows</b>	<u>168,480</u>	<u>286,000</u>	<u>118,300</u>	<u>242,000</u>
Repayments of amounts borrowed	(272,613)	(43,614)	(200,000)	—
Payments for distribution of dividends or profits or payments for interest expenses	<u>(71,189)</u>	<u>(73,426)</u>	<u>(32,548)</u>	<u>(28,554)</u>
<b>Sub-total of cash outflows</b>	<u>(343,802)</u>	<u>(117,040)</u>	<u>(232,548)</u>	<u>(28,554)</u>
<b>Net cash flows from financing activities</b>	<u>(175,322)</u>	<u>168,960</u>	<u>(114,248)</u>	<u>213,446</u>
<b>4. Effect of foreign exchange rate changes on cash</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>5. Net increase/(decrease) in cash</b>	(29,291)	(59,511)	(17,910)	25,775
Add: Cash and bank balances at beginning of year	<u>539,430</u>	<u>592,261</u>	<u>161,861</u>	<u>224,354</u>
<b>6. Cash and bank balances at end of year</b>	<u><u>510,139</u></u>	<u><u>532,750</u></u>	<u><u>143,951</u></u>	<u><u>250,129</u></u>

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

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*Company Representative*

**Shi Zhenjuan**  
*Person in charge of  
accounting function*

**Shi Zhenjuan**  
*Person in charge of  
accounting department*

## Consolidated statement of changes in equity

For the six months ended 30 June 2011

(All amounts in RMB thousand unless otherwise stated)

	Attributable to owners of the parent					Total shareholders' equity
	Share capital	Capital surplus	General reserve	Undistributed profits	Minority interests	
<b>Balance at 1 January 2010</b>	1,427,228	383,338	276,124	1,206,901	121,920	3,415,511
<b>Changes in 2010</b>						
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)
<b>Balance at 31 December 2010</b>	<u>1,427,228</u>	<u>383,338</u>	<u>302,005</u>	<u>1,338,002</u>	<u>125,596</u>	<u>3,576,169</u>
<b>Changes for six months ended 30 June 2011</b>						
Net profit	—	—	—	137,674	2,037	139,711
Profit appropriation						
- Dividend appropriation to shareholders	—	—	—	(156,995)	—	(156,995)
<b>Balance at 30 June 2011</b>	<u><u>1,427,228</u></u>	<u><u>383,338</u></u>	<u><u>302,005</u></u>	<u><u>1,318,681</u></u>	<u><u>127,633</u></u>	<u><u>3,558,885</u></u>

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

**Zhang Wenhui**  
*Company Representative*

**Shi Zhenjuan**  
*Person in charge of accounting function*

**Shi Zhenjuan**  
*Person in charge of accounting department*

**Company statement of changes in equity****For the six months ended 30 June 2011***(All amounts in RMB thousand unless otherwise stated)*

	Share capital	Capital surplus	General reserve	Undistributed profits	Total shareholders' equity
<b>Balance at 1 January 2010</b>	1,427,228	380,788	276,124	1,140,686	3,224,826
<b>Changes in 2010</b>					
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)
<b>Balance at 31 December 2010</b>	1,427,228	380,788	302,005	1,259,436	3,369,457
<b>Changes for six months ended 30 June 2011</b>					
Net profit	—	—	—	122,308	122,308
Profit appropriation					
-Dividend appropriation to shareholders	—	—	—	(156,995)	(156,995)
<b>Balance at 30 June 2011</b>	<u>1,427,228</u>	<u>380,788</u>	<u>302,005</u>	<u>1,224,749</u>	<u>3,334,770</u>

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

**Zhang Wenhui**  
*Company Representative*

**Shi Zhenjuan**  
*Person in charge of  
accounting function*

**Shi Zhenjuan**  
*Person in charge of  
accounting department*



## Notes to the Financial Statements

### For the six months ended 30 June 2011

(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)).

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;
- (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.

**(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 August 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.

As at 30 June 2011, the Group and the Company’s current liabilities exceeded its current assets by to approximately RMB543 million and RMB437 million respectively. Despite the forgoing, these interim financial information has been prepared on a going concern basis, because the directors of the Company believe that the undrawn banking facilities are sufficient to enable the Group and the Company to meet their respective liabilities as and when they fall due.

## **3 STATEMENT OF COMPLIANCE WITH CAS**

The financial statements of the Company for the six months ended 30 June 2011 truly and completely present the financial position as of 30 June 2011 and the operating results, cash flows and other information for the six months ended 30 June 2011 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. These financial statements are prepared for the six-month period from 1 January to 30 June.

### **(2) Recording currency**

The recording currency is Renminbi (“Rmb”).

### **(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.

#### **(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.

(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.

## **(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.

(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.

(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:

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

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

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

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

When the recoverable amount of an investment property is lower than its carrying value, the carrying value shall be reduced to its recoverable amount (Note 4(15)).



## (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:

	<b>Estimated useful lives</b>	<b>Estimated residual value rate</b>	<b>Annual depreciation rate</b>
Buildings and structures	10-50 years	0%-5%	1.9%-10%
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)).

## **(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.

## **(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 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 agreements that set 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)).

**(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.

## **(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.

## **(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.

### **(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.

## (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 30 June 2011 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.

## 5 TAXATION

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

<b>Tax by category</b>	<b>Basis of Tax</b>	<b>Tax rate</b>
Enterprise income tax	Taxable income	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	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Cash on hand and in bank	511,039	540,330	143,951	161,861
Including:				
Special funds for construction in progress (note (a))	58,333	111,179	34,004	102,883
Restricted bank deposits due within one year (note (b))	900	900	—	—

(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 (2010: Rmb 900 thousand).

### (2) TRADE RECEIVABLES

Details of trade receivables are as follows:

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Due from TSC for				
– Sewage processing service	882,176	691,168	882,176	691,168
– Construction of sewage processing plants	68,794	241,792	68,794	241,792
	950,970	932,960	950,970	932,960
Toll road fee receivable	62,790	38,200	62,790	38,200
Less: Non-current portion	(68,794)	(68,794)	(68,794)	(68,794)
Individual items with significant amount	944,966	902,366	944,966	902,366
Other items with insignificant amount	144,655	94,583	11,879	11,252
	1,089,621	996,949	956,845	913,618



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

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Within one year	921,426	785,601	788,650	702,420
One to two years	168,195	38,350	168,195	38,200
Over two years	68,794	241,792	68,794	241,792
	<u>1,158,415</u>	<u>1,065,743</u>	<u>1,025,639</u>	<u>982,412</u>

- (b) As at 30 June 2011, there were no trade receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2010: Nil).

- (c) As at 30 June 2011, 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	882,176	within 2 year	75%
– Construction of sewage processing plants	customer	68,794	over 2 years	6%
Tianjin Municipal Highway Administration Bureau	agent	62,790	within 2 years	5%
Qijing City Water General Company	customer	53,639	within 1 year	5%
Hangzhou Sewage Company	customer	14,182	within 1 year	1%
Guiyang Construction Bureau	customer	10,018	within 1 year	1%
		<u>1,091,599</u>		<u>93%</u>

### (3) PREPAYMENTS

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

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
For recycled water pipeline connection	55,696	20,949	—	—
For purchase equipments	35,806	6,080	2,668	6,080
For plant construction	9,944	69,157	9,944	48,994
Others	663	7,573	422	32
	<u>102,109</u>	<u>103,759</u>	<u>13,034</u>	<u>55,106</u>

As at 30 June 2011, there were no prepayments to any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2010: Nil).

### (4) OTHER RECEIVABLES

Other receivables include:

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Project deposits	27,495	26,776	26,345	26,720
Other receivables from customers	1,683	1,683	—	—
Receivables from subsidiaries	—	—	114,942	111,346
Others	29,190	25,081	5,119	7,214
	<u>58,368</u>	<u>53,540</u>	<u>146,406</u>	<u>145,280</u>

As at 30 June 2011, there were no receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2010: Nil).

## (5) INVENTORIES

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Raw materials	10,307	10,127	3,606	3,570
Finished goods	3,682	3,682	—	—
Spare parts and low cost consumables	718	756	360	407
Construction in progress	46,979	20,911	—	—
	<u>61,686</u>	<u>35,476</u>	<u>3,966</u>	<u>3,977</u>
Less: Provision for declines in the value of inventories	<u>(3,000)</u>	<u>(3,000)</u>	<u>—</u>	<u>—</u>
	<u><u>58,686</u></u>	<u><u>32,476</u></u>	<u><u>3,966</u></u>	<u><u>3,977</u></u>

## (6) LONG-TERM RECEIVABLES

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Receivables from toll road concession (note (a))	337,371	336,286	337,371	336,286
Receivables from TSC	68,794	68,794	68,794	68,794
	<u>406,165</u>	<u>405,080</u>	<u>406,165</u>	<u>405,080</u>

(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.

## (7) LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Investment in subsidiaries (note (a))	—	—	1,229,537	1,178,381
Less: Impairment provision for long-term investment (note (c))	—	—	(26,500)	(26,500)
	—	—	1,203,037	1,151,881
Investment in an associate (note (b))	41,094	41,583	—	—
Other long-term equity investments	4,000	4,000	4,000	4,000
	<u>45,094</u>	<u>45,583</u>	<u>1,207,037</u>	<u>1,155,881</u>

(a) Investments in subsidiaries

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

All subsidiaries are limited liability companies.

	Investment cost	Carrying Value		30 June 2011	Interest held / Voting shares %
		31 December 2010	Addition/		
Xi'an Capital Water Co., Ltd.	270,000	270,000	—	270,000	100
Hangzhou Tianchuang Water Co., Ltd.	180,212	180,212	—	180,212	70
Qijing Capital Water Co., Ltd.	133,301	108,081	25,220	133,301	90
Tianjin Water Recycling Co., Ltd.	100,436	98,000	2,436	100,436	100
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	52,000	—	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.	37,100	26,600	10,500	37,100	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.	5,000	2,000	3,000	5,000	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
Tianjin Jiayuanxingchuang New Energy Technology Co.,Ltd	10,000	—	10,000	10,000	100
		<u>1,178,381</u>	<u>51,156</u>	<u>1,229,537</u>	

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

(b) Investment in an associate

	Registered capital	Interest & voting shares held	30 June 2011		Six months ended 30 30 June 2011	
			Total assets	Total liabilities	Revenue	Net profit
Tianjin international Machinery Co., Ltd.	120,000	27.5%	606,347	445,236	814,971	(489)

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 2011	Disposal	Share of profit in associated company	30 June 2011
Tianjin international Machinery Co., Ltd.	33,000	41,583	—	(489)	41,094

- (c) Full provision has been made for the investment in Tianjin Capital New Materials Co., Ltd. of approximately Rmb26.5 million as at 30 June 2011 (31 December 2010: Rmb26.5 million).

**(8) INVESTMENT PROPERTIES**

<b>Buildings</b>	<b>Group</b>	<b>Company</b>
Cost		
At 31 December 2010 and 30 June 2011	137,374	110,648
Accumulated depreciation		
At 31 December 2010	(17,746)	(15,821)
Charge for the year	(1,837)	(1,584)
At 30 June 2011	(19,583)	(17,405)
Net book value		
At 30 June 2011	117,791	93,243
At 31 December 2010	119,628	94,827

## (9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS

### (a) Group

	Buildings & structure (note (i))	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2010	2,421,274	339,507	99,107	2,859,888
Reclassification	(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	(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
Transfer from construction in progress	360	—	760	1,120
Addition	920	4,129	945	5,994
Disposal	—	(11,313)	(9,149)	(20,462)
At 30 June 2011	1,591,464	1,683,514	190,568	3,465,546
Accumulated depreciation				
At 1 January 2010	(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)
Charge for the year	(24,207)	(36,035)	(9,674)	(69,916)
Disposal	—	2,167	4,169	6,336
At 30 June 2011	(569,921)	(342,553)	(87,541)	(1,000,015)
Impairment				
At 31 December 2010 and 30 June 2011	(11,000)	(4,068)	(932)	(16,000)
Net book value				
At 30 June 2011	1,010,543	1,336,893	102,095	2,449,531
At 31 December 2010	1,033,470	1,377,945	115,044	2,526,459

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) For the six months ended 31 June 2011, the Group's depreciation expense of Rmb54 million (From January to June in 2010:Rmb51 million) has been included in cost of revenue and Rmb16 million (From January to June in 2010: Rmb5 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 2010: Rmb332million) 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 2010	2,304,152	192,950	68,230	2,565,332
Reclassification	(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	(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
Transfer from construction in progress	360	—	760	1,120
Addition	—	1,330	2,510	3,840
Disposal	—	(10,273)	(7,650)	(17,923)
At 30 June 2011	1,418,353	1,568,485	149,865	3,136,703
Accumulated depreciation				
At 1 January 2010	(621,213)	(166,157)	(48,523)	(835,893)
Reclassification	133,303	(115,594)	(17,709)	—
Charge for the year	(54,419)	(30,571)	(9,587)	(94,577)
Transfer to intangible assets	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)
Charge for the year	(21,775)	(30,886)	(7,492)	(60,153)
Disposal	—	877	3,604	4,481
At 30 June 2011	(543,507)	(305,934)	(76,391)	(925,832)
Net book value				
At 30 June 2011	874,846	1,262,551	73,474	2,210,871
At 31 December 2010	896,261	1,301,503	81,742	2,279,506

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

	31 December		Transfer to		30 June	Sources of	Incurring costs to budget costs ratio
	Budget	2010	Addition	fixed assets	2011	funds	(%)
Water recycling plants:							
– Bei Chen water recycling plants	97,000	57,218	—	—	57,218	Self-raised fund	58.98%
Sewage water processing plants:							
– Dong Jiao (upgrade project)	350,490	219,656	11,714	—	231,370	Self-raised fund	66.01%
– XianYang Lu (upgrade project)	184,130	132,696	10,088	—	142,784	Self-raised fund	77.55%
– Bei Cang (upgrade project)	152,490	115,496	9,785	—	125,281	Self-raised fund	82.16%
– Ji Zhuang Zi (upgrade project)	174,400	111,669	23,665	—	135,334	Self-raised fund	77.60%
Others		13,229	2,265	(1,120)	14,374	Self-raised fund	
Total - Company		<u>649,964</u>	<u>57,517</u>	<u>(1,120)</u>	<u>706,361</u>		
Water recycling plants:							
– Ji Zhuang Zi (expansion project)	87,573	<u>52,716</u>	<u>11,749</u>	<u>—</u>	<u>64,465</u>	Self-raised fund	73.61%
Others		<u>971</u>	<u>1,027</u>	<u>—</u>	<u>1,998</u>	Self-raised fund	
Total - Group		<u><u>703,651</u></u>	<u><u>70,293</u></u>	<u><u>(1,120)</u></u>	<u><u>772,824</u></u>		
Including: Capitalised borrowing costs		<u><u>13,276</u></u>	<u><u>9,313</u></u>	<u><u>—</u></u>	<u><u>22,589</u></u>		

Borrowing costs have been capitalized for the six months ended 30 June 2011 at an average interest rate of 5.30% per annum (From January to June in 2010: 5.35%).

## (10) INTANGIBLE ASSETS

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Concession rights (note (a))	2,440,243	2,427,782	—	—
Land use rights (note (b))	457,563	462,868	440,872	446,079
	<u>2,897,806</u>	<u>2,890,650</u>	<u>440,872</u>	<u>446,079</u>

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

	Group
Cost	
At 31 December 2010	2,744,864
Addition	64,229
At 30 June 2011	<u>2,809,093</u>
Accumulated amortisation	
At 31 December 2010	(317,082)
Charge for the year	(51,768)
At 30 June 2011	<u>(368,850)</u>
Net book value	
At 30 June 2011	<u>2,440,243</u>
At 31 December 2010	<u>2,427,782</u>

As at 30 June 2011, certain of concession rights with net book value of Rmb247 million (Cost: Rmb302 million) (31 December 2010: net book value: Rmb252 million; cost: Rmb302 million) have been secured against long-term borrowings of Rmb148 million (31 December 2010: Rmb162million) (Note 6(12)(a)(i)).

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

	<b>Group</b>	<b>Company</b>
Cost		
At 31 December 2010 and 30 June 2011	593,529	567,266
Accumulated amortisation		
At 31 December 2010	(130,661)	(121,187)
Charge for the year	(5,305)	(5,207)
At 30 June 2011	(135,966)	(126,394)
Net book value		
At 30 June 2011	457,563	440,872
At 31 December 2010	462,868	446,079

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

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>
Trade payables (note (a))	24,685	22,729	8,392	9,730
Advances (note (b))	350,719	310,478	3,212	63,386
Other payables (note (c))	302,469	274,991	336,660	235,198
Taxes payable (note (d))	14,209	16,431	9,066	9,162
	<u>692,082</u>	<u>624,629</u>	<u>357,330</u>	<u>317,476</u>

(a) As at 30 June 2011, there were no trade payables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2010: Nil).

(b) Advances comprise:

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>
For pipeline connection Received from project of Han Gu	343,791	245,167	—	—
Other advances	3,032	59,612	3,032	59,612
	3,896	5,699	180	3,774
	<u>350,719</u>	<u>310,478</u>	<u>3,212</u>	<u>63,386</u>

As at 30 June 2011, there were no advances from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2010: Nil).

(c) Other payables comprise:

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Construction costs payable	181,549	168,316	107,551	109,499
Payable for purchase of fixed assets and concession rights of plants	96,140	67,337	—	—
Others	24,780	39,338	229,109	125,699
	<u>302,469</u>	<u>274,991</u>	<u>336,660</u>	<u>235,198</u>

As at 30 June 2011, there were no other payables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2010: Nil).

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

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Income tax payable	11,408	8,757	7,118	3,121
Business tax payable	1,602	5,931	1,212	4,899
Others	1,199	1,743	736	1,142
	<u>14,209</u>	<u>16,431</u>	<u>9,066</u>	<u>9,162</u>

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

	Note	Group		Company	
		Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Non-current:					
Long-term bank borrowings					
	(a)	2,528,980	2,639,030	1,192,400	1,274,100
Less: Current portion					
	(a)	(782,470)	(329,470)	(580,000)	(210,000)
		<u>1,746,510</u>	<u>2,309,560</u>	<u>612,400</u>	<u>1,064,100</u>
Long-term payable	(d)	389,383	399,604	389,383	399,604
Other non-current liabilities					
	(e)	<u>127,885</u>	<u>129,374</u>	<u>98,181</u>	<u>98,181</u>
		<u>2,263,778</u>	<u>2,838,538</u>	<u>1,099,964</u>	<u>1,561,885</u>
Current:					
Current portion of long-term bank borrowings					
	(a)	782,470	329,470	580,000	210,000
Current portion of long-term payable					
	(d)	31,218	30,710	31,218	30,710
Short-term borrowings	(b)	73,000	73,000	55,000	55,000
Short-term debenture	(c)	600,000	600,000	600,000	600,000
Other current liabilities	(e)	<u>20,740</u>	<u>21,216</u>	<u>16,364</u>	<u>16,364</u>
		<u>1,507,428</u>	<u>1,054,396</u>	<u>1,282,582</u>	<u>912,074</u>

(a) Long-term bank borrowings

	Note	Group		Company	
		Unaudited	Audited	Unaudited	Audited
		30 June 2011	31 December 2010	30 June 2011	31 December 2010
Borrowings from:					
China Construction Bank	(i)	926,900	936,850	377,400	367,100
Industrial and Commercial Bank of China	(ii)	472,900	456,000	—	—
State Development Bank	(iii)	341,500	342,500	165,000	157,000
Shanghai Bank	(iv)	300,000	250,000	300,000	250,000
Shenzhen Development Bank	(iv)	200,000	200,000	200,000	200,000
Agricultural Bank of China	(v)	98,680	198,680	—	100,000
China CITIC Bank	(iv)	50,000	100,000	50,000	100,000
China Everbright Bank	(vi)	50,000	50,000	50,000	50,000
Industrial Bank	(iv)	50,000	50,000	50,000	50,000
Bank of China	(vii)	35,000	40,000	—	—
Shanghai Pudong Development Bank	(viii)	4,000	15,000	—	—
		<u>2,528,980</u>	<u>2,639,030</u>	<u>1,192,400</u>	<u>1,274,100</u>

- (i) Includes Rmb148 million (31 December 2010: Rmb162 million) secured by the right to receive tap water and sewage processing fees (Note 6(10)(a)). Includes Rmb389 million (31 December 2010: Rmb389 million) and Rmb12.50 million (31 December 2010: Rmb18.75 million) secured by the guarantee of TICIG and the Company, respectively. The remaining balance of about Rmb377.4 million (31 December 2010: Rmb367.1 million) is unsecured.
- (ii) Secured by the Company's guarantee (31 December 2010: Rmb456 million).
- (iii) Includes Rmb176.5 million secured by the Company's guarantee and the remaining Rmb165 million is unsecured.
- (iv) The borrowing is unsecured.
- (v) Includes Rmb98.68 million (31 December 2010: Rmb98.68 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 2010: Rmb15 million).

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

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Pledge	198,000	212,000	50,000	50,000
Guarantee	1,188,580	1,302,930	—	100,000
Unsecured	1,142,400	1,124,100	1,142,400	1,124,100
	<u>2,528,980</u>	<u>2,639,030</u>	<u>1,192,400</u>	<u>1,274,100</u>

(x) These long term bank borrowings are all interest bearing with weighted average interest rate in the six months ended 30 June 2011 of 5.98% (2010: 5.4%).

(xi) These borrowings mature as follows:

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Within one year	782,470	329,470	580,000	210,000
In the second year	537,720	841,720	406,000	636,000
In the third to fifth year	756,710	888,160	193,000	415,000
After the fifth year	452,080	579,680	13,400	13,100
	<u>2,528,980</u>	<u>2,639,030</u>	<u>1,192,400</u>	<u>1,274,100</u>



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

	Grant date	Expiry date	Currency	Rate(%)	Group	
					Unaudited 30 June 2011	Audited 31 December 2010
China CITIC Bank	07/05/2009	06/05/2012	RMB	5.76%	300,000	100,000
Shenzhen Development Bank	23/07/2010	25/04/2012	RMB	5.76%	150,000	50,000
China CITIC Bank	20/03/2009	19/03/2012	RMB	6.4%	80,000	50,000
Shenzhen Development Bank Industrial and Commercial Bank of China	23/03/2010	23/03/2012	RMB	6.08%	50,000	26,000
China Everbright Bank	30/04/2003	30/04/2012	RMB	6.8%	50,000	26,000
					630,000	252,000
					630,000	252,000

(b) Short-term borrowings

Note	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Borrowings from: Shanghai Pudong Development Bank	(i) 73,000	73,000	55,000	55,000
	73,000	73,000	55,000	55,000

(i) Includes Rmb18 million (31 December 2010: Rmb18 million) secured by the Company's holding company's guarantee. The remaining balance of about Rmb55 million (31 December 2010: Rmb55 million) is unsecured. The weighted average interest rate of short-term bank borrowings for the six months ended 30 June 2011 is 6.12% (2010: 5.35%).

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

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Guaranteed	18,000	18,000	—	—
Unsecured	55,000	55,000	55,000	55,000
	73,000	73,000	55,000	55,000
	73,000	73,000	55,000	55,000

## (c) Short-term debenture

Summary of terms of long-term bank borrowings:

	<b>Par value</b>	<b>Issuance date</b>	<b>Maturity</b>	<b>Balance</b>
Short-term debenture	<u>600,000</u>	2010-7-8	1 year	<u>600,000</u>

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

	<b>Group</b>				<b>Company</b>			
	<b>Unaudited</b>		<b>Audited</b>		<b>Unaudited</b>		<b>Audited</b>	
	<b>30 June</b>		<b>31 December</b>		<b>30 June</b>		<b>31 December</b>	
	<b>2011</b>		<b>2010</b>		<b>2011</b>		<b>2010</b>	
	<b>unrecognized</b>		<b>unrecognized</b>		<b>unrecognized</b>		<b>unrecognized</b>	
	<b>Payable</b>	<b>finance</b>	<b>Payable</b>	<b>finance</b>	<b>Payable</b>	<b>finance</b>	<b>Payable</b>	<b>finance</b>
	<b>amount</b>	<b>charge</b>	<b>amount</b>	<b>charge</b>	<b>amount</b>	<b>charge</b>	<b>amount</b>	<b>charge</b>
Payables for								
assets acquisition	<u>818,236</u>	<u>(397,635)</u>	<u>834,230</u>	<u>(403,916)</u>	<u>818,236</u>	<u>(397,635)</u>	<u>834,230</u>	<u>(403,916)</u>

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

	<b>Duration</b>	<b>Original Balance</b>	<b>Effective Interest rate</b>	<b>Ending Balance</b>	<b>Due within one year</b>
TSC	30 years to 2041-3-20	<u>430,314</u>	<u>5.94%</u>	<u>389,383</u>	<u>31,218</u>

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.

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited</b>	<b>Audited</b>	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June</b>	<b>31 December</b>	<b>30 June</b>	<b>31 December</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
JPY	644,357	656,952	644,357	656,952
US dollar	<u>173,879</u>	<u>177,278</u>	<u>173,879</u>	<u>177,278</u>
	<u>818,236</u>	<u>834,230</u>	<u>818,236</u>	<u>834,230</u>

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.

(e) Other liabilities

	Group		Company	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Non-current:				
– Tianjin Municipal Engineering Bureau ("TMEB") (note(i))	98,181	98,181	98,181	98,181
– Others	29,704	31,193	—	—
	<u>127,885</u>	<u>129,374</u>	<u>98,181</u>	<u>98,181</u>
Current:				
– TMEB Current portion of long- term loan (note(i))	16,364	16,364	16,364	16,364
– Others	4,376	4,852	—	—
	<u>20,740</u>	<u>21,216</u>	<u>16,364</u>	<u>16,364</u>

- (i) A loan was taken from TMEB during 2005 specifically for construction of sewage water processing plants. The current portion of the long-term loan is Rmb16 million at 30 June 2012 (2010: 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	
	Unaudited 30 June 2011	Audited 31 December 2010	Unaudited 30 June 2011	Audited 31 December 2010
Deferred revenue	<u>288,169</u>	<u>284,974</u>	<u>207,140</u>	<u>203,288</u>

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

	Unaudited 30 June 2011		Audited 31 December 2010	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	42,547	170,188	38,427	153,708

#### (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 31 December 2010 and 30 June 2011	—	1,087,228	1,087,228	340,000	1,427,228

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

#### (16) RESERVES AND DIVIDEND

- 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.
- 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.
- Dividends

A dividend in respect of year ended 31 December 2010 of Rmb1.10 (gross tax) every 10 shares, total shares of 1,427 million shares on 5 July 2011, amounting to a total dividend of Rmb157 million, was approved at the Annual General Meeting on 13 May 2011 (2010: Rmb0.8 (gross tax) every 10 shares, amounting to a total dividend of Rmb114 million).

## (17) MINORITY INTERESTS

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

	<b>Group</b>	
	<b>Unaudited 30 June 2011</b>	<b>Audited 31 December 2010</b>
Hangzhou Tianchuang Capital Water Co., Ltd.	92,210	90,548
Baoying Capital Water Co., Ltd.	13,174	12,737
Qujing Capital Water Co., Ltd.	13,077	11,795
Guizhou Capital Water Co., Ltd.	7,274	6,853
Honghu Capital Water Co., Ltd.	1,876	2,150
Tianjin Water Recycling Co., Ltd.	—	1,409
Chibi Capital Water Co., Ltd.	—	85
Fuyang Capital Water Co., Ltd.	22	19
	<u>127,633</u>	<u>125,596</u>

## (18) INCOME FROM AND COST FOR OPERATIONS

	<b>Group</b>			
	<b>Unaudited</b>			
	<b>For the six months ended</b>			
	<b>30 June 2011</b>		<b>30 June 2010</b>	
	<b>Income from operations</b>	<b>Cost of operations</b>	<b>Income from operations</b>	<b>Cost of operations</b>
Income from principal operations (Note 7)	725,235	413,176	658,029	350,079
Other operating income	25,244	12,105	17,495	7,150
	<u>750,479</u>	<u>425,281</u>	<u>675,524</u>	<u>357,229</u>

  

	<b>Company</b>			
	<b>Unaudited</b>			
	<b>For the six months ended</b>			
	<b>30 June 2011</b>		<b>30 June 2010</b>	
	<b>Income from operations</b>	<b>Cost of operations</b>	<b>Income from operations</b>	<b>Cost of operations</b>
Income from principal operations	453,513	218,693	446,867	200,815
Other operating income	12,939	4,835	11,608	3,690
	<u>466,452</u>	<u>223,528</u>	<u>458,475</u>	<u>204,505</u>

**(19) BUSINESS TAX AND SURCHARGES**

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>
Business tax	3,093	19,844	1,908	19,292
City construction and maintenance fee	280	105	134	—
Education fee surcharge and others	235	61	113	—
	<u>3,608</u>	<u>20,010</u>	<u>2,155</u>	<u>19,292</u>

**(20) FINANCIAL EXPENSES - NET**

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>
Interest expenses				
of borrowings	96,528	78,544	52,781	36,087
Less: Capitalised interest	(9,313)	(6,566)	(8,111)	(4,691)
Net interest expenses	87,215	71,978	44,670	31,396
Less: Interest income	(11,384)	(8,598)	(8,620)	(7,229)
- long-term receivables	(5,717)	(5,633)	(5,717)	(5,633)
- bank deposits	(5,667)	(2,965)	(2,903)	(1,596)
Others	498	64	27	15
	<u>76,329</u>	<u>63,444</u>	<u>36,077</u>	<u>24,182</u>

**(21) NON-OPERATING EXPENSES**

	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>
Loss on disposal of fixed assets	13,468	13,117
Others	56	97
	<u>13,524</u>	<u>13,214</u>

**(22) INCOME TAX**

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>
Current income tax	41,867	42,692	38,823	41,315
Deferred income tax	4,120	4,468	1,251	1,595
	<u>45,987</u>	<u>47,160</u>	<u>40,074</u>	<u>42,910</u>

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

	<b>Group Unaudited</b>	
	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>
Profit before income tax	185,698	177,434
Calculated at applicable income tax rates	46,425	44,359
Effect of different income tax rates applicable to certain subsidiaries	(163)	—
Income not subject to tax	(50)	(21)
Expenses not deductible for taxation purposes	165	—
Utilization of previously deductible tax losses for which no deferred income tax was recognised	(2,500)	(195)
Current year tax losses for which no deferred income tax asset was recognised	2,110	3,017
Income tax expenses	<u>45,987</u>	<u>47,160</u>

### (23) EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb138 million (2010: Rmb130 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2010: 1,427 million shares).

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

	<b>Group Unaudited</b>	
	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>
Profit attributable to owners of the parent	137,674	129,701
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic earnings per share (Rmb Yuan)	<u>0.10</u>	<u>0.09</u>



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

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

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2010</b>
Net profit	139,711	130,274	122,308	130,722
Adjustments for:				
Depreciation of fixed assets and investment properties	71,753	57,800	61,736	50,297
Amortisation of intangible assets	57,073	51,684	5,207	4,058
Losses on disposal of fixed assets	13,468	13,117	12,877	13,082
Financial expenses-net	87,215	71,978	44,670	31,396
Investment income	289	(83)	(2,089)	(1,992)
Amortisation of deferred revenue	1,077	—	420	—
Increase in deferred tax liabilities	4,120	4,468	1,251	1,595
Increase in inventories	(26,210)	(953)	11	(662)
(Increase)/decrease in operating receivables	(156,945)	(258,258)	(33,197)	(208,226)
Increase/(decrease) in operating payables	164,146	(13,304)	18,674	(25,275)
Net cash flows from operating activities	<u>355,697</u>	<u>56,723</u>	<u>231,868</u>	<u>(5,005)</u>
Net changes in cash and bank balances				
Cash at end of year	510,139	532,750	143,951	250,129
Less: cash at beginning of year	<u>539,430</u>	<u>592,261</u>	<u>161,861</u>	<u>224,354</u>
Net increase/(decrease) in cash and bank balances	<u>(29,291)</u>	<u>(59,511)</u>	<u>(17,910)</u>	<u>25,775</u>

## 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 30 June 2011 is as follows:

	Sewage water processing services			Recycle	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants	water and pipeline connection			
Income from third parties (Note 6(18))	448,259	68,371	118,533	33,856	19,836	61,624	750,479
Interest income (Note 6(20))	2,493	171	738	1,973	37	5,972	11,384
Interest expenses (Note 6(20))	(44,670)	(12,727)	(21,454)	(2,928)	(5,436)	—	(87,215)
Investment profit from associate(Note 6(7)b)	—	—	—	—	—	(489)	(489)
Depreciation & Amortisation	(65,268)	(18,124)	(29,167)	(7,708)	(5,515)	(3,044)	(128,826)
Total profit	138,819	4,612	7,805	3,460	555	30,447	185,698
Income tax expense	(34,494)	(1,724)	(637)	(701)	(34)	(8,397)	(45,987)
Net profit	104,325	2,888	7,168	2,759	521	22,050	139,711
Segment assets	4,660,648	808,660	1,356,119	647,730	334,922	708,131	8,516,210
Segment liabilities	2,967,130	503,933	531,825	719,332	160,224	74,881	4,957,325
Investment in associate	—	—	—	—	—	45,094	45,094
Non-current assets addition other than related to long-term investment	59,291	9,649	20,319	13,773	2,175	35,309	140,516

(b) Segment information as at and for the year ended 30 June 2010 is as follows:

	Sewage water processing services			Recycle	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants	water and pipeline connection			
Income from third parties (Note 6(18))	349,158	66,197	105,875	21,545	17,546	115,203	675,524
Interest income (Note 6(20))	925	164	439	1,374	—	5,696	8,598
Interest expenses (Note 6(20))	(31,396)	(12,544)	(20,343)	(3,083)	(4,612)	—	(71,978)
Investment profit from associate	—	—	—	—	—	83	83
Depreciation & Amortisation	(51,618)	(18,124)	(27,266)	(5,710)	(4,342)	(2,424)	(109,484)
Total profit	133,017	4,317	11,528	(299)	(1,470)	30,341	177,434
Income tax expense	(35,614)	(1,079)	(2,882)	—	—	(7,585)	(47,160)
Net profit	97,403	3,238	8,646	(299)	(1,470)	22,756	130,274
Segment assets	3,786,845	814,686	1,595,378	578,079	299,365	519,631	7,593,984
Segment liabilities	2,366,922	520,751	513,020	509,365	197,063	55,256	4,162,377
Investment in associate	—	—	—	—	—	44,218	44,218
Non-current assets addition other than related to long-term investment	198,069	—	73,146	34,596	6,139	958	312,908

## 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 (arising 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 30 June 2011, 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 Rmb6 million (2010: Rmb4 million) 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 (2010: Rmb12 million) 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.

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			Total	Company		
	Fixed	Floating	Non-interest bearing		Fixed	Floating	Total
At 30 June 2011							
Assets							
Cash and bank balances	900	510,139	—	511,039	—	143,951	143,951
Long-term receivables	337,371	—	—	337,371	337,371	—	337,371
Liabilities							
Current borrowings	16,364	858,52	61,320	876,210	16,364	635,000	651,364
Non-current borrowings	98,181	1,767,091	9,123	1,874,395	98,181	612,400	710,581
Long-term payables							
due within 1 year	24,581	6,637	—	31,218	24,581	6,637	31,218
Long-term payables	287,847	101,536	—	389,383	287,847	101,536	389,383
Short-term debenture	600,000	—	—	600,000	600,000	—	600,000
At 31 December 2010 (Restated)							
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	1,162,281
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 30 June 2011, 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 Rmb26 million (2010: Rmb22.6 million).

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

(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 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 ed borrowing facilities at all times

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:

	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
At 30 June 2011					
Long-term bank borrowings	899,308	618,481	892,872	496,555	2,907,216
Long-term payables	32,149	32,419	99,393	654,275	818,236
Other non-current liabilities	23,573	21,273	53,473	65,598	163,917
Trade and other payables	327,154	—	—	—	327,154
Short-term borrowings	77,146	—	—	—	77,146
Short-term debenture	600,458	—	—	—	600,458
At 31 December 2010 (Restated)					
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

(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:

	<b>30 June 2011</b>	<b>31 December 2010</b>
Total borrowings	3,350,605	3,462,620
Less: Cash and cash equivalents	(510,139)	(539,430)
Net debt	2,840,466	2,923,190
Total equity	3,558,885	3,576,169
Total capital	6,399,351	6,499,359
Gearing ratio	<u>44%</u>	<u>45%</u>

(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.

## 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	Zhao Yi
Gui Zhou Capital Water Co., Ltd.	Guizhou, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Fu Yang Capital Water Co., Ltd.	Fuyang, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Bao Ying Capital Water Co., Ltd.	Baoying, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Chi Bi Capital Water Co., Ltd.	Chibi, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Wang Hui

Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
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	Zhao Yi
Wen Deng Capital Water Co., Ltd.	Wendeng, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Tianjin Jing Hai Capital Water Co., Ltd.	Tianjin, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Yang Guang
Tianjin Water Recycling Co., Ltd.	Tianjin, the PRC	Product ion and sales of recycled water and Company 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	Zhao Yi
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	Tianjin, the PRC	development and consultancy of environmental product and technology	Subsidiary of the Company	Limited company	Zhang Wen Hui
Anguo Capital Water Co., Ltd.	Anguo, the PRC	Sewage and tap water	Subsidiary of the Company	Limited company	Li Yu Qing
Wuhan Tianchuang Environmental Protection Co.,Ltd	Wuhan, the PRC	Sewage and tap water processing	Subsidiary of the Company	Limited company	Zhao Yi
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	Yang Guang
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 consultancy & maintainance service	Subsidiary of the Company	Limited company	Zhong Wei Liang
Tianjin Jiayuanxinchuang New Energy Technology Co., Ltd	Tianjin, the PRC	development & consultancy of new energy technology	Subsidiary of the company	Limited company	Tang Fu Sheng



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

	<b>31 December 2010</b>	<b>Additions</b>	<b>30 June 2011</b>
TMICL	1,820,000	—	1,820,000
TICIG	67,700,000	—	67,700,000
Qu Jing Capital Water Co., Ltd.	120,000	28,000	148,000
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	15,000	53,000
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.	52,000	—	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	3,000	5,000
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
Tianjin Jiayuanxingchuang Co., Ltd	—	10,000	10,000
	<b>31 December 2010</b>		<b>30 June 2011</b>
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	7,840	—	7,840
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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 2010		Reduction for the year		31 December 2011	
	Amount	%	Amount	%	Amount	%
TMICL	739,781	51.83	—	—	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	Unaudited	Unaudited
		For the six months ended 30 June 2011	For the six months ended 30 June 2010
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant	26,069	—
TICIG	Rental income from TCEP building	1,912	3,230
Tianjin City Infrastructure Construction Project Management & Consultant Co., Ltd.	Rental income from TCEP building	364	—
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building	344	—
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects	970	2,380

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

	<b>Unaudited For the six months ended 30 June 2011</b>	<b>Unaudited For the six months ended 30 June 2010</b>
Key management compensation	3,844	4,200

(e) 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 and listed banks.

## 10 COMMITMENTS

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

	<b>Contracted but not provided for</b>		<b>Authorised but not contracted for</b>	
	<b>31 June 2011</b>	<b>31 December 2010</b>	<b>31 June 2011</b>	<b>31 December 2010</b>
	<i>Rmb’ million</i>	<i>Rmb’ million</i>	<i>Rmb’ million</i>	<i>Rmb’ million</i>
Sewage water processing plants in:				
– Bao Ying	30	—	—	—
– Jin Ning	8	—	17	—
– Ji Zhuang Zi (upgrade project)	41	59	—	—
– Xian Yang Lu (upgrade project)	21	29	1	2
– Bei Cang (upgrade project)	21	26	1	1
– Dong Jiao (upgrade project)	31	52	68	69
Water recycling plants in:				
– Ji Zhuang Zi (expansion project)	—	—	—	35
Other Projects:				
– Jia Yuan Xing Chuang Culture Center energy station	102	—	287	—
	<u>254</u>	<u>166</u>	<u>374</u>	<u>107</u>

## **IX. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **X. AUDIT COMMITTEE**

On 31 July 2001, the Board approved the establishment of the Audit Committee to review and supervise the Company's financial reporting procedure and internal controls. The Audit Committee comprises the independent non-executive Directors, Mr. Xie Rong, Mr. Di Xiaofeng and Ms. Lee Kit Ying, Karen. The Audit Committee, together with the management of the Group, have reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Group the internal controls and financial reporting matters including the review of the unaudited interim results and the Interim Report. The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2011.

## **XI. CODE ON CORPORATE GOVERNANCE PRACTICES**

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

## **XII. MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS**

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

### **XIII. DOCUMENTS AVAILABLE FOR INSPECTION**

1. Financial statements signed and sealed by the legal representative, officer in charge of the accounting work (Chief Accountant) and officer in charge of the accounting department (person in charge of accounting) of the Company.
2. Original copies of the documents and announcements of the Company which were publicly disclosed on newspapers designated by the CSRC during the reporting period.
3. Interim Report 2011.

**Tianjin Capital Environmental Protection Group Company Limited**

**Zhang Wenhui**

*Chairman*

24 August 2011