

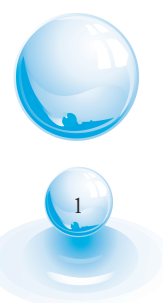


Annual Report 2011



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

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1. Important

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

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

Mr. Zhang Wenhui, the Company’s chairman, and Ms. Shi Zhenjuan, the officer in charge of the accounting work and the officer in charge of the accounting department (the chief accountant), have declared that they are responsible for the truthfulness and completeness of the financial reports contained in the 2011 annual report.

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

2. Company Profile

(1) Information of the Company

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

(2) Contact person and method

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

(3) Company profile

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

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

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

2. Company Profile

(5) Profile of the shares of the Company

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

(6) Other relevant information

Date of first registration of the Company	8 June 1993
The first registered address of the Company	No. 10 Hubei Road, Heping District, Tianjin, the PRC
Last changes	Date of change in registration of the Company 18 April 2011
	Change in registered address of the Company No. 45 Guizhou Road, Heping District, Tianjin, the PRC
	Number of business licence of corporate legal person 120000400079927
	Tax registration number 120114103065501
	Organization structure code 10306550-1
Name of PRC auditor engaged by the Company	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
Correspondence address of PRC auditor engaged by the Company	11th Floor, PricewaterhouseCoopers Center 202 Hu Bin Road, Shanghai, the PRC
Name of Hong Kong auditor engaged by the Company	PricewaterhouseCoopers
Correspondence address of Hong Kong auditor engaged by the Company	22/F, Prince's Building, Central, Hong Kong

Other information of the Company

On 26 August 1998, the Company changed its registered capital to RMB1,330,000,000 and received a new business license. On 8 January 2001, the Company changed its name from "Tianjin Bohai Chemical Industry (Group) Company Limited" to "Tianjin Capital Environmental Protection Company Limited", changed the company address to "No. 18 Jinlong Apartment, Shuishang Park North Road, Nankai District, Tianjin", changed the shareholder of the Company from "Tianjin Bohai Chemical Industry Group Corporation" to "Tianjin Municipal Investment Company Limited", cancelled the original scope of business, at the same time set up a new scope of business, re-signed the new Articles of Association, and received a new business license. On 23 July 2001, the Company revised the scope of business and received a new business license. On 25 February 2003, the Company changed its registered address to "No.45 Guizhou Road, Heping District, Tianjin, the PRC", revised the scope of business, at the same time amended the Articles of Association, and received a new business license. On 6 December 2004, the Company changed the scope of business, and at the same time amended the Articles of Association, and received a new business license. On 15 August 2006, due to the conversion of part of the convertible bonds of the Company and the share segregation reform, the Company changed its registered capital, and at the same time amended the Articles of Association, and received a new business license. On 5 June 2008, the Company changed its registration number, and received a new business license. On 13 October 2009, the Company changed its legal representative to Zhang Wenhui, and received a new business license. On 8 February 2010, due to the delisting of the convertible bonds, the Company changed its registered capital to RMB1,427,228,430, and received a new business license. On 18 April 2011, the Company changed its scope of business, and received a new business license.

3. Major Financial Information and Benchmarks

(1) Major financial data for the reporting period

Item	Unit: '000	Currency: RMB
	Amount	
Operating profit		379,288
Total profit		376,034
Net profit attributable to the shareholders of the Company		275,786
Net profit after deduction of extraordinary profit and loss attributable to the shareholders of the Company		278,226
Net cash flows from operating activities		834,173

(2) Deduction of extraordinary profit and loss items and amounts

Extraordinary profit and loss items	Amount in	Unit: '000	Currency: RMB
	2011	Amount in	Amount in
		2010	2009
Gain and loss from disposal of non-current assets	-13,661	-47,553	-12,834
Income and expenses from other operations other than the above	10,407	7,693	7,778
Impact of income tax	814	9,965	1,264
Total	-2,440	-29,895	-3,792

(3) Principal accounting data and financial highlights for the three years prior to the end of the reporting period

Principal Accounting Data	2011	2010	Unit: '000	Currency: RMB
			Increase/ decrease from last year (%)	2009
Total operating income	1,562,490.00	1,467,768.00	6.45	1,256,793.00
Operating profit	379,288.00	406,686.00	-6.74	342,777.00
Total profit	376,034.00	366,826.00	2.51	337,721.00
Net profit attributable to the shareholders of the Company	275,786.00	271,160.00	1.71	242,978.00
Net profit after deduction of extraordinary profit and loss attributable to the shareholders of the Company	278,226.00	301,055.00	-7.58	246,770.00
Net cash flow from operating activities	834,173.00	453,303.00	84.02	1,390,313.00

3. Major Financial Information and Benchmarks

	Unit: '000		Currency: RMB	
	As at the end of	As at the end of	Increase/ decrease from	As at the end of
	2011	2010	the end of last year (%)	2009
Total assets	9,085,324.00	8,425,563.00	7.83	7,195,648.00
Total liabilities	5,369,615.00	4,849,394.00	10.73	3,780,137.00
Owners' equity attributable to the shareholders of the Company	3,568,337.00	3,450,573.00	3.41	3,293,591.00
Total share capital	1,427,228.00	1,427,228.00	—	1,427,228.00
Principal Financial Highlights	2011	2010	Increase/ decrease from last year (%)	2009
Basic earnings per share (Yuan/share)	0.19	0.19	—	0.17
Diluted earnings per share (Yuan/share)	0.19	0.19	—	0.17
Earnings per share based on the latest share capital (Yuan/share)	0.19	0.19	—	0.17
Basic earnings per share after deduction of extraordinary profit and loss (Yuan/share)	0.19	0.21	-9.52	0.17
Weighted average return ratio on net assets (%)	7.73	7.86	Decreased by 0.13 percentage points	7.38
Weighted average return ratio on net assets after deduction of extraordinary profit and loss (%)	7.80	8.72	Decreased by 0.92 percentage points	7.49
Net cash flow from operating activities per share (Yuan/share)	0.58	0.32	81.25	0.97
	As at the end of	As at the end of	Increase/ decrease from	As at the end of
	2011	2010	the end of last year (%)	2009
Net asset value per share attributable to the shareholders of the Company (Yuan/share)	2.50	2.42	3.31	2.31
Gearing ratio (%)	59.10	57.56	Increased by 1.54 percentage points	52.53

3. Major Financial Information and Benchmarks

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

Results

	For the year ended 31st December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	1,493,146	1,394,821	1,226,466	1,135,101	978,953
Profit before taxation	376,034	366,826	337,721	310,238	309,592
Taxation	(96,154)	(91,670)	(91,319)	(76,753)	(99,224)
Profit after taxation	279,880	275,156	246,402	233,485	210,368
Minority interests	(4,094)	(3,996)	(3,424)	(2,420)	(1,040)
Profit attributable to equity holders of the Company	275,786	271,160	242,978	231,065	209,328
Dividend	57,089	156,995	114,178	57,089	57,089

Note:

The results for each of the five years ended 31st December 2011 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

Assets and Liabilities

	As at 31st December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fixed assets	3,832,313	3,812,606	2,841,702	2,704,364	2,726,943
Intangible assets	2,803,037	2,427,782	2,367,696	1,884,264	1,174,341
Associated company	40,669	41,583	40,135	39,878	63,979
Available-for-sale financial assets	4,000	4,000	4,000	4,000	4,000
Long-term receivables	338,446	336,286	331,354	331,254	326,980
Trade receivables due after one year	68,794	68,794	241,792	697,763	697,763
Other non-current assets	8,634	7,458	3,230	47,252	23,778
Net current (liabilities)/assets	89,359	39,599	15,624	137,563	(158,829)
	7,185,252	6,738,108	5,845,533	5,864,338	4,858,955
Minority interests	147,372	125,596	121,920	118,496	117,358
Long-term liabilities	3,469,543	3,161,939	2,430,022	2,620,140	1,807,871
Net assets	3,568,337	3,450,573	3,293,591	3,107,702	2,933,726

4. Details of Changes in Share Capital and Shareholders

(1) Changes in share capital

1. Changes in shares

Unit: shares

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

2. Changes in restricted shares

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

(2) Issue and listing of securities

1. Issue of securities in the past three years

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

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

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

3. Existing internal employee shares

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

4. Details of Changes in Share Capital and Shareholders

(3) Details of shareholders and ultimate controller

1. Number of shareholders and their shareholdings

Total number of shareholders as at the end of 2011	103,923, among which 108 are shareholders of H shares	Total number of shareholders as at the end of the month immediately prior to the publication date of annual report 2011	99,846, among which 108 are shareholders of H shares
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Shareholdings of the top ten shareholders

Name of shareholder	Nature of the shareholder	Percentage of shareholding(%)	Total number of shares held (shares)	Increase/decrease during the reporting period (shares)	Number of restricted shares held	Number of shares pledged or frozen (shares)
Tianjin Municipal Investment Company Limited (“TMICL”)	State-owned shareholder	51.60	736,499,791	-3,281,309	0	Pledged 351,940,000
HKSCC Nominees Limited	Unknown	23.37	333,602,900	-978,000	0	Unknown
Zhou Jun	Unknown	0.43	6,177,700	0	0	Unknown
Shenyang Railway Coal Group Co., Ltd.	Unknown	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)	Unknown	0.18	2,525,630	2,525,630	0	Unknown
Golden Sun Securities Corporation Limited	Unknown	0.15	2,100,000	2,100,000	0	Unknown
HO MAN PING	Unknown	0.14	2,014,000	0	0	Unknown
Agricultural Bank of China – China Southern CSI500 Index Fund (中國農業銀行股份有限公司－南方中證 500 指數證券投資基金 (LOF))	Unknown	0.08	1,177,889	1,177,889	0	Unknown
FUNG CHUN KIT	Unknown	0.08	1,130,000	0	0	Unknown
China Electronics Financial Co., Ltd	Unknown	0.08	1,100,000	1,100,000	0	Unknown

4. Details of Changes in Share Capital and Shareholders

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

Name of shareholder	Number of the non-restricted circulating shares held (shares)	Type of shares
TMICL	736,499,791	Ordinary RMB Shares
HKSCC Nominees Limited	333,602,900	H Shares
Zhou Jun	6,177,700	Ordinary RMB Shares
Shenyang Railway Coal Group Co., Ltd.	3,000,000	Ordinary RMB 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)	2,525,630	Ordinary RMB Shares
Golden Sun Securities Corporation Limited	2,100,000	Ordinary RMB Shares
HO MAN PING	2,014,000	H Shares
Agricultural Bank of China – China Southern CSI500 Index Fund (中國農業銀行股份有限公司－ 南方中證 500 指數證券投資基金(LOF))	1,177,889	Ordinary RMB Shares
FUNG CHUN KIT	1,130,000	H Shares
China Electronics Financial Co., Ltd	1,100,000	Ordinary RMB Shares

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

It is not certain whether there is any connected relationship among the top 10 shareholders. It is not certain whether there is any connected relationship between the top 10 shareholders of non-restricted circulating shares and the top 10 shareholders.

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

4. Details of Changes in Share Capital and Shareholders

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

(1) Description of the legal person controlling shareholder

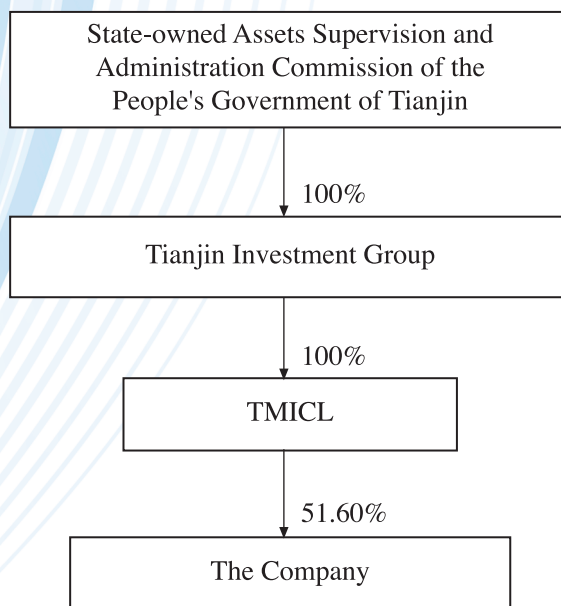
Name	TMICL
Legal representative	Xiong Guangyu
Date of incorporation	20 January 1998
Registered capital	RMB1,820,000,000
Principal operations	The investment, construction, operation and management of city infrastructure, road construction and auxiliary facilities with internal funds; development, operation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

(2) Description of the legal person ultimate controller

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

4. Details of Changes in Share Capital and Shareholders

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



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

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

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

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

4. Details of Changes in Share Capital and Shareholders

(4) Substantial Shareholders Interests

- (a) As at 31st December 2011, so far as is known to or can be ascertained after reasonable enquiries by the Directors, Supervisors or chief executive of the Company, the following entities (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Number and class of securities (Note)	Approximate percentage in the relevant class of securities	Approximate percentage in the total issued share capital of the Company
TMICL	Beneficial Owner	736,499,791 A Shares (L)	67.74%	51.60%
Edmond de Rothschild Asset Management	Investment Manager	19,668,000 H Shares (L)	5.78%	1.38%
Edmond de Rothschild Asset Management Hong Kong Limited	Investment Manager	19,668,000 H Shares (L)	5.78%	1.38%
Xi Lian International Company Limited	Beneficial Owner	17,050,000 H Shares (L)	5.01%	1.19%
Yao Zhiyong	Interest of corporation controlled	17,050,000 H Shares (L)	5.01%	1.19%



4. Details of Changes in Share Capital and Shareholders

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
ISIS Asset Management Plc	Investment Manager	17,286,000 H Shares (L)	5.08%	1.21%
HSBC Asset Management (Hong Kong) Limited	Investment Manager	20,000,000 H Shares (L)	5.88%	1.40%

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

- (b) Save as disclosed above, there is no other person (other than the Directors, Supervisors or chief executive of the Company) so far as is known to the Directors, Supervisors or chief executives of the Company who, as at 31 December 2011, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 10% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

5. Directors, Supervisors and Senior Management

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

Name	Position held	Sex	Age	Appointment date	Termination date	No. of		Reason for the change	Total	Receive any remuneration or allowance from companies of shareholders or other related companies?
						shares held at the beginning of the year	No. of shares held at the end of the year		remuneration received from the Company during the reporting period (RMB) (Before Tax)	
Zhang Wenhui	Executive Director, Chairman	M	57	18 December 2009	17 December 2012	0	0	—	742,030.20	No
Lin Wenbo	Executive Director, general manager	M	55	18 December 2009	17 December 2012	0	0	—	674,204.20	No
Fu Yana	Executive Director, deputy general manager and secretary to the Board	F	41	18 December 2009	17 December 2012	0	0	—	555,341.20	No
Zhong Huifang	Executive Director, Original deputy general manager	F	44	18 December 2009 18 December 2009	17 December 2012 6 April 2011	0	0	—	100,000 140,784	Yes
An Pindong	Non-executive Director	M	43	18 December 2009	17 December 2012	0	0	—	100,000	Yes
Chen Yinxing	Non-executive Director	F	38	18 December 2009	17 December 2012	0	0	—	100,000	Yes
Xie Rong	Independent non-executive Director	M	60	18 December 2009	17 December 2012	0	0	—	220,000	No
Di Xiaofeng	Independent non-executive Director	M	51	18 December 2009	17 December 2012	0	0	—	220,000	No
Lee Kit Ying, Karen	Independent non-executive Director	F	64	18 December 2009	17 December 2012	0	0	—	220,000	No
Zhang Mingqi	Chairman of Supervisory Committee	M	55	18 December 2009	17 December 2012	0	0	—	413,344.20	No
Nie Youzhuang	Supervisor	M	43	18 December 2009	17 December 2012	959	959	—	237,083.20	No
						domestic shares	domestic shares			
Wu Baolan	Supervisor	F	45	24 August 2011	23 August 2014	0	0	—	195,165.20	No
Wang Yanmin	Supervisor, deputy head of the audit department of Tianjin Investment Group	F	46	18 December 2009	17 December 2012	0	0	—	0	Yes

5. Directors, Supervisors and Senior Management

Name	Position held	Sex	Age	Appointment date	Termination date	No. of shares held		Reason for the change	Total remuneration received from the Company during the reporting period (RMB) (Before Tax)	Receive any remuneration or allowance from companies of shareholders or other related companies?
						at the beginning of the year	at the end of the year			
Li Yang	Supervisor	M	43	18 December 2009	17 December 2012	0	0	—	280,173.20	No
Qi Lipin	Supervisor	F	34	18 December 2009	17 December 2012	0	0	—	205,541.20	No
Deng Biao	Deputy general manager	M	46	18 December 2009	17 December 2012	0	0	—	432,411.20	No
Yang Guang	Deputy general manager	M	42	18 December 2009	17 December 2012	0	0	—	452,744.20	No
Zhang Qiang	Deputy general manager	M	49	18 December 2009	17 December 2012	0	0	—	412,411.20	No
Li Yuqing	Chief engineer	M	47	18 December 2009	17 December 2012	0	0	—	463,644.20	No
Shi Zhenjuan	Chief accountant	F	41	18 December 2009	17 December 2012	0	0	—	524,845.20	No
Lo Wai Keung, Eric	Company secretary (Hong Kong)	M	36	18 December 2009	17 December 2012	0	0	—	US\$20,000	No
Tang Fusheng	Deputy general manager	M	38	25 March 2010	17 December 2012	0	0	—	455,249.20	No
Wang Hong	Deputy general manager	M	36	25 March 2010	17 December 2012	0	0	—	414,249.20	No
Zhao Yi	Deputy general manager	M	39	18 October 2010	17 December 2012	0	0	—	360,136.20	No
Total	/	/	/	/	/	959	959	/	8,051,442.40	/
						domestic shares	domestic shares			

5. Directors, Supervisors and Senior Management

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

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

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

Fu Yana, is now the executive Director, deputy general manager and secretary of the Board of the Company, and also the manager of the human resources department of the Company. Ms. Fu has been the secretary to the Board since December 2000. She was appointed as the Director and deputy general manager of the Company since December 2003 and has been the manager of the human resources department since 8 November 2010. During the reporting period, Ms. Fu was also the director of Tianjin Beifang Rencaigang Company Limited, in which the Company has interest.

Zhong Huifang, is now the Director of the Company. From August 2002 to August 2008, Ms. Zhong Huifang successively held the positions of manager assistant, deputy manager and manager of the market development division of the Company, and deputy chief engineer and general manager assistant of the Company. From 21 August 2008 to 7 April 2011, she was the deputy general manager of the Company, during the period, she was appointed as the general manager of the eastern water business department and the international business department of the Company. Ms. Zhong has been the executive Director of the Company since 18 December 2009. As at 8 April 2011, Ms. Zhong Huifang was transferred to Tianjin Investment Group due to working requirement and continued to be the Director of the Company.



5. Directors, Supervisors and Senior Management

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

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

Xie Rong, is now the independent non-executive Director of the Company and vice-president of Shanghai National Accounting Institute. Mr. Xie obtained a master degree in economics from the Department of Accounting of the Shanghai University of Finance and Economics in 1985. He received a doctorate degree in economics from the Shanghai University of Finance and Economics in 1992. From December 1985 to November 1997, he successively served as teaching assistant, lecturer, associate professor, professor, deputy head and instructor for doctorate students at the Department of Accounting of the Shanghai University of Finance and Economics. From December 1997 to October 2002, he became a partner of KPMG Huazhen and a certified public accountant in the PRC. Since October 2002, he took up the post of vice-president of Shanghai National Accounting Institute. He was also the external director of SAIC Motors and independent director of various listed companies, including Baosight Software, Sinopharm Group Co. Ltd. and CITIC Bank. Mr. Xie was appointed as the independent non-executive Director of the Company since 16 April 2008.

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

5. Directors, Supervisors and Senior Management

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

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

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

Wu Baolan, is now the Supervisor of the Company and the head of the party-masses department of the Company. Ms. Wu joined the Company in December 2000 and acted as the assistant to the manager of the human resources department of the Company. From December 2004 to December 2005, due to working requirement, she was transferred to Tianjin Rijiyuan Company (天津日技園公司) as the supervisor of the general affairs office. She joined the Company again in December 2005, and acted as the vice head and head of the party-masses department of the Company. Ms. Wu has been elected as the Supervisor on behalf of the Company's staff since 24 August 2011.

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

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

5. Directors, Supervisors and Senior Management

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

Deng Biao, is now the deputy general manager of the Company and the general manager of the 3rd engineering branch company. Mr. Deng was the chief engineer of the Company from December 2003 to June 2009. He has been the deputy general manager of the Company since 5 March 2009. He has been the general manager of the 3rd engineering branch company since the end of 2010.

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

Zhang Qiang, is now the deputy general manager of the Company and the general manager of the 2nd engineering branch company. From August 2003 to October 2007, Mr. Zhang served as the deputy general manager in Tianjin Third Municipal Highway Engineering Company Limited in charge of the modification works of Xianyang Road in Tianjin, engineering works of highway of Dongfeng Overpass and the operation and development of the company. From October 2007 to February 2009, he was appointed as the chairman and general manager of Tianjin Seventh Municipal Highway Engineering Company Limited in charge of the overall work. Mr. Zhang joined and served as the deputy general manager of the Company since 5 March 2009. During the period, he was also the general manager of the business department of the urban projects of the Company, and he has been the general manager of the 2nd engineering branch company since December 2010.

Li Yuqing, is now the chief engineer of the Company, the director of the scientific research institute of the business division of the research and development centre, and the manager of the technology management division. From 2001 to 2008, Mr. Li worked for Dongjiao Sewage Water Treatment Plant, water supply branch and the production and operation department of the Company and held the positions of deputy factory head, factory head, general manager of water supply branch, manager of the operation department and deputy chief engineer of the Company. He has been the chief engineer of the Company since 30 June 2009, and he has been the manager of the technology management division since December 2010, and also has been the director of the scientific research institute of the business division of the research and development centre since February 2011. He was the general manager of the Tianjin water business division of the Company from December 2009 to November 2010. Mr. Li was elected as the Supervisor of the fourth Supervisory Committee of the Company from 9 October 2008 to 17 June 2009.

5. Directors, Supervisors and Senior Management

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

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

Tang Fusheng, is now the deputy general manager of the Company, the chairman and general manager of Tianjin Water Recycling Company Limited, a wholly-owned subsidiary of the Company, the chairman of the Company's subsidiary, Tianjin Jiayuanxing Innovative Energy Technology Company Limited, the general manager of the energy and resources business division of the Company and the chairman of a wholly-owned subsidiary of the Company in Hong Kong. Mr. Tang successively served as the head, deputy general manager and general manager of the development department of Tianjin Water Recycling Company Limited from August 2011 to April 2009. He became the chairman and general manager of Tianjin Water Recycling Company Limited since April 2009. He was the assistant to general manager of the Company from April 2009 to March 2010. He has been the deputy general manager of the Company since March 2010. He has been the general manager of the energy and resources business division of the Company since the end of 2010, and he has been the chairman of a wholly-owned subsidiary of the Company in Hong Kong since June 2011.

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

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

5. Directors, Supervisors and Senior Management

Each Director or Supervisor has not entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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

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

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

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

As at 31st December 2011, none of the Directors, Supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

(II) Positions held at the shareholder's entity

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

Positions held at other entities:

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

5. Directors, Supervisors and Senior Management

(III) Remunerations of Directors, Supervisors and Senior Management

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

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

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

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

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

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



5. Directors, Supervisors and Senior Management

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

Name	Position held	Change	Reasons for change
Zhong Huifang	Deputy general manager	Resigned	Job transfer
Xu Zhiyong	Supervisor	Resigned	Job transfer
Wu Baolan	Supervisor	Appointment	Working requirement

(V) Employees of the Company

Total number of on-duty employees	1,410
Number of retired employees for whom the Company is required to afford charges	0

By profession

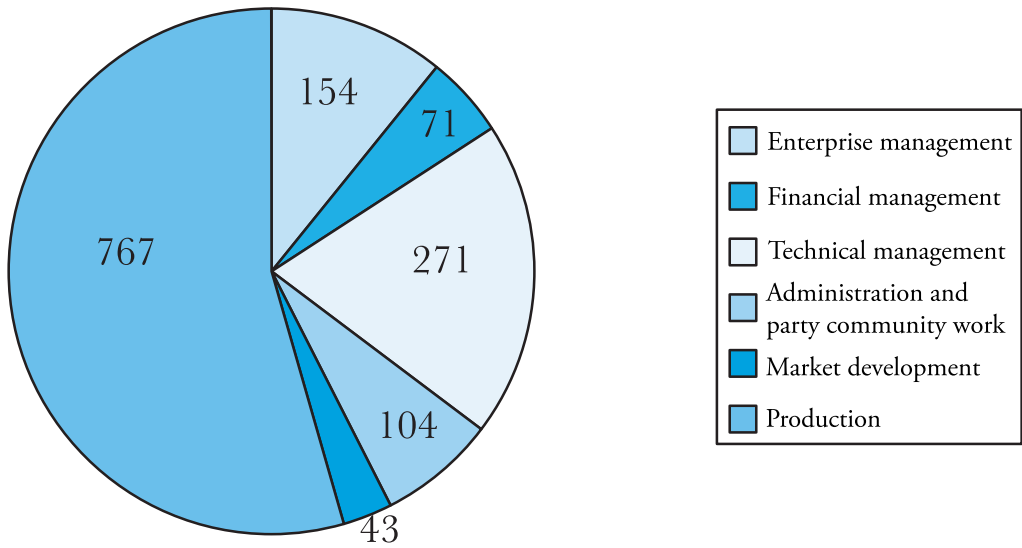
Category of profession	Number of persons
Enterprise management	154
Financial management	71
Technical management	271
Administration and party community work	104
Market development	43
Production	767
Total	1,410

By education

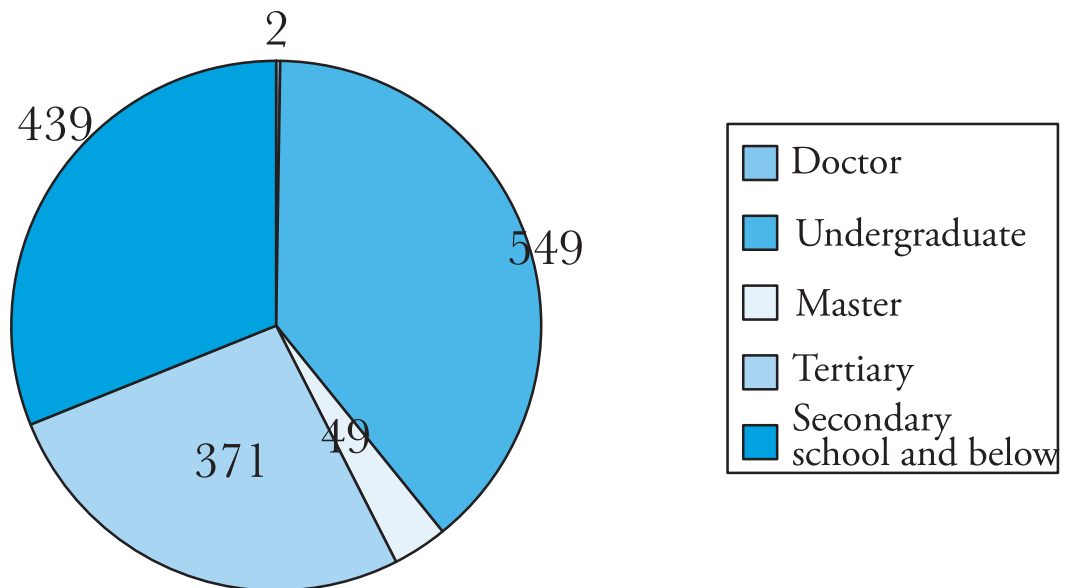
Category of education	Number of persons
Doctor	2
Master	49
Undergraduate	549
Tertiary	371
Secondary school and below	439
Total	1,410

5. Directors, Supervisors and Senior Management

By profession



By education



6. Structure of Corporate Governance

(1) The Company's Corporate Governance

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

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

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

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

(2) Performance of Duties by Directors

1. Attendance of Directors at the Board meetings

Name of Director	Independent non-executive Director?	Number of Board meetings required to attend this year	Attend in person (times)	Attend by way of other communication method (times)	Attend by proxies (times)	Absence (times)	Absence for two consecutive meetings in person?
Zhang Wenhui	No	13	12	9	1	0	No
Lin Wenbo	No	13	13	9	0	0	No
Fu Yana	No	13	13	9	0	0	No
Zhong Huifang	No	13	11	9	2	0	No
An Pindong	No	13	10	9	3	0	No
Chen Yinxing	No	13	11	9	2	0	No
Xie Rong	Yes	13	13	9	0	0	No
Di Xiaofeng	Yes	13	11	9	2	0	No
Lee Kit Ying, Karen	Yes	13	13	9	0	0	No
Number of Board meetings held during the year							13
Among which: Physical Meetings (times)							4
Meetings held by way of other communication method (times)							9
Meetings held physically together with by way of other communication method (times)							0

6. Structure of Corporate Governance

(2) Performance of Duties by Directors (Continued)

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

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

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

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

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

	Independent and complete?	Descriptions
Independence of Business:	Yes	The Company was independent from the controlling shareholder in conducting of its business, with independent capability on business and self-operation.
Independence of Staffs:	Yes	The Company's senior management is employed by the Board of the Company, and their remuneration and assessment are determined by the Board. Staffs below senior management level are employed by the general manager, with their remuneration and assessment to be determined in accordance with the system of remuneration and assessment approved by the Board. The Company has set up an independent human resource department. All senior management officers such as the present chairman, general manager, deputy general manager, financial controller, secretary to the Board of the Company received their salaries from the Company and they have not taken up any important positions other than directors in the entities of the controlling shareholder. Therefore, in terms of personnel and remuneration management, the Company is independent from the controlling shareholder.
Independence of Assets:	Yes	The assets of the Company and the controlling shareholder are clearly cut. The assets of the Company are completely independent from the controlling shareholder. The Company did not provide any guarantee for its controlling shareholder and other companies except for the Company's subsidiaries. The Company has complete control and rights of its assets. There were no circumstances of its assets and capital being occupied by the controlling shareholder which would adversely affect the interest of the Company.
Independence of Organization:	Yes	The Company established an organizational structure which was absolutely independent from the controlling shareholder, and has set up organizations such as shareholders' general meetings, the Board, the Supervisory Committee and the general manager of the Company. The operation and management of the Company were subject to an accountability system of the general manager under the authorization of the Board. The Company has a separate place of business.
Independence of Finance:	Yes	The Company has set up an independent finance and accounting department, and established a separate bank account, an independent accounting and audit system and a financial management system.

6. Structure of Corporate Governance

(4) Corporate Governance Report

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

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

2. Details of Corporate Governance Report

(1) *About Corporate Governance Practices*

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

(2) *About Securities Transactions by the Directors*

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

After making specific enquiries by the Board, there was only one Supervisor holding 959 A Shares of the Company (Please see Section 5 of this annual report for details), and there have been no share transactions during the reporting period. No other Directors, Supervisors and senior management of the Company has purchased the Company’s shares and debentures during the reporting period. Accordingly, all the Directors have complied with the Model Code during the reporting period.

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(3) *About the Board*

The Fifth Board of the Company elected at the extraordinary general meeting of the Company held on 18 December 2009 consists of nine members, including Mr. Zhang Wenhui, the Chairman and an executive Director; three other executive Directors: Mr. Lin Wenbo, Ms. Fu Yana and Ms. Zhong Huifang; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Mr. Di Xiaofeng, Mr. Xie Rong and Ms. Lee Kit Ying, Karen. There was no relationship including financial, business, family or other material/relevant relationship between the members of the Board of the Company. All of the Board members possess immense qualifications and management experience. For details of the members of the Board, please refer to the section headed “Directors, Supervisors and Senior Management” in Section 5 of this Annual Report.

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

The qualifications and professional experiences of the three independent non-executive Directors have fully complied with the requirements under the Listing Rules. The Board of the Company has accepted the declaration of independence for the year 2011 by each independent non-executive Director, and confirms that they comply with the relevant independence requirements as set out under Rule 3.13 of the Listing Rules.

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

6. Structure of Corporate Governance

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

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

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

During the reporting period, Mr. Zhang Wenhui served as the Chairman of the Company, Mr. Lin Wen Bo was appointed as the General Manager of the Company, with their term of office same as that of the Fifth Board.

(5) *About non-executive Director*

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

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(6) *About the remunerations of the Directors*

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

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

(7) *About the nomination of Directors*

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

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

Please refer to the section headed “Directors’ Report” in this Annual Report for the circumstances regarding the performance of the Nomination Committee during the reporting period.

6. Structure of Corporate Governance

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(8) *About the Remuneration of Auditors*

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

(9) *About the Audit Committee*

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

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

(4) Corporate Governance Report (Continued)

2. Details of Corporate Governance Report (Continued)

(10) About other specific disclosures

The Directors are responsible for supervising the compilation of the accounts for each financial period, in order to ensure that those accounts reflect genuinely and fairly the business and results of the Company for the period. In compiling the accounts for the year ended 31 December 2011, the Directors have chosen and thoroughly applied the appropriate accounting policies with due and reasonable judgement and estimates having been made, and prepared the accounts on a going concern basis.

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

The Board of the Company has been much concerned about the internal control of the Company. At the twenty-eighth meeting of the Fifth Board held on 22 March 2012, the resolution in respect of the internal control of the Company was solely considered and a self-assessment report on the internal control was issued. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company has audited the internal control of the Company during 2011, and has issued its audited opinion for the Board's self-assessment report on the internal control 2011.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have been the Company's domestic and overseas auditors respectively. In view of their continued understanding to the Company and their high professional level, the Audit Committee has proposed to re-appoint the above audit firms to provide audit services to the Company in 2012, and such proposal has been considered and passed at the twenty-eighth meeting of the Fifth Board.



6. Structure of Corporate Governance

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

Overall plan for the establishment of internal control

In strict compliance with the Company Law and Securities Law of the PRC, the “Basic Standard for Enterprise Internal Control” and the “Corporate Internal Control Package Guidelines” issued by five agencies including the Ministry of Finance, and the requirements of the “Guidelines on Internal Control of Listed Companies of the Shanghai Stock Exchange” and the relevant rules and regulations of the CSRC, the Company continuously improved and standardized the organizational structure of its internal control, properly established the management functional department and formulated a relatively systematic management control system. Besides, the Company took vigorous control measures to establish a relatively sound internal control system, and effectively prevented risks of the Company.

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

After the establishment work of internal control in the past several years, the Company has established a relatively sound internal control system. In order to be in line with the implementation of the “Corporate Internal Control Package Guidelines” issued by five agencies including the Ministry of Finance of the PRC, according to the requirements of the “Administrative Measures for the Establishment of Systems” of the Company and work plans for 2011, the work for the improvement of the internal control system of the Company and its subsidiaries against the “Corporate Internal Control Application Guidelines” was launched on a large scale. During the year, the Company completed the establishment and rectification of 34 key system guidelines such as production and operation, financial management and information disclosure, and the rectification and improvements of nearly 100 processes in 11 cycles. After sorting out its own business and organizational structure and risk assessment, each subsidiary has established 10-15 key cycles of business, formulated relevant system process files and established the internal control framework and management manual, which correspond to and are in consistent with the principles of the Company. The legal audit department tracked the design and implementation of the system and processes announced, made risk assessments, urged its implementation, completed the rectification and formed an effective internal control system which can prevent risks.

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

The establishment of the internal control examination and supervision department

The Board has the Audit Committee which comprises the independent non-executive Directors of the Company, and carries out independent examination and verification of the internal control system of the Company through the legal audit department of the Company. The legal audit department, as the dedicated examination and supervision department, is responsible for the daily examination and supervision of internal control, finding out problems, making immediate improvements and urging rectification, and ensuring the effective implementation of the internal control system.

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

The Board has the Audit Committee, and the Audit Committee is accountable to the Board. The legal audit department is responsible for the actual organization and implementation of the evaluation of internal control, and formulated the “Internal Auditing Management System” and the “Operating Guidelines for Internal Control Auditing, Operating Guidelines for Financial Income and Operating Guidelines for Economic Responsibilities Auditing”, as the implementation basis for internal supervision.

The legal audit department formulates a work plan at the beginning of the year and submitted to the Audit Committee and the Board for approval, and carries out an independent examination and verification of the high risk areas and units included in the evaluation. During the reporting period, the legal audit department conducted two internal control tests on the Company and part of its subsidiaries, made the proposal for the subsequent rectification to the problems found out in the tests and planned for the subsequent rectification to ensure the effectiveness of the internal control tests result. At the same time, the legal audit department reinforces the communication with the Audit Committee and the Board, reports the internal control process to the Audit Committee or the Board timely and forms a work model of regular communication.

As demonstrated by the two internal control tests, the system and processes of the Company could cover key activities. There were no material defects, and the Company implemented the “Corporate Internal Control Application Guidelines” effectively. According to the results of the internal control test, the legal audit department prepares the internal control assessment report, which will be disclosed to the public after being examined and approved by the Board.

The Company appoints PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company to conduct an independent audit on the effectiveness of the Company’s internal control and will disclose the internal control audit report issued by the certified public accountants.



6. Structure of Corporate Governance

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

Arrangement made by the Board
for internal control-related work

The Board has the Audit Committee which comprises the independent non-executive Directors of the Company, and carries out independent examination and verification of the internal control system of the Company through the legal audit department of the Company. The Board and the Audit Committee audit the work plan of the legal audit department at the beginning of the year, regularly receive the report on the process of the internal control, and provide their opinions in relation to upgrading and improving the internal control and the internal control system establishment.

The establishment and operation
of the internal control system
relating to financial reporting

During the year, while implementing internal control in an all-round manner, the Company exerted itself to facilitate the establishment and operation of the internal control system relating to financial reporting. As at the end of 2011, the Company issued and amended various key system guidelines such as “Computerized Accounting Internal Management System”, “Technological Non-current Asset System”, “Financial Report Management System”, “Budget Preparation System”, “Capital Management System”, “Financial Budget Management System” and “Fixed Asset Management System”. The relevant system guidelines came into effect on the date of issue. The legal audit department also paid particular attention to the operation of the internal control system relating to financial reporting during the internal control test conducted at the end of the year. As demonstrated by the internal control test, there were no material control defects. Effective internal control relating to financial reporting was maintained in all material respects.

The defects existing in internal control
and their rectification

During the reporting period, no material defects in the design or implementation of the Company’s internal control were identified. The internal control system of the Company is sound and its implementation is effective. The Company will continue to improve the establishment and amendment of the internal control system and refine the business process so as to continuously increase the Company’s governance standard and strengthen the implementation of internal control.

(6) Appraisal and incentive mechanism for senior management

Appraisal and incentive mechanism :

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

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

Name	Contribution to pension scheme (RMB)
Zhang Wenhui	22,512
Lin Wenbo	22,512
Fu Yana	22,512
Shi Zhenjuan	22,512
Li Yuqing	22,512

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

(7) The Disclosure of the Relevant Reports on the Internal Control of the Company

1. Has the Company disclosed the Self-assessment Report on the Internal Control: Yes
2. Has the Company disclosed the financial internal control audit report of the Company issued by the audit institution: Yes
3. Has the Company disclosed the Social Responsibility Report? Yes

Disclosure websites of the above reports: www.sse.com.cn
www.hkex.com.hk
www.ifn.com.hk/ir/tjcep/



6. Structure of Corporate Governance

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

In order to enhance the quality of the information disclosure and the transparency in the annual report, the Company has established the “Disclosure Accountability System for Major Errors in the Annual Report”, which clearly defines the whole process, links and relevant responsible persons for the collection and verification of information in the annual report. It also specifies that in the event of occurrence of major accounting errors or omissions, relevant responsible persons shall be dealt with seriously according to the system, and supplementary information disclosure for amendments shall be made on a faithful basis according to the “Annual Report Guidelines”. During the reporting period, there were no correction of major accounting error, no supplement to material information omission and no amendment to results announcement.

7. Shareholders' General Meetings

1. Annual General Meeting

Session	Convening Date	Newspapers for publishing the resolutions	Date for publishing the resolutions
2010 Annual General Meeting	13 May 2011	Shanghai Securities News, page B29	13 May 2011

2. Extraordinary General Meeting

Session	Convening Date	Newspapers for publishing the resolutions	Date for publishing the resolutions
2011 First Extraordinary General Meeting	17 August 2011	Shanghai Securities News, page B72	17 August 2011



8. Directors' Report

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

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

2011 was the first year of the Five-Year Development Plan of the Company and its subsidiaries (the "Group"). Under the leadership of the Board, the Group thoroughly applies the business management philosophy of "technology as the guide, operation as core", increasingly put greater efforts in the scientific research and development and scientific research achievements commercialisation, proactively expands its sewage water treatment industry chain. The Group used planning management and budget management as means to ensure the quality and output of services and products and to strictly control operating costs and expenses. It also actively adjusted its business structure to enter into the field of new energy cooling and heating supply services, making them as new economic growth points of the Group.

In 2011, the Group recorded operating income of RMB 1,562.49 million, representing an increase of RMB 94.72 million or 6.45% as compared to 2010. The increase was mainly attributable to an increase in income generated from the Company's sewage water treatment service business and recycled water business. There was also a small increase in income generated from its tap water business. Meanwhile, there were new incomes generated from cooling and heating supply service business and market promotion and application of patented technologies.

In 2011, the Group proactively coped with the financial austerity policies while maintaining operating income, and successfully issued medium term notes in the amount of RMB700 million, which effectively reduced the increase in the Group's finance costs. However, due to general increase of lending rate and commencement of amortization on finance costs of acquisition of foreign assets, the Group's finance costs increased by RMB 60.63 million as compared to 2010. Meanwhile, the Group actively applied for business tax relief policies. The Company obtained qualification for business tax exemption for 2011, thus recorded a decrease in business tax and surcharges of RMB 34.28 million as compared to 2010. In 2011, the updating and renovation projects of sewage water treatment plants including in Jizhuangzi were basically completed, and the disposal loss of fixed assets resulted from demolition and renovation decreased by RMB33.89 million as compared to 2010. Operating costs increased by RMB80.37 million as compared to 2010, which were in line with the increase in operating income. In 2011, the Company recorded a net profit (net profit attributable to the shareholders of the Company) of RMB275.79 million, representing an increase of RMB4.63 million or 1.71% as compared to 2010.

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

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

(1) Operating conditions of the principal businesses

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

During the reporting period, on the basis of ensuring steady operation of the sewage water processing projects invested and operated by it, and relying on the technical and operating capabilities of the sewage water treatment plants under it, the Group proactively developed entrusted operation projects to increase its operating income.

As at the end of the reporting period, the sewage water processing capacity of the Group reached 3.22 million cubic metres per day (excluding processing capacity for entrusted operation), and the sources for generating revenue from sewage water treatment include: (1) the sewage water treatment service fees charged by sewage water processing business of the Company pursuant to the "Sewage Water Processing Agreement" and the "Sewage Water Processing Interim Service Agreement"; (2) the sewage water treatment services provided by the subsidiaries under the Group in accordance with the licensed operation agreements on sewage water treatment and the agreements on sewage water treatment services signed between the local governments and those subsidiaries; (3) entrusted operation by which the Group charged operating service fees by rendering operating services in relation to sewage water treatment. The Group had processed a total of 979.482 million cubic metres of sewage water during the reporting period through the above ways, representing an increase of 9.7% as compared to the same period last year. Income realized amounted to RMB1,193.10 million, representing an increase of 7.85% as compared to the same period last year.

During the reporting period, the Company processed a total of 397.66 million cubic metres of sewage water for the whole year, representing an increase of 5.4% as compared to the same period last year, which was mainly attributable to the increase in the volume of water processed by sewage water treatment plants, and realized a sewage water treatment service income of RMB767.48 million, representing an increase of 5.43% as compared to the same period last year.



8. Directors' Report

During the reporting period, the subsidiaries of the Group processed a total of 482.979 million cubic metres of sewage water, representing an increase of 12% as compared to the same period last year. Income from sewage water processing services of RMB396.94 million was realized, representing an increase of 11.84% as compared to the same period last year. The increase in the amount of water was mainly due to the fact that Liangjiangkou sewage water treatment plant of Qujing subsidiary was in the reconstruction stage in the first quarter last year, resulting in low volume of sewage water processed, and new sewage water treatment plants in Xian Ning of Hubei, Xicheng District of Qujing and Hanshan of Fuyang came into operation in 2011, resulting in substantial increase as compared to the same period last year.

During the reporting period, the Group's entrusted operation projects processed a total of 98.843 million cubic metres of sewage water, realizing an income of RMB28.68 million, representing an increase of 22.72% as compared to 2010.

During the reporting period, the Group's sewage water treatment plants construction businesses mainly included the Hangu Yingcheng sewage water treatment plant DBO project and Ziya Zone sewage water treatment plant BT project, realizing an income from construction of RMB106 million, representing a decrease of 24.29% as compared to 2010.

b. Recycled water business

During the reporting period, the recycled water business recorded water sales of 14.278 million cubic metres, an increase of 15.4% as compared to the same period last year. Income from recycled water sales of RMB26.89 million was realized, an increase of 14.13% as compared to the same period last year. Both water sales and sales income increased as compared to the same period last year. The increase in water sales was attributable to an increase in the amount of water due to an increase in users of Dongjiao recycled water plant, and certain increase in the water demand of users of the Xianyanglu recycled water plant.

During the reporting period, the recycled water pipeline connection business realized an income of RMB78.21 million, representing an increase of 68.70% as compared to last year, which was due to increased projects.

c. Tap water business

During the reporting period, the Group's tap water business recorded an on-grid water volume of 39.229 million cubic metres, an increase of 9.7% as compared to the same period last year, which was mainly attributable to a greater general increase in water volume due to an increase in the on-grid agreed water volume of Anguo tap water plant, and realized an income of RMB39.98 million, an increase of 6.39% as compared to the same period last year.

d. Toll collection business

During the reporting period, the Group recorded an income of RMB67.03 million from the toll collection business, which was in line with the same period last year. During the reporting period, the Group still recognized income from the road business based on the amount received according to the "Subcontracting Toll Collection Agreement" 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.

e. Provision of cooling and heating supply service business

During the reporting period, the Group entered into the field of cooling and heating supply services through investment, construction and operation of the Tianjin Cultural Centre centralized energy station project. The Tianjin Cultural Centre centralized energy station project commenced construction in March 2011, began to provide heating supply services to users within the area of the culture centre on 15 November 2011 and realized an income from provision of heating supply services of RMB2.77 million at the end of 2011.

f. Income from sewage water treatment plant deodorization engineering

During the reporting period, the Group's CYYF sewage water treatment plant all-process deodorization patented technology successfully achieved market promotion and application, realizing an income from sewage water treatment plant deodorization engineering of RMB4.7 million.



8. Directors' Report

(2) Principal businesses by industry

Unit: '000 Currency: RMB

By industry	Income from operations	Cost of operations	Profit margin from operation(%)	Increase/decrease in income from operations as compared to last year(%)	Increase/decrease in cost of operations as compared to last year(%)	Increase/decrease in profit margin from operations as compared to last year(%)
Sewage water processing and sewage water treatment plant construction business	1,270,551	725,310	42.91	4.12	6.76	Decreased by 1.42 percentage points
Recycled water pipeline connection and water supply business ^(Note1)	105,099	69,384	33.98	50.32	35.00	Increased by 7.49 percentage points
Toll collection business	67,027	7,120	89.38	Unchanged	Unchanged	Unchanged
Tap water supply business	39,976	24,412	38.93	6.37	-2.73	Increased by 5.71 percentage points
Others ^(Note 2)	10,493	8,794	16.19	—	—	—

Notes: (1) There was a new additional project of pipeline connection business of Tianjin Water Recycling Company Limited, hence both income and costs increased year-on-year.

(2) This mainly includes the income from sewage water treatment plant deodorization engineering of Tianjin Kaiying Technology Development Company Limited, the income 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, and the income from heat supply services of Tianjin Jiayuanxing Innovative Energy Technology Company Limited.

(3) *Principal businesses by geographical regions**Unit: '000 Currency: RMB*

Region	Income from operations	Increase/decrease in income from operations as compared to the same period last year (%)
Tianjin	1,061,072	5.86
Qijing	69,056	34.40 ^(Note1)
Guizhou	24,608	-1.03
Fuyang	36,469	28.57
Baoying	12,264	10.72
Hangzhou	146,946	3.87
Wendeng	23,786	1.45
Xi'an	75,288	0.86
Anguo	13,418	12.62
Wuhan	29,375	15.99
Hong Kong	864	_ ^(Note2)

Notes: (1) The greater increase in the income from principal operations of Qijing Capital Water Company Limited as compared to the same period last year was mainly attributable to the water price adjustments for the sewage water business and the receipt of compensation for price differences.

(2) See Note(2) of the above principal businesses by industry for details of the income from principal operations of Hong Kong area.



8. Directors' Report

3. Composition of assets and liabilities during the reporting period

The Group had total assets in amount of RMB 9,085.324 million and total liabilities in amount of RMB 5,369.615 million as at the end of period. Major items and their percentages are set out below:

Unit: '000 Currency: RMB

	Balances at the end of period	Percentage of total assets
Trade receivables	1,096,583	12.07%
Fixed assets	2,383,709	26.24%
Intangible assets	3,254,821	35.83%

	Balances at the end of period	Percentage of total liabilities
Other payables	412,095	7.67%
Non-current liabilities due within one year	856,186	15.95%
Long-term borrowings	1,865,040	34.73%

4. Explanation on significant changes in principal financial data including assets and expenses during the reporting period as compared to the same period last year

As at 31 December 2011, the total assets of the Group amounted to RMB9,085.324 million, representing an increase of RMB659.761 million or rose by 7.83% as compared to the beginning of the year; the total liabilities amounted to RMB5,369.615 million, representing an increase of RMB520.221 million or rose by 10.73% as compared to the beginning of the year. Equity interest attributable to the shareholders of the Company amounted to RMB3,568.337

million, representing an increase of RMB117.764 million or grew by 3.41% as compared to the beginning of the year. Realized net profit attributable to the Company for the year 2011 amounted to RMB275.786 million, representing an increase of 1.71% as compared to the same period last year. The following is an analysis of items with more significant changes:

Unit: '000 Currency: RMB

Items	31 December 2011	31 December 2010	Increase/Decrease	Percentage change (%)	Details of changes
Other receivables	17,049	53,540	-36,491	-68.16	During the reporting period, the Company recovered deposits for project bids of RMB25 million due from E'zhou Yuquan Tap Water Company Limited
Inventory	80,569	32,476	48,093	148.09	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.
Short-term borrowings	152,000	73,000	79,000	108.22	Mainly new bank loans of the Company during the current period.
Short-term bonds payables	—	600,000	-600,000	-100	The short-term bonds issued by the Company were repaid in full during the current period.
Advances	423,387	310,478	112,909	36.37	Mainly advances of pipeline connection business of the subsidiary, Tianjin Water Recycling Company Limited
Other payables	412,095	274,991	137,104	49.86	Were mainly new infrastructural project and equipment payables of Tianjin Jiayuanxing Innovative Energy Technology Company Limited during the current period.
Non-current liabilities due within one year	856,186	360,180	496,006	137.71	Were the medium to long term current loans due within one year and long term payables due within one year of the Company.
Deferred income	369,928	284,974	84,954	29.81	Were mainly ancillary heating fees from Tianjin Cultural Centre centralized energy station project received by Tianjin Jiayuanxing Innovative Energy Technology Company Limited during the current period.

8. Directors' Report

Items	2011	2010	Increase/Decrease	Percentage change (%)	Details of changes
Business tax and surcharges	8,831	43,109	-34,278	-79.51	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.
Finance costs	196,415	135,790	60,625	44.65	Loan rates increased during the current period. In addition, unrecognized finance costs on acquisition of foreign assets at the end of the previous period commenced amortization during the current period.
Investment income	386	1,448	-1,062	-73.34	Was mainly attributable to a decrease in investment income recognized by the Company in respect of a joint venture, Tianjin International Machinery Company Limited
Non-operating income	10,573	7,993	2,580	32.28	Was mainly government grants received by subsidiaries during the current period.
Non-operating expenses	13,827	47,853	-34,026	-71.11	During the current period, the upgrading and renovation projects of sewage water treatment plants of the Company were close to completion, thus the disposal loss of fixed assets decreased as compared to last year.
Net cash flow from operating activities	834,173	453,303	380,870	84.02	During the current period, the Company recovered part of outstanding sewage water treatment service fees, construction and management fees and tolls carried forward from the previous year.
Net cash flow from investing activities	-541,676	-673,682	132,006	-19.59	During the current period, investment in purchase of fixed assets by the Company decreased as compared to the same period last year.
Net cash flow from financing activities	-142,934	167,548	-310,482	-185.31	During the current period, repayment of loans and payment of dividend and interests increased as compared to the same period last year, and inflow was less than outflow.
Net increase in cash and cash equivalents	149,563	-52,831	202,394	-383.10	As a result of the cash flows from the above three activities, a net inflow of cash and cash equivalents was recorded for the current period.

5. Measurement basis adopted for the Group's main assets during the reporting period

The Group's financial assets represent receivables (including trade receivables, other receivables and long term receivables), which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are carried at amortised cost using the effective interest method.

The Group's 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 in investees where the Group does not have control, joint control or significant influence, and which are not quoted in an active market and whose fair value cannot be reliably measured.

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 in investees where the Group does not have control, joint control or significant influence, and which are not quoted in an active market and whose fair value cannot be reliably measured are accounted for using the cost method.

The Group's invested properties are buildings that are held for the purpose of lease, and are measured initially at cost.

The Group's fixed assets comprise houses and buildings, machineries 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 into 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.

Currently, the Group has no item which is measured subsequently at fair value, and the measurement basis of main assets had no material change during the year.

6. Analysis of composition of the Group's cash flow during the reporting period

During the current period, net cash inflows from operating activities was RMB 834.173 million, mainly represented cash received from sales of goods and rendering of services. Net cash outflows from investing activities was RMB 541.676 million, mainly represented cash paid for purchase of fixed assets, intangible assets and other long-term assets. Net cash outflows from financing activities was RMB142.934 million, mainly represented cash repayment of debts, dividends and interests.



8. Directors' Report

During the current year, the Group recorded net profit of RMB279.88 million (including profit and loss attributable to minority shareholders) and net cash flows from operating activities of RMB834.173 million. During the current year, depreciation and amortised costs were RMB257.265 million and net finance costs were RMB219.208 million, neither of which involved in cash flow from operating activities, but would affect profit and loss of the Company. Net increase in operating receivables and payables was RMB105.554 million, which was not relevant to profit and loss of the Company, but would affect cash flow from operating activities.

The above two reasons resulted in the differences between the net profit and net cash flow from operating activities of the Group.

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

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

Unit: '000 Currency: RMB							
Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Water Recycling Company Limited	Tianjin	Production and sales of recycled water, development and construction of facilities for recycled water; manufacture, installation, commissioning and operation of equipment for recycled water.	100,000	Limited company	100%	776,727	18,714
Guizhou Capital Water Company Limited	Guiyang, Guizhou	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and solid waste processing facilities; research, development and promotion of environmental protection technology; consultancy services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	100,000	Limited company	95%	178,110	7,821

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Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Capital New Materials Company Limited	Tianjin	Manufacture and sales of construction materials, new compound material products and polymer material products; technical consultation on new piping materials.	37,500	Limited company	70.67%	11,047	-694 (Operation ceased and pending liquidation)
Baoying Capital Water Company Limited	Yangzhou, Jiangsu	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	53,000	Limited company	70%	103,364	888



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Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Qijing Capital Water Company Limited	Qijing, Yunnan	Centralized water supply (limited to branch operation); development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	178,983.1	Limited company	86.55%	407,534	14,238
Fuyang Capital Water Company Limited	Fuyang, Anhui	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	69,000	Limited company	100%	182,483	8,593

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Hangzhou Tianchuang Water Company Limited	Hangzhou, Zhejiang	Operation and maintenance for sewage water processing and recycled water utilization facilities, and ancillary services such as technology services and technology training.	257,445	Limited company	70%	785,275	5,310
Tianjin Capital Environmental Protection (Hong Kong) Company Limited	Hong Kong	Treatment and recycling and utilization of sewage water.	US\$7,840,000	Limited company	100%	62,102	-2,827
Wendeng Capital Water Company Limited	Wendeng, Shandong	Development, construction, operation and management of sewage water treatment and its ancillary facilities, solid waste treatment facilities and water recycling facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	52,000	Limited company	100%	152,571	2,503



8. Directors' Report

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Jing Hai Capital Water Company Limited	Jinghai, Tianjin	Development, construction, operation and management of sewage water treatment plant, urban sewage water treatment plant and tap water plants and their ancillary facilities, and solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities and environmental projects.	12,000	Limited company	100%	45,457	2,662
Xian Capital Water Company Limited	Xi'an, Shaanxi	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and its ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; application of renewable energy and related equipment; installation services for sewage water treatment plant equipment; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	270,000	Limited company	100%	594,848	-9,733

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Kaiying Technology Development Company Limited	Tianjin	Development, consultation, service and transfer of environmental protection technology and product, mechanical equipment and computer software technology; municipal projects and design; mechanical equipment leasing; installation and maintenance of sewage water treatment equipment; wholesale and retail of mechanical equipment (excluding cars), electronic products and computer software; the followings operated by business segment: water treatment equipment, sludge treatment equipment, aeration equipment, air purification equipment, manufacturing and processing of sewage water and sludge treatment reagent; sewage water treatment	5,000	Limited company	100%	7,190	1,630
Anguo Capital Water Company Limited	Anguo, Hebei	Urban water supply (water-drawing permit valid until September 2, 2013 and hygiene permit valid until April 11, 2015); sewage water treatment; sewage and water supply related technical consultation and related services	41,000	Limited company	100%	86,554	1,566



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Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Wuhan Tianchuang Environmental Protection Company Limited	Wuhan, Hubei	Investment and development, construction, operation, management and consultancy services of municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities and water recycling facilities; production, supply and sales of equipment and materials relating to water and environmental protection; research, development and promotion of environmental protection technology	103,240	Limited company	100%	344,609	-1,243
Tianjin Capital Environmental Water Company Limited	Jinnan, Tianjin	Development, construction, operation and management of sewage water treatment, municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultancy services for water treatment facilities and environmental protection works	5,000	Limited company	100%	4,574	51
Tianjin Zichuang Engineering Investment Company Limited	Jinghai, Tianjin	Investment in engineering projects	23,400	Limited company	100%	70,165	-180

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Jinning Capital Environmental Water Company Limited	Ninghe, Tianjin	Sewage water treatment; development, construction of municipal sewage water treatment plants and its ancillary facilities; project consultancy services for water treatment facilities and environmental protection works	15,000	Limited company	100%	41,325	-260
Tianjin Jiayuanxing Innovative Energy Technology Company Limited	Tianjin High-tech Zone	Development, consultation, service and transfer of energy saving, environmental protection and new energy technology; property management services	60,000	Limited company	100%	357,991	1,012

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

Tianjin Beifang Rencaigang Company Limited

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



8. Directors' Report

Tianjin Baotong Light Mass Materials Company Limited

As at the end of the reporting period, the Group invested a total of RMB2,000,000 in Tianjin Baotong Light Mass Materials Company Limited, representing 4.9% of its registered capital. The principal activities of this company include production and sales of high resistance and light mass materials and its products. In 2010, it continued to commence its liquidation and deregistration procedures by the liquidation team authorized by the general meeting. In the second half of 2010, the liquidation team preliminarily completed the procedures in relation to the listing-for-sale of assets. The delisting price is approximately RMB21.36 million. Currently, the asset delivery is completed. As at the end of 2011, the transfer procedures were under processing.

8. Information on major suppliers and customers of the Company

During the reporting period, the Group's top 5 customers are Tianjin Sewage Water Company, Hangzhou Sewage Water Company, Xi'an Urban Infrastructure Construction Investment Group Company Limited, Tianjin Municipal Highway Administration Bureau and Tianjin Hanbin Investment Company Limited, the aggregated revenue from which accounted for 71% of the Group's total revenue.

9. The Company's technology

In 2011, the Group invested approximately RMB7 million, focusing on the practical technologies for sewage water treatment plants, such as flocculant elixir required for the operation of such plants, reduction, stabilization, detoxification and recycling of sludge, and deodorization for sewage water treatment plants, which promoted the technology research on microbial agents, synchronous and highly effective nitrogen and phosphorus removal based on the step-feed, reduction of sludge breaking volume and deodorant technology upgrading, so as to provide technical reserves for the Group to expand the industrial chain of sewage water treatment business.

(II) Outlook of the Company's future development

1. Development trend of sewage water treatment industry

In 2011, the PRC government successively promulgated Opinions of the State Council on Strengthening Major Environmental Protection Work (《國務院關於加強環境保護重點工作的意見》), Comprehensive Work Plans for Energy Conservation and Emission Reduction During the 12th Five-Year Plan Period (《“十二五”節能減排綜合性工作方案》) and Implementation Opinions of the Ministry of Environmental Protection on Implementing the Opinions of the State Council on Strengthening the Building of a Government Ruled by Law (《環境保護部關於貫徹落實國務院加強法治政府建設意見的實施意見》), which put forward stricter requests for environmental protection. National Environmental Protection Plans During the 12th Five-Year Plan Period (《國家環境保護“十二五”規劃》) issued in 2011 clearly specifies that the investment demand for environmental protection of the whole society will amount to approximately RMB3.4 trillion, so that the environmental services market will usher in a new round of opportunities, without exceptions for sewage water treatment industry as one of environmental services. The scale of sewage water treatment services will further expand with more new contents. Meanwhile, the sewage water treatment services industry will face some new challenges with higher standards, broader ranges and stricter regulations.

Since 2011, leveraging on the strong capability on technology research and development from the research and development centre and the post-doctoral work stations, the Group has actively conducted the technical research and development on the whole process of sewage water treatment, and generated certain series of technologies and products, which have kept pace with the new development trend of sewage water treatment industry and become another advantage for the development of the Group.

2. Overall strategies of the Group in 2012

Development strategies:

2012 will be a crucial year of transition during the 12th Five-Year Plan Period. As the first echelon in the water market of the PRC, the Group will continuously adhere to its corporate mission of “purifying the water environment and raising water quality”, and fully consist on its operation and management concept of “taking business operation as its centre, and science and technology as its guide” in order to cultivate and improve the industrial chain of sewage water treatment business, expand the new businesses, promote the adjustment of business structure, and therefore form an industrial pattern based on integrated sewage water treatment services with the development and utilization of new energy and resources.



8. Directors' Report

Operating strategies for the coming year:

In 2012, the Group will be committed to the adjustment of its business structure, stably develop water investment and operation business, continuously put great effort to expand and improve the industrial chain of the sewage water treatment business to achieve the balanced and coordinated development of the industrial chain of the sewage water treatment business. The Group will continue to promote the development and utilization of new energy and resources, and increase business development efforts on new energy cooling and heating services to enhance the income ratio. The Group will cultivate the resource utilization (comprehensive utilization of sludge nitrification and heat pump technology on sewage water sources) market for sewage water treatment plants. In the meantime, the Group will also enhance its general contracting qualifications in respect of municipal project construction, integrate the resources of project construction business, and endeavour to increase the revenue from project construction, design and consultancy services, in order to further enhance the profitability and competitiveness of the Company.

3. Operation plans for the coming year:

- (1) The Group will maintain and improve its existing licensed operation agreements and service agreements in respect of certain projects so as to ensure project profitability. It will continuously facilitate licensed operation of the Company's four sewage water treatment plants to implement the pricing of the sewage water treatment service. It will also maintain the licensed operation agreements of its subsidiaries in respect of sewage water treatment (including tap water) to ensure reasonable adjustment on service price.
- (2) The Group will complete project construction and operation in accordance with customers' requirements on quality and quantity, and ensure that the sewage water treatment business volume is not less than that of 2011. The expected expenses of water plant construction (mainly cross-transfer project) project will amount to RMB152 million.
- (3) The Group will enhance cost and expense control, reduce investment in project construction and energy resource consumption during operations to improve project profitability.
- (4) The Group will strengthen the conversion efforts of practical technology research and development and achievements, to generate high value-added technology products.
- (5) The Group will intensify personnel training and improve the work capability of its staff. Through reasonable adjustments on the form of labor organization, the Group will improve labor efficiency and staff utilization, as well as reduce operating costs and expenses.

- (6) The Group will continue to strengthen risk control capability to support its healthy and sustainable development.
- (7) The Group will integrate its resources and broaden its financing channels to minimize the financial costs.
- (8) The Group will improve the incentive mechanism to encourage the development of its new businesses. It will mainly develop the new energy cooling and heating service projects in the region of Jiefang South Road, Tianjin. The planned investment in such cooling and heating service projects amounts to RMB127 million.

Planning for income, expenses and costs:

In 2012, subject to no material changes in the prevailing national direction policies, operating environment and sewage water processing service agreements being complied by the Group, it is expected that the change in the target income from the sewage water processing service fees as compared to the amount in 2011 will not exceed 10%.

Cost control targets:

In 2012, as the energy costs of various resources will remain high, there is a higher pressure on the increase in the business costs of various operations run by the Group. Subject to no material changes in the prevailing national direction policies being complied by the Group and in the operating environment, it is expected that the increase in the costs of the sewage water treatment business of the Group in 2012 as compared to that in 2011 will not be higher than 15%. While at the same time, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

Scientific R&D investment plans:

In 2012, the Group will further increase the efforts in scientific research work. The Group plans to inject at least RMB7 million as scientific research fees for the technology related to core processes in the fields like sewage water treatment, sludge disposal, resource and energy conversion as well as technology breakthroughs to create dynamic competitive advantage for the Group.

4. Demand for funds and application plans

The Group's current financing sources can basically satisfy the needs of the Group's annual operation plans. In 2012, the Group will meet the operational needs to implement direct financing and indirect financing facilities, improve the debt structure, increase the capital efficiency and reduce the financial cost. Through introducing strategic investors and financial investors in a timely manner, the Group will reinforce capital cooperation in project cooperation. The Group will obtain the funds that the relevant projects may require from its current financing sources.

8. Directors' Report

5. Analysis of risk factors

- (1) In respect of the risks arising from macro-economic changes, the Group has developed a comprehensive risk control system in accordance with the relevant system requirements. Through risk warning and internal control as well as auditing and supervision, the Group can strengthen its risk management and effectively avoid risks, and thus facilitate the Group to maintain sustained competitive advantage.
- (2) The service prices of the licensed operation of the Company's four sewage water treatment plants for the first grade water discharge standards have yet to be determined. In 2012, the upgrading and improvement of the four sewage water treatment plants operated by the Company can basically meet the environmental protection check and acceptance inspection. However, the prices of the services provided by such upgraded plants have not yet been determined. The pricing will be negotiated together with the licensed operation of such four plants, which is expected to be completed in the second half of 2012. Before that time, the current prices of sewage water treatment service and the actual amount of sewage water pursuant to industry standards will be always adopted to recognize the income of sewage water treatment service. The Group will fully communicate and negotiate with the competent authorities to determine the prices of licensed operation and the service provided under the first grade water discharge standards in line with the market mechanism as soon as possible.

(III) The Company's investments

Unit: '0000 Currency: RMB

Investment amount during the reporting period	70,530.51
Increase / decrease in investment amount	6,735.51
Investment amount of the same period last year	63,795.00
Percentage of change in investment amount (%)	10.56

Please see "Projects made out of funds other than proceeds from fund-raising" below for details of the companies being invested.

1. Trust arrangement and trust loans

(1) Trust arrangement

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

(2) Trust loans

The Company did not have any trust loans during the year.

2. Use of proceeds from fund-raising

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

3. Projects made out of funds other than proceeds 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. In 2011, an investment of RMB123 million in the project was completed. Currently, the project is basically completed and is in the stage of relevant settlement and acceptance check.
- (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. In 2011, an investment of RMB2.04 million in this project was completed. Currently, the project is basically completed and is in the stage of joint testing and trial operation. Currently, the project is in the stage of 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, and the estimated total investment amount of the project was approximately RMB433 million. In 2011, an investment of RMB315 million was completed. On 15 November 2011, it began to provide heating services. Currently, it is conducting the remaining cooling equipment installation and synchronous trial test.
- (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. In 2011, an investment of RMB4.51 million was completed. Currently, the construction of the first phase of the project is basically completed.
- (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. In 2011, an investment of RMB8.59 million was completed. Currently, the project is basically completed, and the construction of the project has been formal accepted.
- (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. In 2011, an investment of RMB16.43 million was completed. The project has been completed in respect of the installation of major mechanical and electrical equipment and is in the testing stage for water connection and operation.



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- (7) Baoying Xianhe sewage water treatment plant phase 2 project: The investor was the Group's subsidiary, Baoying Capital Water Company Limited. The total investment amount of the project was RMB38.30 million. In 2011, an investment of RMB21.97 million was completed. Currently, the construction of the main body of the project is completed and is in the stage of adjustment and trial operation.
- (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. In 2011, an investment of RMB23.02 million was completed. Currently, the project is completed in respect of the construction of the major structures and the framework of the buildings.
- (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 RMB33.00 million. In 2011, an investment of RMB7.94 million was completed. Currently, the project is basically 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 scale of the construction of the project is 10 thousand cubic meters per day, with the winning bid price at approximately RMB76.80 million. In 2011, an investment of RMB49.56 million was completed. Currently, the construction of the major body of the project is fully completed. The installation of equipment is completed, basically having the trial test condition.
- (11) During the reporting period, the Group established Tianjin Jiayuanxing Innovative Energy Technology Company Limited out of its own funds, with a registered capital of RMB10 million, and the capital contribution ratio by the Group was 100%. In order to meet the investment need of the project of the energy station, the Group made a capital increase of RMB50 million into Tianjin Jiayuanxing Innovative Energy Technology Company Limited again, with the registered capital of RMB60 million following the capital increase.

In addition, the Group made capital injections to its subsidiaries, Wendeng Capital Water Company Limited, Qujing Capital Water Company Limited, Baoying Capital Water Company Limited and Fuyang Capital Water Company Limited, according to their project operations, in order to meet the capital needs for their projects of Gejia Town Sewage Water Treatment Plant, the reconstruction of Qujing Sewage Water Treatment Plant, Phase II works of Baoying Sewage Water Treatment Plant and Fuyang Hanshan Sewage Water Treatment Plant. The amounts of capital injections were RMB4 million, RMB25.2196 million, RMB10.50 million and RMB6 million respectively. Subsequent to the capital increases, the registered capital of the above subsidiaries were RMB52 million, RMB148 million, RMB53 million and RMB69 million respectively. The Group's capital contribution ratio remained unchanged. It is still holding 100% equity interest in Wendeng Capital Water Company Limited, 90.07% equity interest in Qujing Capital Water Company Limited, 70% equity interest in Baoying Capital Water Company Limited and 100% equity interest in Fuyang Capital Water Company Limited.

The Group made a capital increase of RMB3 million into Tianjin Kaiying Technology Development Company Limited and changed the name and scope of the company's business, in order to bear the responsibility of the Group's transformation of scientific research into business. The name of the company has been changed into "Tianjin Kaiying Technology Development Company Limited", with the registered capital of RMB5 million from RMB2 million subsequent to the capital increase.

As Qujing Capital Water Company Limited acquired Qujing Xicheng Sewage Water Treatment Plant, the Group made a capital increase of RMB21.6168 million into it again. Subsequent to the capital increase, the registered capital of Qujing Capital Water Company Limited increased to RMB172 million. The capital contribution ratio by the Group was still 90.07%. After that, Qujing City Water General Company, another shareholder of Qujing Capital Water Company Limited, made a unilateral capital increase into Qujing Capital Water Company Limited. Subsequent to the capital increase, the registered capital of the company was RMB178.9831 million, with the capital contribution ratio by the Group and Qujing City Water General Company at 86.55% and 13.45% respectively.

- (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. Upon completion of the acquisition, Tianjin Water Recycling Company Limited and Fuyang Capital Water Company Limited became wholly-owned subsidiaries of the Group.



8. Directors' Report

(IV) Statement of the discussion results of the Board on the reasons and effects relating to the changes of accounting policies and accounting estimates of the Company

During the reporting period, there was no change of accounting policies and accounting estimates of the Company.

(V) Review of the Board activities

1. The Board meetings and resolutions passed

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 13th Meeting of the Fifth Board	24 January 2011	(1) Agreed the resolution on the establishment of Tianjin Jiayuanxing Innovative Energy Technology Company Limited; (2) Agreed the resolution on the increase in the registered capital of Tianjin Kaiying Environmental Engineering Technology Consulting Limited, the amendments to its scope of business and the change of its company name.	Shanghai Securities News	24 January 2011
The 14th Meeting of the Fifth Board	4 March 2011	Agreed the resolution in relation to properties leasing.		
The 15th Meeting of the Fifth Board	16 March 2011	Agreed the resolution on the entering into of the "Licensed Operation Agreement in Relation to the Heat and Cold Supply for the Project of the Centralised Energy Stations of Tianjin Cultural Centre".	Shanghai Securities News	16 March 2011

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 16th Meeting of the Fifth Board	24 March 2011	<p>(1) Agreed the 2010 annual report and its summary published in the PRC and overseas; (2) Agreed the financial statements of the Company for the year 2010 as audited by the PRC and international auditors; (3) Agreed the working report of the Board for 2010 and the operating strategy; (4) Agreed the operating plan of the Company for the year 2011; (5) Agreed the final financial accounts of the Company for the year 2010 and the financial budget for the year 2011; (6) Agreed the proposal in relation to the profit appropriation plan for the year 2010; (7) Considered the Social Responsibility Report 2010 of the Company; (8) Considered the Company's Self-assessment Report of the Internal Control 2010; (9) Considered the implementation proposal on internal control standards of the Company; (10) Considered the resolution in relation to the changes in accounting policies of the Company; (11) Agreed the resolution in relation to provision of guarantee for securing loans granted to Qujing Capital Water Company Limited; (12) Agreed the resolution in relation to the application for liquidity loan facilities; (13) Agreed the re-appointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the PRC and international auditors of the Company; (14) Agreed the resolution in relation to the 12th Five-Year Strategic Plan of the Company; (15) Agreed the resolution in relation to the adjustment to the remuneration of the independent non-executive Directors; (16) Agreed the resolution in relation to the "Administrative Measures for Annual Excess Award Provision" of the Company; (17) Agreed the convening of the 2009 Annual General Meeting.</p>	Shanghai Securities News	24 March 2011



8. Directors' Report

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 17th Meeting of the Fifth Board	8 April 2011	Agreed the resignation of Ms. Zhong Huifang as the deputy general manager of the Company.	Shanghai Securities News	8 April 2011
The 18th Meeting of the Fifth Board	15 April 2011	Agreed the resolution in relation to properties leasing.		
The 19th Meeting of the Fifth Board	28 April 2011	(1) Agreed the announcement of the first quarterly report for 2011 and the summary of the report in the PRC and overseas; (2) Agreed the provision of guarantee for loans of Xi'an Capital Water Company Limited.; (2) Agreed the amendments to "Connected Transactions Management System"; (4) Agreed the amendments to "Implementation Rules of the Audit Committee of the Board".	Shanghai Securities News	28 April 2011
The 20th Meeting of the Fifth Board	13 May 2011	Agreed the formulation of "Work System of the Company Secretary to the Board".		
The 21st Meeting of the Fifth Board	31 May 2011	(1) Agreed the provision of guarantee for loans of Baoying Capital Water Company Limited; (2) Agreed the provision of guarantee for loans of Qijing Capital Water Company Limited; (3) Agreed the increase in the registered capital of Baoying Capital Water Company Limited; (4) Agreed the increase in the registered capital of Qijing Capital Water Company Limited.	Shanghai Securities News	31 May 2011

No. of the meeting	Convening Date	Resolutions	Newspapers on which the resolutions were published	Publication date
The 22nd Meeting of the Fifth Board	30 June 2011	(1) Agreed the increase in the registered capital of Tianjin Jiayuanxing Innovative Energy Technology Company Limited; (2) Agreed the provision of guarantee for loans and performance letters of Tianjin Jiayuanxing Innovative Energy Technology Company Limited; (3) Agreed the application to National Association of Financial Market Institutional Investors for the issuance of medium term notes in the total principal amount of not more than RMB1.4 billion; (4) The proposal of the convening of the First Extraordinary General Meeting.	Shanghai Securities News	30 June 2011
The 23rd Meeting of the Fifth Board	24 August 2011	(1) Agreed the interim report for 2011 and its summary published in the PRC and overseas; (2) Agreed the connected transaction in relation to the lending of the Company's employees to Tianjin City Infrastructure Construction and Investment Group Company Limited; (3) Agreed the increase in the registered capital of Fuyang Capital Water Company Limited; (4) Agreed the contribution of supplementary housing funds for the employees of the Company; (5) Agreed the provision of guarantee for loans of Hanshan Capital Water Company Limited.	Shanghai Securities News	24 August 2011
The 24th Meeting of the Fifth Board	27 October 2011	Agreed the announcement of the third quarterly report for 2011 and the summary of the report in the PRC and overseas.	Shanghai Securities News	27 October 2011
The 25th Meeting of the Fifth Board	29 December 2011	Agreed the entering into of the heat supply agreements with related parties.		



8. Directors' Report

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

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

The execution of the profit appropriation plan passed at the annual general meetings for 2010: The profit appropriation plan for 2010 of the Company has been considered and approved by the 2010 annual general meeting held on 13 May 2011. The relevant resolutions were published on Shanghai Securities News, the website of SSE (www.sse.com.cn), the website of the Stock Exchange (www.hkex.com.hk) and the website of IFN Financial Press Ltd. (www.ifn.com.hk/ir/tjcep/). The profit appropriation plan has been implemented. The Company distributed RMB0.11 in cash per share (tax inclusive) to A Share shareholders and RMB0.11 (HK\$0.13157, tax inclusive) per share to H Share shareholders. The Company issued an announcement of A Share dividend distribution on 30 June 2011 in the PRC, with the registration date of the share rights on 5 July 2011. The Company issued a notice of the 2010 annual general meeting on 24 March 2011, with the registration date of the share rights on 12 April 2011. The distribution of A Share dividends and H Share dividends was completed on 12 July 2011.

The resolution regarding making an application to the National Association of Financial Market Institutional Investors for the issuance of medium term notes in the total principal amount of not more than RMB1.4 billion was passed at the 2011 First Extraordinary General Meeting. The Company communicated actively with the approval agencies and object underwriters, and obtained the approval of the National Association of Financial Market Institutional Investors to issue medium term notes in the total registration size of RMB1.4 billion at the beginning of November 2011, and issued the first tranche of medium term notes of RMB700 million at the beginning of November, with a term of 5 years. The targets of the issue of medium term notes are institutional investors in the PRC inter-bank bond market

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

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

In accordance with the relevant requirements of the CSRC and SSE, the Implementation Rules of the Audit Committee of the Company and the work system in respect of the annual reports of independent Directors, the Audit Committee of the Company has duly performed its supervisory and examination functions during the preparation and disclosure process of the 2010 annual report and the 2011 interim report, safeguarding audit independence.

(1) *Regarding the Review of the 2010 Annual Report:*

- (a) The Committee established the “Working Rules of the Audit Committee in respect of the 2010 Annual Report” and the “Working System for the Independent Directors in the 2010 Annual Report”, which regulate the audit work in the process of the preparation of the annual report;
- (b) Before the auditor’s arrival, the Committee reviewed the unaudited financial statements of the Company and the auditor’s audit working plan through a communication conference and formed written opinions;
- (c) By way of physical meetings, the Committee carried out in-depth communications with the auditor in relation to significant audit matters;
- (d) By way of physical meetings, the Committee considered and passed the audited annual report and then submitted it to the Board for consideration and approval;
- (e) By way of physical meetings, the Committee considered and passed the 2010 internal control report and then submitted it to the Board for consideration and approval;
- (f) By way of physical meetings, the Committee considered the audit work for 2010 and agreed the reappointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the PRC and International auditors of the Company respectively, and submitted a relevant proposal to the Board for consideration.

(2) *Regarding the Review of the First Quarter Report 2011*

By way of physical meetings, the Committee considered and passed the first quarter report 2011 and submitted it to the Board for consideration and approval.

(3) *Regarding the Review of the 2011 Interim Report*

- (a) In the process of preparing the interim financial statements for 2011, communication in relation to the material financial matters with the Company’s management has been conducted by way of physical meetings;
- (b) A physical meeting has been convened to consider and vote for the interim financial statements of the Company for 2011, and a resolution has been formed for submission to the Board for consideration.

Mr. Di Xiaofeng could not attend the above meeting of the Audit Committee due to his business, and entrusted Mr. Xie Rong to vote on his behalf.

(4) *Regarding the Review of the Third Quarter Report 2011*

By way of physical meetings, the Committee considered and passed the third quarter report 2011 and submitted it to the Board for consideration and approval.

8. Directors' Report

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

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

During the reporting period, there was one meeting held by the Remuneration and Assessment Committee. All members have attended the meeting, at which resolutions including “A resolution regarding the adjustment of independents directors’ remuneration” and “A resolution in relation to the “Administrative Measures for Annual Excess Award Provision” of the Company” were considered and passed respectively, and were submitted to the Board for consideration.

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

The Nomination Committee under the Board consists of three independent non-executive Directors, the Chairman, Mr. Zhang Wenhui, and executive Director, Mr. Lin Wen Bo, with the independent non-executive Director, Mr. Di Xiaofeng being the chairman of the Nomination Committee. Upon approval by the Board and through a general meeting of the Company, the “Detailed Working Rules of the Nomination Committee” has been established, which specifies the terms of working scope and working procedures of the Nomination Committee, nomination procedures and the criteria of recommending the candidates, thus regulating the daily work of the Nomination Committee.

During the reporting period, there was no meeting held by the Nomination Committee.

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

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

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

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

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

The Board of the Company is responsible for the establishment and the maintenance of a proper internal control system relating to financial reports. The aim of the Company's internal control relating to financial reports is to guarantee the truthfulness, integrity and reliability of information relating to financial reports and prevent material misstatement risks. As there are inherent limitations existing in internal control, the Company can only provide reasonable assurance that the above aim can be achieved. The Board conducted an assessment of the internal control relating to financial reports in accordance with the requirements of the “Basic Standards for Enterprise Internal Control” and considered the internal control relating to the 2011 financial report of the Company was sound and could be implemented effectively.

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

8. Disclosure of the plans for and the implementation proposal of the establishment and the effectiveness of the internal control system by the main board listed companies that should begin to implement the internal control standard in 2012

The external auditors of the Company issued the audit report in respect of the Company's internal control for the year 2011.

For details about the work plan and the implementation plan of the Company's internal control system, please see item (5) of “Structure of Corporate Governance” in this annual report.

8. Directors' Report

9. The establishment and implementation of the management system for insiders

In October 2010, according to the requirements of the regulatory rules, the Company established a “management system for insiders” approved by the Board of the Company, making explicit provisions for the definitions of insider information and insider, registration of the insider, duty of confidentiality of insider information and the accountability and handling. During the reporting period, before the preparation of the 2010 Annual Report and the 2011 Interim Report, the Company issued notifications to the Directors, Supervisors, senior management, controlling shareholders and ultimate controllers that no dealing of the stocks of the Company shall be made during the sensitive period of annual report. In addition, there were no significant events relating to insider information during the reporting period.

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

11. Whether the Company and its subsidiaries are included in the list of polluting enterprises released by environmental protection department? No.

The Company has no material environmental protection problem.

The Company has no other material social security problem.

(VI) Plans for and Implementation of the cash dividend payment policy

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 Group 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 Group 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 Group 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.

(VII) Proposal on the profit appropriation or transfer of capital reserve fund to share capital

As audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers respectively, the net profit attributable to the Company in 2011 was RMB275.79 million. After deduction of a Statutory Common Reserve in the amount of RMB24.18 million pursuant to the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the undistributed profit of RMB1,338.00 million at the beginning of the year, and less 2010 cash dividends of RMB157.00 million distributed in 2011, the actual distributable profits attributable to shareholders for this year was RMB1,432.62 million. According to the profit appropriation policy 2011, a cash dividend of RMB0.40 (tax inclusive) per 10 shares will be distributed to all shareholders.

No transfer from the capital reserve fund to share capital was made for 2011.

(VIII) Dividends distribution or transfer of capital reserve fund to share capital and dividends of the Company for the past three years:

Unit: '0000 Currency: RMB

Year	Number of bonus shares per 10 shares (shares)	Amount of dividends distributed per 10 shares (inclusive of tax)	Number of shares transferred per 10 shares (shares)	Amount of cash dividends (inclusive of tax)	Net profit	Percentage
					attributable to the shareholders of the Company in the consolidated financial statements	of net profit attributable to the shareholders of the Company in the consolidated financial statements (%)
2008	0	0.40	0	5,708.91	23,107	25
2009	0	0.80	0	11,417.83	24,298	47
2010	0	1.10	0	15,699.51	27,116	58



9. Report of the Supervisory Committee

(1) Operation of the Supervisory Committee

No. of meetings held	4
Meetings held by the Supervisory Committee	Resolutions considered at the meetings of the Supervisory Committee
The sixth meeting of the Fifth Supervisory Committee	Considered (1) the 2010 Supervisory Committee working report; (2) the 2010 annual report of the Company and its summary proposed to be announced in the PRC and overseas; (3) the 2010 accountant's report audited by the domestic and overseas auditors; (4) the 2010 financial report and the 2011 financial budget report of the Company; (5) the 2010 profit appropriation plan; (6) the legality of the operation of the Board of the Company for 2010; (7) the specific explanation in relation to the changes in accounting policies; (8) the Self-assessment Report on the Internal Control of the Company.
The seventh meeting of the Fifth Supervisory Committee	Considered the resolution in relation to the 2011 first quarterly report and its summary proposed to be announced in the PRC and overseas.
The eighth meeting of the Fifth Supervisory Committee	Considered the resolution in relation to the 2011 interim report and its summary proposed to be announced in the PRC and overseas.
The ninth meeting of the Fifth Supervisory Committee	Considered the resolution in relation to the 2011 third quarterly report and its summary proposed to be announced in the PRC and overseas.

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

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

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

The Supervisory Committee considers that the Company's financial management system and internal control system were strict and have been seriously implemented during the reporting period, and considers that the 2011 financial report of the Company could truly reflect the financial situation and operating results of the Company. The audit opinion issued by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers was objective and fair.

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

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

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

During the reporting period, there is no transaction in relation to the acquisition and disposal of assets by the Company.

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

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

(7) Independent Opinion of the Supervisory Committee on the information disclosure by the Company

During the reporting period, the Company has disclosed 27 announcements and 4 regular reports in total. The Supervisory Committee considers that the information disclosure by the Company is acted in a regulated manner, is implemented strictly according to “Information Disclosure System”, complies with the Stock Exchange’s and SSE’s share listing rules, and discloses information timely, truly, completely and fairly.

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

The Supervisory Committee has reviewed the Self-assessment Report on the Internal Control 2011 (the “**Internal Control Self-assessment Report**”) of the Board of the Company and considers that the design of the internal control of the Company is reasonable and complete, and it has been effectively implemented. The Supervisory Committee agrees with the Internal Control Self-assessment Report of the Board.



10. Major Events

(1) Material litigation or arbitration

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

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

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

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

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

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

During the year, there is no asset acquisition and disposal and mergers for the Company.

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

1. Material connected transactions of the Company during the reporting period

There was no material connected transaction of the Company during the reporting period.

2. Other connected transactions of the Company during the reporting period

Connected transactions relating to the daily operations of the Company during the reporting period were as follows:-

(1) The Properties Tenancy Agreements with Tianjin Investment Group and its subsidiaries

In order to obtain steady return of rental income in respect of its owned premises, on 4 March 2011, the Company entered into tenancy agreements with Tianjin Investment Group and Tianjin City Investment and Resources Operating Company Limited (“Tianjin City Resources”) respectively. On 15 April 2011, the Company also entered into a new tenancy agreement with Tianjin Environmental Construction and Investment Company Limited (“Tianjin Environmental Investment”). Tianjin Investment Group is the ultimate controller of the Company. Both Tianjin City Resources and Tianjin Environmental Investment are wholly-owned subsidiaries of Tianjin Investment Group. As such, the above 3 parties are all connected persons of the Company. The transactions contemplated under the above tenancy agreements constitute continuing connected transactions of the Company under the Listing Rules. A summary of the principal terms of the above tenancy agreements is as follows:

① The tenancy agreement between the Company and Tianjin Investment Group

Its term is from 1 July 2010 to 30 June 2011, its lettable area includes certain area from 3rd floor to 13th floor of TCEP Building and the fitness club located at 19th to 20th floor, and its total rent is approximately RMB5,837,500.

- ② The tenancy agreement between the Company and Tianjin City Resources
Its term is from 1 July 2010 to 30 June 2011, its lettable area includes certain area of 6th floor of TCEP Building, and its total rent is approximately RMB687,500.
- ③ The tenancy agreement between the Company and Tianjin Environmental Investment
Its term is from 16 April 2011 to 15 April 2013, its lettable area includes certain area of 11th floor to 12th floor of TCEP Building, and its total rent is approximately RMB3,494,500.

(2) **The Construction Agency Agreements with Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited**

In order to fully utilize its expertise and experience in construction work and earn operating income from the construction services provided, between 1 April 2009 and 13 April 2010, the Company entered into twelve construction agency agreements with Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited (“**Tianjin Ziya Investment**”), pursuant to which the Company agreed to provide construction and related services in respect of different kind of construction works to Tianjin Ziya Investment in the Ziya Circular Economy Industrial Zone. Since TMICL, the controlling shareholder of the Company, and Tianjin Investment Group, the ultimate controller of the Company, hold 5% and 84.76% (collectively 89.76%) equity interest in Tianjin Ziya Investment respectively, Tianjin Ziya Investment is a connected person of the Company. The transactions contemplated under the twelve construction agency agreements constitute continuing connected transactions of the Company and should be aggregated.

The construction agency fees to be earned by the Company from Tianjin Ziya Investment shall be calculated in accordance with the relevant requirements in (i) the “Notice by the Ministry of Finance in respect of the Printing and Distribution of Regulation on Infrastructure Financial Management (Caijian [2002] 394 Hao)” and (ii) the “Guiding Opinion by the Ministry of Finance on Relevant Problems relating to Strengthening the Financial Management of Agency System for Government-invested Projects (Caijian [2004] 300 Hao)”. The construction agency fees shall be settled in cash by Tianjin Ziya Investment after the Company completes the construction work in accordance with the schedule and quality of the work as required. Bonus (other than the construction agency fees mentioned above) may also be paid by Tianjin Ziya Investment to the Company if there is a balance of funds for the construction project. The method for calculating the bonus payment will be agreed by the parties separately. During the reporting period, the Company received construction agency fees of RMB4.4 million in total.

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

- ① the above continuing connected transactions were in the ordinary and usual course of business of the Company;
- ② the above continuing connected transactions were conducted on normal commercial terms; and
- ③ the above continuing connected transactions were carried out in accordance with the terms of the relevant agreements, which were fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

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

(3) **The Employees Lending Agreement with Tianjin Investment Group**

On 24 August 2011, the Company entered into the Employees Lending Agreement with Tianjin Investment Group, pursuant to which the Company has agreed to lend its 16 employees to Tianjin Investment Group, in order to assist the construction of its engineering projects. The lending term is from 25 August 2011 to 30 December 2011, and the total fees was RMB4,100,000.

10. Major Events

(4) The Heat Supply Agreements between Tianjin Jiayuanxing Innovative Energy Technology Company Limited (“Jiayuanxing”, a wholly-owned subsidiary of the Company) and its related parties

The centralised energy station projects in Tianjin Cultural Centre invested and constructed by Jiayuanxing were ready for supplying heat at the end of November 2011. On 30 September 2011, Jiayuanxing and Tianjin Environmental Investment entered into a heat supply agreement. On 29 December 2011, Jiayuanxing entered into heat supply agreements with Tianjin City Metro Group Company Limited (“TMG”) and Tianjin Lecheng Properties Company Limited (“TLP”) respectively. Tianjin Environmental Investment and TMG are wholly-owned subsidiaries of Tianjin Investment Group, and TLP is a wholly-owned subsidiary of TMICL, the controlling shareholder of the Company. As such, the above 3 parties are all connected persons of the Company. The transactions contemplated under the above heat supply agreements constitute connected transactions of the Company under the Listing Rules. A summary of the principal terms of the above heat supply agreements is as follows:

① The heat supply agreement between Jiayuanxing and Tianjin Environmental Investment

The term of heat supply is from 15 November 2011 to 15 March 2012, the unit price for provision of heat is RMB36 per m², the heat supply service area is 10,921 m², and the total service fees for the heat supply services is approximately RMB393,200.

② The heat supply agreement between Jiayuanxing and TMG

The term of heat supply is from the date of the agreement to 15 March 2012, the unit price for provision of heat is RMB36 per m², the heat supply service area is 61,927 m², and the total service fees for the heat supply services is approximately RMB2,229,400.

③ The Heat Supply Agreement between Jiayuanxing and TLP

The term of heat supply is from the date of the agreement to 15 March 2012, the unit price for provision of heat is RMB36 per m², the heat supply service area is 330,038 m², and the total service fees for the heat supply services is approximately RMB11,881,400.

(6) Major contracts and their implementation

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

(1) Custody

The Company did not provide any custody during the year.

(2) **Subcontracting**

The Company did not provide any subcontracting during the year.

(3) **Leasing**

The Company did not have any leasing during the year.

2. **Guarantee**

Unit: '0000 Currency: RMB

Guarantee provided to external parties by the Company

(not including guarantee provided to the subsidiaries of the Company)

Total amount of guarantee provided during the reporting period
(not including guarantee provided to the subsidiaries of the Company) 0

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

Guarantee provided to the subsidiaries of the Company

Total amount of guarantee provided to the subsidiaries
of the Company during the reporting period 0

Total amount of outstanding guarantee provided to the subsidiaries
of the Company as at the end of the reporting period (B) 76,246

Total amount of guarantee granted by the Company

(including guarantee provided to the subsidiaries of the Company)

Total amount of guarantee (A+B) 76,246

Percentage of the total amount of guarantee to the net assets of the Company (%) 21.37

Of which:

Amount of guarantee provided to the shareholders,
ultimate controller and other related parties (C) 0

Amount of guarantee provided directly or indirectly to the borrowers
with gearing ratio of over 70% (D) 0

Total amount of guarantee exceeding 50% of net assets (E) 0

Total amount of the above three guarantess (C+D+E) 0

3. **Other major contracts**

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



10. Major Events

(7) Implementation of commitments

No commitments were made by the Company, its controlling shareholder and ultimate controller during or till the reporting period.

(8) Appointment and removal of the accountants

Does the Company change its accountants? No

Present Appointment

Name of the PRC accountants	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
Auditing services rendered by the PRC accountants	17 years
Name of the Hong Kong accountants	PricewaterhouseCoopers
Auditing services rendered by the Hong Kong accountants	17 years

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

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

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

(10) Explanation of other major events

Changes in consolidation scope when comparing with the last annual report:

1. During the reporting period, the Company contributed and established Tianjin Jiayuanxing Innovative Energy Technology Company Limited with registered capital of RMB60 million and with contribution ratio of 100% by the Company. This company would be included in the consolidation scope of the Group. The net assets of this company as at the end of the year amounted to 61.012 million and its net profit for the year was 1.012 million.
2. During the reporting period, the Company's subsidiary, Fuyang Capital Water Company Limited, contributed and established Hanshan Capital Water Company Limited with registered capital of 9 million and with contribution ratio of 100% by Fuyang Capital Water Company Limited. This company would be included in the consolidation scope of the Group. The net assets of this company as at the end of the year amount to 9.22 million and its net profit for the year was 0.22 million.

(11) 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 th Meeting of the Fifth Board	“Shanghai Securities News” page B6	24 January 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd.: www.ifn.com.hk/ir/tjcep/
Continuing Connected Transactions		4 March 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd.: www.ifn.com.hk/ir/tjcep/
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: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd.: www.ifn.com.hk/ir/tjcep/
Announcement in Relation to the Provision of Guarantee for Loans of Qijing Capital Water Company Limited	“Shanghai Securities News” page B96	24 March 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd.: www.ifn.com.hk/ir/tjcep/
Social Responsibility Report 2010		24 March 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd.: www.ifn.com.hk/ir/tjcep/
Self-assessment Report on the Internal Control 2010		24 March 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd.: www.ifn.com.hk/ir/tjcep/



10. Major Events

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

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



10. Major Events

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement in Relation to the Provision of Guarantee for Loans of Qujing Capital Water Company Limited	“Shanghai Securities News” page B22	31 May 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement in Relation to the Resolutions Passed at the 21 st Meeting of the Fifth Board	“Shanghai Securities News” page B22	31 May 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement on the Implementation of 2010 Profit Distribution for A Shares	“Shanghai Securities News” page B22	29 June 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Notice of 2011 First Extraordinary General Meeting		30 June 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
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: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement in Relation to the Resolutions Passed at the 22 nd Meeting of the Fifth Board	“Shanghai Securities News” page B16	30 June 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Announcement on the Resolution Passed at the 2011 First Extraordinary General Meeting	“Shanghai Securities News” page B72	17 August 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement of Interim Results for the Six Months Ended 30th June 2011	“Shanghai Securities News” page B169	24 August 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement in Relation to the Provision of Guarantee for Loans of Hanshan Capital Water Company Limited	“Shanghai Securities News” page B169	24 August 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement on Connected Transaction		24 August 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement of the Supervisory Committee	“Shanghai Securities News” page B169	24 August 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement in Relation to the Resolutions Passed at the 23rd Meeting of the Fifth Board	“Shanghai Securities News” page B169	24 August 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
2011 Interim Report		2 September 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/



10. Major Events

Subject	Name and page of newspaper	Date of publication	Website and path of publication
Third Quarterly Report 2011	“Shanghai Securities News” page B32	27 October 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement on Issuance of the First Tranche of Medium Term Notes for 2011	“Shanghai Securities News” page B24	8 November 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Announcement Relating to the Pledge of Part of Shares Held by the Controlling Shareholder of the Company	“Shanghai Securities News” page B57	29 December 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/
Connected Transactions - Provision of Heat Supply Services		29 December 2011	SSE: www.sse.com.cn ; Stock Exchange: www.hkex.com.hk ; IFN Financial Press Ltd: www.ifn.com.hk/ir/tjcep/

11. Other Information

Sale and Purchase or Redemption of Shares of the Company

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

Code on Corporate Governance Practice

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

Model Code for Securities Transactions by the Directors

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

Public Float

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

Pre-emptive Rights

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

Tax Concession

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

Charge of Assets

The Company did not charge any assets of the Company.

Audit Committee

On 31st July, 2001, the Board approved the establishment of the Audit Committee to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31st December 2011 with the Directors.

Publication of Financial Information

The Company's 2011 annual report which sets out all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules is published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

12. Financial Accounting Report

For details, please refer to the accounting statements and audited reports for 2011 of the Company.

13. Report of the Auditors



Auditor's Report

PwC ZT Shen Zi (2012) No. 10042

(Page 1 of 2)

To the Shareholders of
Tianjin Capital Environmental Protection Group Company Limited,

We have audited the accompanying financial statements of Tianjin Capital Environmental Protection Group Company Limited (hereinafter "the Company"), which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, the consolidated and company statements of changes in equity and the consolidated and company cash flow statements for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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



13. Report of the Auditors

PwC ZT Shen Zi (2012) No. 10042

(Page 2 of 2)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 31 December 2011, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai , the People's Republic of China

22 March 2012

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

As at 31 December 2011

(All amounts in RMB thousand unless otherwise stated)

	Notes	Group		Company	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
ASSETS	6				
CURRENT ASSETS					
Cash and bank balances	(1)	691,693	540,330	257,969	161,861
Trade receivables	(2)	1,096,583	996,949	1,010,492	913,618
Prepayments	(3)	95,706	103,759	3,458	55,106
Other receivables	(4)	17,049	53,540	121,653	145,280
Inventories	(5)	80,569	32,476	4,218	3,977
Other current assets		7,831	—	157,331	50,000
Total current assets		1,989,431	1,727,054	1,555,121	1,329,842
NON-CURRENT ASSETS					
Long-term receivables	(6)	407,240	405,080	407,240	405,080
Long-term equity investments	(7)	44,669	45,583	1,285,755	1,155,881
Investment properties	(8)	115,955	119,628	91,659	94,827
Fixed assets	(9)	2,383,709	2,526,459	2,152,292	2,279,506
Construction in progress	(9)	880,865	703,651	806,613	649,964
Intangible assets	(10)	3,254,821	2,890,650	443,073	446,079
Other non-current assets		8,634	7,458	35,045	26,290
Total non-current assets		7,095,893	6,698,509	5,221,677	5,057,627
TOTAL ASSETS		9,085,324	8,425,563	6,776,798	6,387,469



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

As at 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Group		Company	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
CURRENT LIABILITIES					
Short-term borrowings	(12)	152,000	73,000	136,000	55,000
Short-term debenture	(12)	—	600,000	—	600,000
Trade payables	(11)	18,481	22,729	3,157	9,730
Advances	(11)	423,387	310,478	8,331	63,386
Wages payable		8,227	7,374	5,790	4,766
Taxes payable	(11)	8,274	16,431	2,400	9,162
Dividend payable	(16)(c)	1,461	1,056	1,461	1,056
Other payables	(11)	412,095	274,991	330,812	235,198
Long-term borrowings due within one year	(12)	856,186	360,180	653,466	240,710
Other current liabilities	(12)	19,961	21,216	16,364	16,364
Total current liabilities		1,900,072	1,687,455	1,157,781	1,235,372
NON-CURRENT LIABILITIES					
Long-term borrowings	(12)	1,865,040	2,309,560	782,400	1,064,100
Long-term debenture	(12)	689,850	—	689,850	—
Deferred revenue	(13)	369,928	284,974	204,221	203,288
Deferred income tax liabilities	(14)	48,479	38,427	19,966	17,467
Long-term payables	(12)	386,543	399,604	386,543	399,604
Other non-current liabilities	(12)	109,703	129,374	81,817	98,181
Total non-current liabilities		3,469,543	3,161,939	2,164,797	1,782,640
TOTAL LIABILITIES		5,369,615	4,849,394	3,322,578	3,018,012
SHAREHOLDERS' EQUITY					
Share capital	(15)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	(16)(a)	382,311	383,338	380,788	380,788
General reserves	(16)(b)	326,181	302,005	326,181	302,005
Undistributed profits		1,432,617	1,338,002	1,320,023	1,259,436
Equity attributable to owners of the parent		3,568,337	3,450,573	3,454,220	3,369,457
Minority Interests	(17)	147,372	125,596	—	—
Total shareholders' equity		3,715,709	3,576,169	3,454,220	3,369,457
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		9,085,324	8,425,563	6,776,798	6,387,469

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department

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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

	Notes	Group		Company	
	6	2011	2010	2011	2010
Income from operations	(18)	1,562,490	1,467,768	937,963	955,194
Less: Cost for operations	(18)	(874,041)	(793,672)	(435,782)	(425,517)
Business tax and surcharges	(19)	(8,831)	(43,109)	(4,311)	(40,480)
Administrative expenses	(20)	(104,301)	(89,959)	(62,613)	(57,207)
Financial expenses - net	(21)	(196,415)	(135,790)	(108,539)	(54,444)
Add: Investment income	(7)	386	1,448	2,089	8,072
Including: Share of profit of an associate		186	1,448	—	—
Operation profit		379,288	406,686	328,807	385,618
Add: Non-operating income		10,573	7,993	5,028	925
Less: Non-operating expenses	(22)	(13,827)	(47,853)	(12,983)	(44,985)
Including: Loss on disposal of non-current assets		(13,661)	(47,553)	(12,983)	(44,950)
Total profit		376,034	366,826	320,852	341,558
Less: Income tax	(23)	(96,154)	(91,670)	(79,094)	(82,749)
Net profit		279,880	275,156	241,758	258,809
Attributable to owners of the parent		275,786	271,160	241,758	258,809
Minority interests		4,094	3,996	—	—
Earnings per share (in Rmb Yuan)	(24)				
– Basic		0.19	0.19		
– Diluted		0.19	0.19		
Other comprehensive income		—	—	—	—
Total comprehensive income		279,880	275,156	241,758	258,809
Attributable to owners of the parent		275,786	271,160	241,758	258,809
Minority interests		4,094	3,996	—	—

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department



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

Cash Flow Statement

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2011	2010	2011	2010
1. Cash flows from operating activities				
Cash received from sales of goods and rendering of services	1,585,960	1,144,788	793,916	602,449
Cash received relating to other operating activities	77,843	43,340	40,454	25,453
Sub-total of cash inflows	1,663,803	1,188,128	834,370	627,902
Cash paid for goods and services	(538,117)	(457,387)	(220,281)	(235,949)
Cash paid to and on behalf of employees	(137,970)	(115,039)	(74,624)	(63,323)
Payments of taxes and levies	(121,121)	(123,651)	(104,381)	(117,120)
Cash payments relating to other operating activities	(32,422)	(38,748)	(18,993)	(14,540)
Sub-total of cash outflows	(829,630)	(734,825)	(418,279)	(430,932)
Net cash flows from operating activities	834,173	453,303	416,091	196,970
2. Cash flows from investing activities				
Cash received from returns on investments	200	—	2,089	13,585
Net cash received from disposal of fixed assets	808	4,016	187	1,962
Cash received from release of restricted bank deposits	—	10,000	—	10,000
Cash received from subsidiaries	—	—	165,112	41,500
Other cash received relating to investing activities	86,022	133,700	—	125,700
Sub-total of cash inflows	87,030	147,716	167,388	192,747
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(626,906)	(821,398)	(186,427)	(647,765)
Cash paid to acquire equity investments	—	—	(129,874)	(47,400)
Payments of restricted bank deposit	(1,800)	—	—	—
Cash paid to subsidiaries	—	—	(186,297)	(59,310)
Sub-total of cash outflows	(628,706)	(821,398)	(502,598)	(754,475)
Net cash flows from investing activities	(541,676)	(673,682)	(335,210)	(561,728)

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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2011	2010	2011	2010
3. Cash flows from financing activities				
Cash received from borrowings	1,249,200	702,100	1,206,300	644,100
Cash received from debenture issuance	689,500	597,600	689,500	597,600
Cash received from investors	19,091	—	—	—
Including: Proceeds from capital contributions by minority shareholders of subsidiaries	19,091	—	—	—
Sub-total of cash inflows	1,957,791	1,299,700	1,895,800	1,241,700
Repayments of amounts borrowed	(1,738,015)	(872,075)	(1,610,364)	(764,364)
Payments for interest expenses	(203,684)	(144,621)	(113,619)	(61,216)
Payments for distribution of dividends or profits	(156,590)	(115,456)	(156,590)	(113,855)
Other payments relating to financing activities	(2,436)	—	—	—
Sub-total of cash outflows	(2,100,725)	(1,132,152)	(1,880,573)	(939,435)
Net cash flows from financing activities	(142,934)	167,548	15,227	302,265
4. Effect of foreign exchange rate changes on cash	—	—	—	—
5. Net increase/(decrease) in cash	149,563	(52,831)	96,108	(62,493)
Add: Cash and bank balances at beginning of year	539,430	592,261	161,861	224,354
6. Cash and bank balances at end of year (Note 6(25)(b))	688,993	539,430	257,969	161,861

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department



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

Consolidated statement of changes in equity

For the year ended 31 December 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	
Balance at 1 January 2010	1,427,228	383,338	276,124	1,206,901	121,920	3,415,511
Changes in 2010						
Net profit	—	—	—	271,160	3,996	275,156
Profit appropriation						
– Appropriation to statutory common reserve	—	—	25,881	(25,881)	—	—
– Dividend appropriation to shareholders	—	—	—	(114,178)	(320)	(114,498)
Balance at 31 December 2010	1,427,228	383,338	302,005	1,338,002	125,596	3,576,169
Changes in 2011						
Net profit	—	—	—	275,786	4,094	279,880
Investment of shareholders						
– Investment from minority interests	—	—	—	—	19,091	19,091
– Purchase of minority interests (note6(16)(a))	—	(1,027)	—	—	(1,409)	(2,436)
Profit appropriation						
– Appropriation to statutory common reserve	—	—	24,176	(24,176)	—	—
– Dividend appropriation to shareholders	—	—	—	(156,995)	—	(156,995)
Balance at 31 December 2011	1,427,228	382,311	326,181	1,432,617	147,372	3,715,709

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department

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

Company statement of changes in equity

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

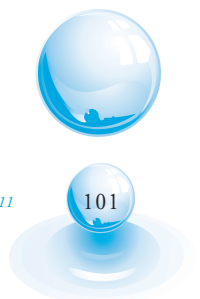
	Share capital	Capital surplus	General reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2010	1,427,228	380,788	276,124	1,140,686	3,224,826
Changes in 2010					
Net profit	—	—	—	258,809	258,809
Profit appropriation					
– Appropriation to statutory common reserve	—	—	25,881	(25,881)	—
– Dividend appropriation to shareholders	—	—	—	(114,178)	(114,178)
Balance at 31 December 2010	1,427,228	380,788	302,005	1,259,436	3,369,457
Changes in 2011					
Net profit	—	—	—	241,758	241,758
Profit appropriation					
– Appropriation to statutory common reserve	—	—	24,176	(24,176)	—
– Dividend appropriation to shareholders	—	—	—	(156,995)	(156,995)
Balance at 31 December 2011	<u>1,427,228</u>	<u>380,788</u>	<u>326,181</u>	<u>1,320,023</u>	<u>3,454,220</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



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

Notes to the Financial Statements

For the year ended 31 December 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, recycled water and heat and cooling 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
Qu Jing, Yunnan	16 August 2011	Qujing Housing and Urban Construction Bureau
Chao Hu, Anhui	25 August 2011	Hanshan Housing and Urban 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)).

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(a) Processing of sewage water (Continued)

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

Dong Jiao:

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

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

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

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

All other sewage processing plants:

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

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

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



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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(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.

(e) Heat and cooling supply services

The heat and cooling supply services include design, construction, operations and transfer of centralized heat and cooling infrastructures, and providing heat and cooling services.

These consolidated financial statements were approved by the Directors of the Company on 22 March 2012.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

3 STATEMENT OF COMPLIANCE WITH CAS

The financial statements of the Company for the year ended 31 December 2011 truly and completely present the financial position as of 31 December 2011 and the operating results, cash flows and other information for the year then ended of the Group and the Company in compliance with the Accounting Standards for Business Enterprises.

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) **Accounting period**

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

(2) **Recording currency**

The recording currency is Renminbi (“Rmb”).

(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 unrealized 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.

In the circumstances of wholly or partly purchase of minority interests from non-controlling shareholders after obtaining control of subsidiaries, the assets or liabilities of subsidiaries should be measured on a continuous basis from the acquisition date or combination date in the consolidated financial statement. The difference between the addition of investment in subsidiaries and the proportionate share of net assets measured on a continuous basis associated with the newly obtained interests is treated as an adjustment to capital surplus (share premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

(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.



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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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 recognized 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 capitalized 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 recognized 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 amortized 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 amortized 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 recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Financial instruments (Continued)

(a) Financial assets (Continued)

(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 amortized 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 amortized 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 or long-term debenture.

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.



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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognized 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 work in progress, and are stated at the lower of cost and net realizable value.

Except for work in progress, cost for raw materials, finished goods and low cost consumables are determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable 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 work in progress. Where negative, it is recognized in liabilities.

Cost is determined using the weighted average method. The Group adopts the perpetual inventory system.

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

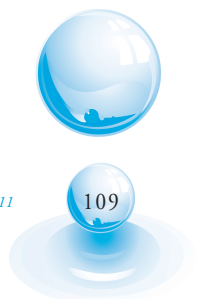
Subsidiaries are all investees over which the Company is able to control. Joint ventures are all investees over which the Group is able to control jointly with other parties. Associates are all investees that the Group has significant influence on their financial and operating policies.

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) Determination of investment cost

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving enterprises under common control, the investment cost shall be the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date; for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.



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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments (Continued)

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

For long-term equity investments accounted for using the cost method, they are measured at the initial investment costs, and cash dividends or profit distribution declared by the investees are recognized as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment 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 acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to 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 criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in owners' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, 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 distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments (Continued)

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

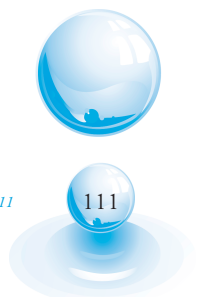
Control is the power to govern the financial and operating policies so as to obtain benefits from their operating activities. The existence and effect of potential voting rights (including that derived from the convertible bonds and warrants that are currently convertible or exercisable) is considered 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 recognized, it is not allowed to be reversed for the value recovered in the subsequent periods.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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 recognized 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 amortized 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 (amortization) rates of the investment properties are as follows:

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

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

The estimated useful life, net residual value of the investment property and the depreciation (amortization) 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 recognized 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)).

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Fixed assets

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

A fixed asset is recognized 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 recognized in profit or loss in the period in which they are incurred

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

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

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

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

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

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognized 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 4(15)).



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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, other costs necessary to bring the fixed assets ready for their intended use and borrowing costs that are eligible for capitalization. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is lower than its carrying value, the carrying value shall be reduced to its recoverable amount (Note 4(15)).

(13) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalized 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 capitalization of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognized in profit or loss for the current period. Capitalization 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 cash flow of borrowings during its expected using periods or its applicable shorter periods to its initial recognized amount.

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets

Intangible assets including land use rights, concession rights, technical know-how and softwares are measured at cost.

(a) Land use rights

Land use rights are amortized 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 recognized as fixed assets.

(b) Concession rights

As described in Note 1(a) and (e), the Group engages with government bodies and participates in the development, financing, operation and maintenance of infrastructure for public sewage processing services (concession services) over a specified period of time (concession services period). The Group has access to operate the infrastructure to provide the concession services in accordance with the terms specified in the arrangement. The arrangement is governed by the relevant Sewage Water Processing Agreements that sets out performance standards, mechanisms for adjusting prices. The concession services arrangement is within the scope of Accounting Standards interpretation No.2(CAS Int-No.2), and the Group recognizes the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognize an intangible asset to the extent that it receives a right (license) 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 recognized 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) Technical know-how and softwares

Separately acquired technical know-how and softwares are shown at historical cost. Technical know-how and softwares has a finite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of technical know-how and softwares over their useful lives.

(d) Periodical review of useful life and amortization 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)).



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

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(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized 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 recognized 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 recognized, 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.

Where the Group terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from termination of the employment relationship with employees is recognized, with a corresponding charge to profit or loss when the Group has made a formal plan for termination of the employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Group unilaterally.

Except for the benefits paid to terminated employees, employee benefits are recognized 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.

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognized 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 recognized 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 realized or the liability is settled.

Deferred tax assets are only recognized 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 utilized.

Deferred tax liabilities are recognized 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.

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Revenue recognition

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

The Group recognizes 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 and heat and cooling supply*

Revenue from sewage water processing and heat and cooling supply is recognized when services are rendered.

(b) *Construction contract*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognized 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 recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized 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 recognized as an expense immediately.

(c) *Sales of tap water and recycled water*

Revenue from the sale of tap water and recycled water is recognized 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 recognized using the effective interest method.

(f) *Dividend income*

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

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(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Dividend distribution

Proposed cash dividend is recognized 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 and tax refunds.

Grants from the government are recognized 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.



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Notes to the Financial Statements

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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Critical accounting estimate and judgments

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

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

(i) *Impairment for receivables*

The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 31 December 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 recognizes income taxes in each region based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

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

Tax by category	Basis of Tax	Tax rate
Enterprise income tax	Taxable income	0% - 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%-13%
Business tax	Taxable sales amount	3%-5%
City construction and maintenance tax	The amount of paid business tax and VAT	7%

The information of preferential tax policies granted to the subsidiaries is as below:

Name of subsidiaries	Enterprise income tax rate of 2011	Preferential tax policy
Chi Bi Capital Water Co.,Ltd.	0%	Income from engaging in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax for the first 3 years and reduction half for the next 3 years.
Bao Ying Capital Water Co.,Ltd.	12.5%	Income from engaging in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax for the first 3 years and reduction half for the next 3 years.
Wen Deng Capital Water Co.,Ltd.	12.5%	Income from engaging in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax for the first 3 years and reduction half for the next 3 years.
Hong Hu Capital Water Co.,Ltd.	12.5%	Income from engaging in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax for the first 3 years and reduction half for the next 3 years.
Gui Zhou Capital Water Co.,Ltd.	15%	According to Notice about implementation of preferential tax policy relating to development of western regions from Municipal Office of Guizhou Province, Qian Guoshuihan[2011] No.19.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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6 NOTES TO THE FINANCIAL STATEMENTS

(1) CASH AND BANK BALANCES

	31 December 2011	Group 31 December 2010	31 December 2011	Company 31 December 2010
Cash on hand and in bank	691,693	540,330	257,969	161,861
Including:				
Special funds for construction in progress (note (a))	48,259	111,179	43,442	102,883
Restricted bank deposits due within one year (note (b))	2,700	900	—	—

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

(b) The bank deposits represented projects deposits due within one year of Rmb 2,700 thousand (2010: Rmb900 thousand).

(2) TRADE RECEIVABLES

Details of trade receivables are as follows:

	31 December 2011	Group 31 December 2010	31 December 2011	Company 31 December 2010
Due from TSC for				
– Sewage processing service	998,903	691,168	998,903	691,168
– Construction of sewage processing plants (note (c))	68,794	241,792	68,794	241,792
	1,067,697	932,960	1,067,697	932,960
Toll road fee receivable	—	38,200	—	38,200
Less: Non-current portion (note (c))	(68,794)	(68,794)	(68,794)	(68,794)
Individual items with significant amount	998,903	902,366	998,903	902,366
Other items with insignificant amount	97,680	94,583	11,589	11,252
	1,096,583	996,949	1,010,492	913,618

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2011
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

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

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Within one year	865,014	785,601	779,073	702,420
One to two years	231,419	38,350	231,419	38,200
Over two years	68,944	241,792	68,794	241,792
	<u>1,165,377</u>	<u>1,065,743</u>	<u>1,079,286</u>	<u>982,412</u>

(b) As at 31 December 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 31 December 2011, the balance of sewage water plant construction is over-due. Since TSC is the Chinese government subordinate enterprise which has good creditability history, management believes that the balance is not impaired.

(d) As at 31 December 2011, the trade receivables from the top five debtors are analyzed as below:

	relationship with the Group	amount	ageing	% of total balance
TSC	customer	1,067,697	see below	92%
– Sewage processing service for 2011		767,484	within 1 year	66%
– Sewage processing service for 2010		231,419	1 to 2 years	20%
– Construction of sewage processing plants		68,794	over 2 years	6%
Qijing City Water General Company	customer	19,120	within 1 year	2%
Hangzhou Sewage Company	customer	14,898	within 1 year	1%
Chibi Construction Bureau	customer	12,745	within 1 year	1%
Xi'an Infrastructure Investment Group	customer	9,619	within 1 year	1%
		<u>1,123,809</u>		<u>97%</u>



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2011
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(3) PREPAYMENTS

(a) The ageing of prepayments is analyzed as below:

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Within 1 year	79,204	69,157	1,785	48,994
1 to 2 years	13,928	20,949	1,565	6,080
Over 2 years	2,574	13,653	108	32
	<u>95,706</u>	<u>103,759</u>	<u>3,458</u>	<u>55,106</u>

As at 31 December 2011, the prepayments aged over one year were mainly for plant construction projects and recycled water pipeline connection service for which the projects have not been completed and hence balances remain outstanding.

(b) As at 31 December 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).

(c) As at 31 December 2011, the prepayments to the top five debtors are analyzed as below:

	relationship with the Group	amount	% of total balance	Prepayment time	reason for not settled
Baoying Water Authority Bureau	concession right grantor	21,966	23%	2011	Concession right not transferred to the Group
Tianjin Pipeline Construction Group Co., Ltd.	construction contractor	13,511	14%	2011	project in progress
Tianjin Jianzhi Municipal Construction Co., Ltd.	construction contractor	3,854	4%	2011	project in progress
Beijing Geruituo Power Equipment Co., Ltd.	equipment supplier	3,853	4%	2011	equipment under in spection
Yichang Kaiyuan Environmental Protection Construction Co. Ltd.	construction contractor	818	1%	2010	project in progress
		<u>44,002</u>	<u>46%</u>		

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) OTHER RECEIVABLES

Other receivables include:

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Project deposits	6,681	26,776	2,743	26,720
Payment on behalf of customers	1,381	1,683	12	—
Receivables from subsidiaries	—	—	112,534	111,346
Others	8,987	25,081	6,364	7,214
	<u>17,049</u>	<u>53,540</u>	<u>121,653</u>	<u>145,280</u>

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

	31 December 2011		31 December 2010	
	amount	% of total balance	amount	% of total balance
Within 1 year	3,000	18	16,119	30
1 to 2 years	3,132	18	7,021	13
2 to 3 years	3,933	23	3,461	7
Over 3 years	6,984	41	26,939	50
	<u>17,049</u>	<u>100</u>	<u>53,540</u>	<u>100</u>

In December 2011, project deposits of Rmb 25 million, of which the ageing is over 3 years, was received from customer.

(b) As at December 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).

(c) As at 31 December 2011, other receivables from the top five debtors is analysed as below:

	relationship with the Group	amount	ageing	% of total balance
Guiyang Construction Investment Holding Co., Ltd.	customer	2,650	over 3 years	15%
Wuhu Urban Sewage Processing Projects Construction Office	project bidding	1,000	within 1 year	6%
Tianjin Construction Team Communication Service Centre	regulator	1,000	1 to 2 years	6%
Nantong Liujian Construction Group Co.,Ltd.	service supplier	657	over 3 years	4%
Tianjin Construction Wastes Management Station	regulator	500	within 1 year	3%
		<u>5,807</u>		<u>34%</u>

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(5) INVENTORIES

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Raw materials	10,960	10,127	4,193	3,570
Finished goods	3,682	3,682	—	—
Spare parts and low cost consumables	434	756	25	407
Work in progress	68,493	20,911	—	—
	<u>83,569</u>	<u>35,476</u>	<u>4,218</u>	<u>3,977</u>
Less: Provision for declines in the value of inventories	(3,000)	(3,000)	—	—
	<u>80,569</u>	<u>32,476</u>	<u>4,218</u>	<u>3,977</u>

(6) LONG-TERM RECEIVABLES

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Receivables from toll road concession(note (a))	338,446	336,286	338,446	336,286
Receivables from TSC (note 6(2))	68,794	68,794	68,794	68,794
	<u>407,240</u>	<u>405,080</u>	<u>407,240</u>	<u>405,080</u>

(a) Receivables from toll road concession represent amortized 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	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Investment in subsidiaries (note (a))	—	—	1,308,255	1,178,381
Less: Impairment provision for long-term investment (note (c))	—	—	(26,500)	(26,500)
	—	—	1,281,755	1,151,881
Investment in an associate (note (b))	40,669	41,583	—	—
Other long-term equity investments	4,000	4,000	4,000	4,000
	<u>44,669</u>	<u>45,583</u>	<u>1,285,755</u>	<u>1,155,881</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(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 mainland China.

All subsidiaries are limited liability companies.

	Investment cost	Carrying Value		Interest held / Voting shares%	
		31 December 2010	31 December 2011		
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. (note(i))	154,917	108,081	46,836	154,917	87%
Tianjin Water Recycling Co., Ltd. (note(ii))	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. (note(ii))	69,202	62,100	7,102	69,202	100%
Anguo Capital Water Co., Ltd.	41,000	41,000	—	41,000	100%
Baoying Capital Water Co., Ltd. (note(i))	37,100	26,600	10,500	37,100	70%
Tianjin Capital New Materials Co., Ltd. (note(c))	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. (note(i))	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 Jiayuanxing Innovative Energy Technology Co.,Ltd. (note(iii))	60,000	—	60,000	60,000	100%
		1,178,381	129,874	1,308,255	

- (i) In 2011, the Company made additional capital injection to these subsidiaries.
- (ii) In 2011, the Company acquired interests in these subsidiaries held by minority interests.
- (iii) This subsidiary was newly established by the Company in 2011.
- (iv) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.
- (v) In 2011, the cash dividend declared by the subsidiaries was Rmb 1,889 thousand.

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Investment in an associate

	Registered capital	Interest & voting shares held	31 December 2011		2011	
			Total assets	Total liabilities	Revenue	Share of profit
Tianjin International Machinery Co., Ltd.	120,000	27.5%	632,344	461,409	1,628,952	186

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 2010	Share of profit	Cash dividends by the associate	31 December 2011
Tianjin International Machinery Co., Ltd.	33,000	41,583	186	(1,100)	40,669

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

(8) INVESTMENT PROPERTIES

Buildings

	Group	Company
Cost		
At 31 December 2010 and 2011	137,374	110,648
Accumulated depreciation		
At 31 December 2010	(17,746)	(15,821)
Charge for the year	(3,673)	(3,168)
At 31 December 2011	(21,419)	(18,989)
Net book value		
At 31 December 2011	115,955	91,659
At 31 December 2010	119,628	94,827

The Company's investment properties represent the apportioned cost of its office building located in Tianjin leased to third parties. The fair value of the entire office building at 31 December 2011 based on the Directors' assessment was approximately Rmb224 million (2010: Rmb173 million) against cost of Rmb167 million.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS

(a) Group

	Buildings & structure (note (i))	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2010	2,421,274	339,507	99,107	2,859,888
Reclassification (note(iv))	(793,973)	748,562	45,411	—
Transfer from construction in progress	35,198	89,581	1,221	126,000
Addition	49,322	599,751	64,070	713,143
Transfer to intangible assets (note(iv))	(97,602)	—	—	(97,602)
Disposal	(24,035)	(86,703)	(11,797)	(122,535)
	<u>1,590,184</u>	<u>1,690,698</u>	<u>198,012</u>	<u>3,478,894</u>
At 31 December 2010	1,590,184	1,690,698	198,012	3,478,894
Transfer from construction in progress	1,717	3,007	1,136	5,860
Addition	489	479	1,055	2,023
Disposal	(67)	(12,751)	(27,232)	(40,050)
	<u>1,592,323</u>	<u>1,681,433</u>	<u>172,971</u>	<u>3,446,727</u>
At 31 December 2011	1,592,323	1,681,433	172,971	3,446,727
Accumulated depreciation				
At 1 January 2010	(639,239)	(188,709)	(55,546)	(883,494)
Reclassification (note(iv))	132,319	(113,882)	(18,437)	—
Charge for the year	(59,543)	(43,296)	(11,314)	(114,153)
Transfer to intangible assets (note(iv))	7,348	—	—	7,348
Disposal	13,401	37,202	3,261	53,864
	<u>(545,714)</u>	<u>(308,685)</u>	<u>(82,036)</u>	<u>(936,435)</u>
At 31 December 2010	(545,714)	(308,685)	(82,036)	(936,435)
Charge for the year	(45,976)	(75,094)	(15,094)	(136,164)
Disposal	41	2,489	23,051	25,581
	<u>(591,649)</u>	<u>(381,290)</u>	<u>(74,079)</u>	<u>(1,047,018)</u>
At 31 December 2011	(591,649)	(381,290)	(74,079)	(1,047,018)
Impairment				
At 31 December 2010 and 2011	(11,000)	(4,068)	(932)	(16,000)
	<u>(11,000)</u>	<u>(4,068)</u>	<u>(932)</u>	<u>(16,000)</u>
At 31 December 2010 and 2011	(11,000)	(4,068)	(932)	(16,000)
Net book value				
At 31 December 2011	989,674	1,296,075	97,960	2,383,709
	<u>989,674</u>	<u>1,296,075</u>	<u>97,960</u>	<u>2,383,709</u>
At 31 December 2010	1,033,470	1,377,945	115,044	2,526,459
	<u>1,033,470</u>	<u>1,377,945</u>	<u>115,044</u>	<u>2,526,459</u>

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) The Group's depreciation expense of Rmb128 million (2010:Rmb104 million) has been included in cost of operations and Rmb8 million (2010: Rmb10 million) in administrative expenses.
- (iii) As at 31 December 2011, the certificate of title to the building and land use rights included in property, plant and equipment, investment properties and land use rights with carrying amount of Rmb 295 million (cost of RMB 325 million) (31 December 2010: carrying amount of Rmb 310 and cost of Rmb 332 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the Directors believe that the titles will be received in due course without additional significant cost to the Group, if any.
- (iv) In 2010, based on final completion report of relevant newly constructed sewage processing plants as approved by authorities, management reclassified certain property, plant and equipment among different categories, which were previously classified as per budget in 2007.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(b) Company

	Buildings & structure	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2010	2,304,152	192,950	68,230	2,565,332
Reclassification (note(iv))	(819,358)	778,298	41,060	—
Transfer from construction in progress	—	89,510	359	89,869
Addition	49,971	598,802	55,670	704,443
Transfer to intangible assets (note(iv))	(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	3,007	1,136	4,503
Addition	—	309	1,048	1,357
Disposal	(67)	(10,823)	(22,635)	(33,525)
At 31 December 2011	1,418,286	1,569,921	133,794	3,122,001
Accumulated depreciation				
At 1 January 2010	(621,213)	(166,157)	(48,523)	(835,893)
Reclassification (note(iv))	133,303	(115,594)	(17,709)	—
Charge for the year	(54,419)	(30,571)	(9,587)	(94,577)
Transfer to intangible assets (note(iv))	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	(42,837)	(63,205)	(13,862)	(119,904)
Disposal	41	1,429	18,885	20,355
At 31 December 2011	(564,528)	(337,701)	(67,480)	(969,709)
Net book value				
At 31 December 2011	853,758	1,232,220	66,314	2,152,292
At 31 December 2010	896,261	1,301,503	81,742	2,279,506

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(c) Construction in progress comprised the following projects:

	Budget	31 December 2010	Addition	Transfer to fixed assets	Transfer to intangible assets	31 December 2011	Sources of funds	Incurred costs to budget costs ratio (%)
Water recycling plants:								
- Bei Chen water recycling plants	97,000	57,218	177	—	—	57,395	Self-raised fund	59%
Sewage water processing plants:								
- Dong Jiao (upgrade project)	373,500	219,656	72,354	—	—	292,010	Self-raised fund	78%
- XianYang Lu (upgrade project)	205,510	132,696	32,911	—	—	165,607	Self-raised fund	81%
- Bei Cang (upgrade project)	166,000	115,496	15,644	—	—	131,140	Self-raised fund	79%
- Ji Zhuang Zi (upgrade project)	191,660	111,669	44,406	—	—	156,075	Self-raised fund	81%
Others		13,229	2,960	(4,503)	(7,300)	4,386	Self-raised fund	
Total -Company		649,964	168,452	(4,503)	(7,300)	806,613		
Water recycling plants:								
- Ji Zhuang Zi(expansion project)	87,573	52,716	19,169	—	—	71,885	Self-raised fund	82%
Others		971	2,753	(1,357)	—	2,367	Self-raised fund	
Total -Group		703,651	190,374	(5,860)	(7,300)	880,865		
Including: Capitalised borrowing costs		13,276	18,435	—	—	31,711		

Borrowing costs have been capitalized for the year ended 31 December 2011 at an average interest rate of 6.47% per annum (2010: 5.83%).



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2011
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(10) INTANGIBLE ASSETS

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Concession rights (note (a))	2,795,150	2,427,782	—	—
Land use rights (note (b))	451,784	462,868	435,186	446,079
Technical know-how and computer software	7,887	—	7,887	—
	<u>3,254,821</u>	<u>2,890,650</u>	<u>443,073</u>	<u>446,079</u>

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

	Group
Cost	
At 31 December 2010	2,744,864
Addition	473,292
At 31 December 2011	<u>3,218,156</u>
Accumulated amortization	
At 31 December 2010	(317,082)
Charge for the year	(105,924)
At 31 December 2011	<u>(423,006)</u>
Net book value	
At 31 December 2011	<u>2,795,150</u>
At 31 December 2010	<u>2,427,782</u>

- (i) As at 31 December 2011, certain of concession rights with net book value of Rmb242 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: Rmb162 million) (Note 6(12)(a)(i)).
- (ii) In 2011, borrowing cost of Rmb712 thousand (2010: Rmb 4,578 thousand) have been capitalised in concession right at an average interest of 7.05% (2010: 6.02%).
- (iii) The remaining amortization period of concession rights range from 17 to 30 years.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(10) INTANGIBLE ASSETS (Continued)

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

	Group	Company
Cost		
At 31 December 2010 and 2011	593,529	567,266
Accumulated amortization		
At 31 December 2010	(130,661)	(121,187)
Charge for the year	(11,084)	(10,893)
At 31 December 2011	(141,745)	(132,080)
Net book value		
At 31 December 2011	451,784	435,186
At 31 December 2010	462,868	446,079

(c) The movements of technical know-how and computer software are as follows:

	Group and Company
Cost	
At 31 December 2010	—
Addition	8,307
At 31 December 2011	8,307
Accumulated amortization	
At 31 December 2010	—
Charge for the year	(420)
At 31 December 2011	(420)
Net book value	
At 31 December 2011	7,887
At 31 December 2010	—



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Trade payables (note (a))	18,481	22,729	3,157	9,730
Advances (note (b))	423,387	310,478	8,331	63,386
Other payables (note (c))	412,095	274,991	330,812	235,198
Taxes payable (note (d))	8,274	16,431	2,400	9,162
	<u>862,237</u>	<u>624,629</u>	<u>344,700</u>	<u>317,476</u>

(a) As at 31 December 2011, the majority of trade payables are aged within one year.

(b) Advances comprise:

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
For pipeline connection service	407,679	245,167	—	—
For heating service	6,881	—	—	—
Received from project of Han Gu	4,521	59,612	4,521	59,612
Other advances	4,306	5,699	3,810	3,774
	<u>423,387</u>	<u>310,478</u>	<u>8,331</u>	<u>63,386</u>

As at 31 December 2011, advances of Rmb179 million (31 December 2010: Rmb148 million) are aged over one year, which mainly represent advances in relation to those projects of recycled water pipeline connection. The balances are yet to be settled as those projects have not been completed.

(c) Other payables comprise:

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Construction costs payable	224,627	168,316	101,302	109,499
Payable for purchase of fixed assets and concession rights	111,179	67,337	20,607	—
Long-term debenture interests payables (Note 6(12)(d))	7,747	—	7,747	—
Others	68,542	39,338	201,156	125,699
	<u>412,095</u>	<u>274,991</u>	<u>330,812</u>	<u>235,198</u>

As at 31 December 2011, other payables of Rmb133 million (31 December 2010: Rmb116 million) are aged over year, which mainly represent unsettled payables and deposits for upgrade projects.

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

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Income tax payable	7,671	8,757	—	3,121
Business tax payable	3,189	5,931	1,356	4,899
Value-added tax payable	(3,883)	—	—	—
Others	1,297	1,743	1,044	1,142
	<u>8,274</u>	<u>16,431</u>	<u>2,400</u>	<u>9,162</u>

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

	Note	Group		Company	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
Non-current:					
Long-term bank borrowings	(a)	2,690,760	2,639,030	1,405,400	1,274,100
Less: Current portion	(a)	(825,720)	(329,470)	(623,000)	(210,000)
		<u>1,865,040</u>	<u>2,309,560</u>	<u>782,400</u>	<u>1,064,100</u>
Long-term debenture	(d)	689,850	—	689,850	—
Long-term payable	(e)	386,543	399,604	386,543	399,604
Other non-current liabilities	(f)	109,703	129,374	81,817	98,181
		<u>3,051,136</u>	<u>2,838,538</u>	<u>1,940,610</u>	<u>1,561,885</u>
Current:					
Current portion of long-term bank borrowings	(a)	825,720	329,470	623,000	210,000
Current portion of long-term payable	(e)	30,466	30,710	30,466	30,710
Short-term borrowings	(b)	152,000	73,000	136,000	55,000
Short-term debenture	(c)	—	600,000	—	600,000
Other current liabilities	(f)	19,961	21,216	16,364	16,364
		<u>1,028,147</u>	<u>1,054,396</u>	<u>805,830</u>	<u>912,074</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings

	Note	Group		Company	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
Borrowings from:					
China Construction Bank Industrial and Commercial Bank of China	(i)	910,900	936,850	372,400	367,100
State Development Bank	(ii)	446,900	456,000	—	—
Shanghai Bank	(iii)	348,500	342,500	173,000	157,000
Agriculture Bank of China	(iv)	320,000	250,000	320,000	250,000
Shenzhen Development Bank	(v)	235,460	198,680	150,000	100,000
China Merchants Bank	(iv)	200,000	200,000	200,000	200,000
China Everbright Bank	(iv)	70,000	—	70,000	—
Industrial Bank	(vi)	50,000	50,000	50,000	50,000
Bank of China	(iv)	40,000	50,000	40,000	50,000
China CITIC Bank	(vii)	35,000	40,000	—	—
Shanghai Pudong Development Bank	(iv)	30,000	100,000	30,000	100,000
	(viii)	4,000	15,000	—	—
		<u>2,690,760</u>	<u>2,639,030</u>	<u>1,405,400</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 Rmb378 million (31 December 2010: Rmb389 million) and Rmb12.5 million (31 December 2010: Rmb18.75 million) secured by the guarantee of TICIG and the Company, respectively. The remaining balance of about Rmb372.4 million (31 December 2010: Rmb367.1 million) is unsecured.

(ii) Secured by the Company's guarantee (31 December 2010: Rmb456 million).

(iii) Includes Rmb175.5 million (31 December 2010: Rmb185.5 million) secured by the Company's guarantee and the remaining Rmb173 million (31 December 2010: Rmb157 million) is unsecured.

(iv) These borrowings are unsecured.

(v) Includes Rmb85.46 million (31 December 2010: Rmb98.68 million) secured by the Company's guarantee, the remaining Rmb 150 million (31 December 2010: Nil) is unsecured.

(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).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings

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

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Pledge	198,000	212,000	50,000	50,000
Guarantee	1,137,360	1,302,930	—	100,000
Unsecured	1,355,400	1,124,100	1,355,400	1,124,100
	<u>2,690,760</u>	<u>2,639,030</u>	<u>1,405,400</u>	<u>1,274,100</u>

(x) These long term bank borrowings bear a weighted average interest rate of 6.44% in 2011 (2010: 5.4%).

(xi) These borrowings mature as follows:

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Within 1 year	825,720	329,470	623,000	210,000
In the 2 year	752,180	841,720	608,000	636,000
In the 3 to 5 year	733,260	888,160	163,400	415,000
After the 5 year	379,600	579,680	11,000	13,100
	<u>2,690,760</u>	<u>2,639,030</u>	<u>1,405,400</u>	<u>1,274,100</u>

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

	Grant date	Maturity date	Currency	Rate(%)	Group	
					31 December 2011	31 December 2010
China Construction Bank	7/5/2009	6/5/2012	Rmb	5.76%	295,000	—
Shenzhen Development Bank	23/7/2010	25/4/2012	Rmb	5.99%	150,000	—
China Construction Bank	20/3/2009	19/3/2012	Rmb	6.10%	77,000	—
Shenzhen Development Bank	23/3/2010	23/3/2012	Rmb	6.32%	50,000	—
China Everbright Bank	30/4/2003	30/4/2012	Rmb	6.35%	50,000	—
					<u>622,000</u>	<u>—</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(b) Short-term borrowings

	Note	Group		Company	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
Borrowings from:					
Shanghai Pudong Development Bank	(i)	52,000	73,000	36,000	55,000
China Minsheng Bank	(i)	100,000	—	100,000	—
		<u>152,000</u>	<u>73,000</u>	<u>136,000</u>	<u>55,000</u>

(i) Includes Rmb16 million (31 December 2010: Rmb18 million) secured by the Company's holding company's guarantee. The remaining balance of about Rmb136 million (31 December 2010: Rmb55 million) is unsecured. The weighted average interest rate of short-term borrowings in 2011 is 6.85% (2010: 5.35%) per annum.

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

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Guaranteed	16,000	18,000	—	—
Unsecured	136,000	55,000	136,000	55,000
	<u>152,000</u>	<u>73,000</u>	<u>136,000</u>	<u>55,000</u>

(c) Short-term debenture

	31 December 2010	Issuance	Repayment	31 December 2011
Short-term debenture	600,000	—	(600,000)	—
	<u>600,000</u>	<u>—</u>	<u>(600,000)</u>	<u>—</u>

On 8 July 2010, the company issued a short-term debenture of Rmb600 million at par with mature period of one year. The debenture bears interest rate at 3.48% per annum and has been repaid in lump sum upon maturity.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Long-term debenture

	31 December 2010	Issuance	Repayment/ Amortisation	31 December 2011
Long-term debenture				
–par value	—	700,000	—	700,000
–transaction cost	—	(10,500)	350	(10,150)
	<u>—</u>	<u>689,500</u>	<u>350</u>	<u>689,850</u>

On 16 November 2011, the Company issued a long-term debenture at par value of Rmb 700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The debenture matures five years from the issue date, and pays fixed interest rate at 6.64% annually. The principal will be repaid on maturity.

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

	Group and company			
	31 December 2011	31 December 2011	31 December 2011	31 December 2011
	Payable amount	unrecognized finance charge	Payable amount	unrecognized finance charge
Payables for assets acquisition	<u>802,193</u>	<u>(385,184)</u>	<u>834,230</u>	<u>(403,916)</u>

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

	Duration	Original balance	Effective interest rate	Ending balance	Current portion
TSC	30 years to 20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>386,543</u>	<u>30,466</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 Rmb691 million. The balance will be settled in Rmb translating at exchange rates prevailing on each repayment date over the remaining 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%.



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

	Group and Company	
	2011	2010
JPY	631,576	656,952
US dollar	170,617	177,278
	<u>802,193</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.

(iii) The long-term payable mature as follows. As at 31 December 2011, the current portion of long-term payable of Rmb30.5 million was classified as current liabilities.

	Group and Company	
	31 December 2011	31 December 2010
Within 1 year	30,466	30,710
In the 2 year	29,021	29,203
In the 3 to 5 year	79,450	79,684
After the 5 year	278,072	290,717
	<u>417,009</u>	<u>430,314</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(f) Other liabilities

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Non-current:				
- Government loan for sewage water processing plants construction (note(i))	81,817	98,181	81,817	98,181
- Government loan for water recycling plants construction (note(ii))	17,273	20,454	—	—
- Others	10,613	10,739	—	—
	<u>109,703</u>	<u>129,374</u>	<u>81,817</u>	<u>98,181</u>
Current:				
- Current portion of government loan for sewage water processing plants construction (note(i))	16,364	16,364	16,364	16,364
- Current portion of government loan for water recycling plants construction (note(ii))	3,181	3,181	—	—
- Others	416	1,671	—	—
	<u>19,961</u>	<u>21,216</u>	<u>16,364</u>	<u>16,364</u>

(i) A loan was taken from TMEB by the Company during 2005 specifically for construction of sewage water processing plants. The current portion of the long-term loan is Rmb16 million at the end of year 2011 (2010: Rmb16 million). The loan is repayable in equal installments over eleven years from 2007. The loan bears interest at 5% per annum for the first six years. From the seventh year to maturity, the interest will be based on the one-year deposit plus 0.3% premium.

(ii) A loan was taken from TMEB by Tianjin Water Recycling Co., Ltd, the subsidiary of the company during 2003 specifically for construction of water recycling plants. The current portion of the long-term loan is Rmb3 million at the end of year 2011 (2010: Rmb3 million). The loan is repayable in equal installments over eleven years from 2007. The interest will be based on the one-year deposit plus 0.3% premium.



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(13) DEFERRED REVENUE

Deferred revenue represents the subsidies received from governmental bodies in relation to Group's certain construction and research & development projects. The detail of deferred revenue is as below:

	31 December 2011	31 December 2010
Sewage water processing plants :		
– Xian Yang Lu (upgrade project)	67,500	67,500
– Ji Zhuang Zi (upgrade project)	39,700	39,700
– Dong Jiao (upgrade project)	38,600	38,600
Water recycling plants in:		
– Dong Jiao	25,762	27,000
– Bei Chen	21,000	21,000
Others	11,659	9,488
Total-Company	<u>204,221</u>	<u>203,288</u>
Heating supply service project:	84,156	—
Water recycling plants :		
– Ji Zhuang Zi (sewage reuse project)	43,371	44,686
– Ji Zhuang Zi (expansion project)	21,000	21,000
– Xian Yang Lu (water recycling project)	15,585	16,000
Others	1,595	—
Total-Group	<u>369,928</u>	<u>284,974</u>

(14) DEFERRED INCOME TAX LIABILITIES

	31 December 2011		31 December 2010	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>48,479</u>	<u>193,916</u>	<u>38,427</u>	<u>153,708</u>

(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.

	Circulating A shares	Circulating H shares	Total
At 31 December 2010 and 2011	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>

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

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) RESERVES AND DIVIDEND

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

On 15 June 2011, the Company acquired an additional 2% of the issued shares of Tianjin Water Recycling Co., Ltd from its minority shareholders. The transaction date is 31 May 2011 and the Company became the only investor of Tianjin Water Recycling Co., Ltd. The changes in the capital reserve is summarised as follows:

	Year 2011
Consideration paid	2,436
Less: Carrying amount of minority interests acquired	(1,049)
	1,027
Excess of consideration paid	1,027

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

As at 31 December 2011, undistributed profits include Rmb12,445 thousand subsidiaries' common reserve attributable to the Company (31 December 2010: Rmb8,117 thousand), of which Rmb4,328 thousand has been appropriated for the current year (31 December 2010: Rmb1,909 thousand).

- (c) Dividends

A dividend in respect of year ended 31 December 2010 of Rmb1.1 (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).

On 22 March 2012, the Directors proposed a dividend of Rmb0.4 (gross tax) for every 10 shares held, total shares of 1,427 million, amounting to a total dividend of Rmb 57 million. This proposed dividend is yet to be approved at the Annual General Meeting. These financial statements do not reflect this dividend payable.



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(17) MINORITY INTERESTS

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

	31 December 2011	Group 31 December 2010
Hangzhou Tianchuang Capital Water Co., Ltd.	92,144	90,548
Qujing Capital Water Co., Ltd.	26,490	11,795
Baoying Capital Water Co., Ltd.	17,503	12,737
Guizhou Capital Water Co., Ltd.	7,244	6,853
Honghu Capital Water Co., Ltd.	2,293	2,150
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	1,602	—
Chibi Capital Water Co., Ltd.	96	85
Tianjin Water Recycling Co., Ltd.	—	1,409
Fuyang Capital Water Co., Ltd.	—	19
	<u>147,372</u>	<u>125,596</u>

(18) INCOME FROM AND COST FOR OPERATIONS

	2011		Group		2010	
	Income from operations	Cost of operations	Income from operations	Cost of operations	Income from operations	Cost of operations
Income from principal operations	1,493,146	835,020	1,394,821	762,991	1,394,821	762,991
Other operating income	69,344	39,021	72,947	30,681	72,947	30,681
	<u>1,562,490</u>	<u>874,041</u>	<u>1,467,768</u>	<u>793,672</u>	<u>1,467,768</u>	<u>793,672</u>

	2011		Company		2010	
	Income from operations	Cost of operations	Income from operations	Cost of operations	Income from operations	Cost of operations
Income from principal operations	892,102	415,881	911,500	415,662	911,500	415,662
Other operating income	45,861	19,901	43,694	9,855	43,694	9,855
	<u>937,963</u>	<u>435,782</u>	<u>955,194</u>	<u>425,517</u>	<u>955,194</u>	<u>425,517</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Income from and cost of principal operations

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

	2011		Group		2010	
	Income from operations	Cost of operations	Income from operations	Cost of operations	Income from operations	Cost of operations
Processing of sewage water and construction of related facility	1,270,551	725,310	1,220,294	679,377		
Water recycling and connection project	105,099	74,017	69,918	51,396		
Tap water supplying	39,976	24,412	37,583	25,098		
Others	77,520	11,281	67,026	7,120		
	<u>1,493,146</u>	<u>835,020</u>	<u>1,394,821</u>	<u>762,991</u>		

(b) Income from and cost of other operating

	2011		Group		2010	
	Income from operations	Cost of operations	Income from operations	Cost of operations	Income from operations	Cost of operations
Technical service	55,101	31,965	51,562	23,342		
Rental	12,027	4,813	19,272	4,961		
Others	2,216	2,234	2,113	2,378		
	<u>69,344</u>	<u>39,021</u>	<u>72,947</u>	<u>30,681</u>		

(c) As at 31 December 2011, the income from the top five customers is analysed as below:

The total revenue of the Group's top 5 customers is Rmb1,114 million for the year ended 31 December 2011, which account for about 71% of the Group's total revenue (2010: Rmb1,128 million and 77%).

	Revenue	% of total balance
TSC	767,484	49
Hangzhou Sewage Company	146,946	9
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd.	75,288	5
Tianjin Municipal and Highway Management Bureau	67,027	4
Tianjin Hanbin Investment Co., Ltd.	57,591	4
	<u>1,114,336</u>	<u>71</u>

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(19) BUSINESS TAX AND SURCHARGES

	Group		Company	
	2011	2010	2011	2010
Business tax	7,614	42,217	3,815	40,066
City construction and maintenance fee	660	596	267	290
Education fee surcharge and others	557	296	229	124
	<u>8,831</u>	<u>43,109</u>	<u>4,311</u>	<u>40,480</u>

(20) Administrative expenses

The detail of administrative expenses is as below:

	Group		Company	
	2011	2010	2011	2010
Employee wages	47,038	44,919	31,692	31,119
Travelling, meeting and entertainment expenses	13,262	11,650	3,951	3,656
Taxes	9,287	4,527	5,131	4,374
Depreciation	5,555	9,267	3,228	5,182
Auditors' remuneration	4,200	3,800	4,200	3,800
Expenses of Board of Directors	3,704	2,454	3,704	2,454
Consulting services fee	3,232	6,151	2,233	4,355
Repair and maintenance expenses	2,710	574	2,059	433
Others	15,313	6,617	6,415	1,834
	<u>104,301</u>	<u>89,959</u>	<u>62,613</u>	<u>57,207</u>

(21) FINANCIAL EXPENSES – NET

	Group		Company	
	2011	2010	2011	2010
Interest expenses of borrowings	238,355	168,884	146,117	79,440
Less: Capitalised interest	(19,147)	(17,350)	(16,974)	(11,796)
Net interest expenses	219,208	151,534	129,143	67,644
Less: Interest income	(23,963)	(18,379)	(21,111)	(15,714)
– long-term receivables	(11,433)	(11,266)	(11,433)	(11,266)
– bank deposits	(12,530)	(7,113)	(9,678)	(4,448)
Others	1,170	2,635	507	2,514
	<u>196,415</u>	<u>135,790</u>	<u>108,539</u>	<u>54,444</u>

For the year ended 31 December 2011
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) Non-operating expenses

	2011	2010	Recognised in extraordinary gain or loss
Loss on disposal of fixed assets (note(a))	13,661	47,553	13,661
Others	166	300	166
	<u>13,827</u>	<u>47,853</u>	<u>13,827</u>

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

	2011	2010
Net book value of the disposed assets (note 9(a))	14,469	68,671
Proceeds from disposal of assets	(808)	(21,118)
Loss on disposal of fixed assets	<u>13,661</u>	<u>47,553</u>

(23) INCOME TAX

	Group		Company	
	2011	2010	2011	2010
Current income tax	86,102	83,441	76,595	79,557
Deferred income tax	10,052	8,229	2,499	3,192
	<u>96,154</u>	<u>91,670</u>	<u>79,094</u>	<u>82,749</u>

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

	Group	
	2011	2010
Profit before income tax	376,034	366,826
Calculated at applicable income tax rates	94,009	91,707
Effect of different income tax rates applicable to certain subsidiaries	(2,432)	(3,126)
Income not subject to tax	(1,214)	(1,685)
Expenses not deductible for taxation purposes	2,326	255
Utilization of previously deductible tax losses for which no deferred income tax was recognized	(3,379)	(690)
Current year tax losses for which no deferred income tax asset was recognized	6,844	5,209
Income tax expenses	<u>96,154</u>	<u>91,670</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(24) EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb276 million (2010: Rmb271 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.

	Group	
	2011	2010
Profit attributable to owners of the parent	275,786	271,160
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (Rmb Yuan)	<u>0.19</u>	<u>0.19</u>

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

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

	Group		Company	
	2011	2010	2011	2010
Net profit	279,880	275,156	241,758	258,809
Adjustments for:				
Depreciation of fixed assets and investment properties	139,837	117,826	123,072	97,745
Amortisation of intangible assets	117,428	109,824	11,313	10,511
Losses on disposal of fixed assets	13,661	47,553	12,983	44,950
Financial expenses-net	219,208	151,534	129,143	67,644
Investment income	(386)	(1,448)	(2,089)	(8,072)
Amortisation of deferred revenue	(2,968)	(1,314)	(1,238)	—
Increase in deferred tax liabilities	10,052	8,229	2,499	3,192
Increase in inventories	(48,093)	(22,823)	(241)	(421)
Increase in operating receivables	(40,882)	(274,268)	(36,237)	(251,067)
Increase/(decrease) in operating payables	146,436	43,034	(64,872)	(26,321)
Net cash flows from operating activities	<u>834,173</u>	<u>453,303</u>	<u>416,091</u>	<u>196,970</u>
Net changes in cash and bank balances				
Cash at end of year	688,993	539,430	257,969	161,861
Less: cash at beginning of year	(539,430)	(592,261)	(161,861)	(224,354)
Net increase/(decrease) in cash and bank balances	<u>149,563</u>	<u>(52,831)</u>	<u>96,108</u>	<u>(62,493)</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Group		Company	
	2011	2010	2011	2010
Cash and bank balances	691,693	540,330	257,969	161,861
Less: Restricted bank deposit	(2,700)	(900)	—	—
	<u>688,993</u>	<u>539,430</u>	<u>257,969</u>	<u>161,861</u>
Cash and bank balances shown in the cash flow statements	<u>688,993</u>	<u>539,430</u>	<u>257,969</u>	<u>161,861</u>

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

	Group		Company	
	2011	2010	2011	2010
Interest income from bank deposits	12,530	7,113	9,678	4,448
Release of deposit on project bids	25,000	13,863	25,000	4,062
Subsidies received	6,011	16,465	3,011	10,328
Maintenance fee received	29,495	—	—	—
Others	4,807	5,899	2,765	6,615
	<u>77,843</u>	<u>43,340</u>	<u>40,454</u>	<u>25,453</u>
	<u>77,843</u>	<u>43,340</u>	<u>40,454</u>	<u>25,453</u>

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

	Group		Company	
	2011	2010	2011	2010
Expenses of board of directors	3,704	2,454	3,704	2,454
Consulting service fee	8,232	9,951	7,233	8,155
Travelling, meeting and entertainment expenses	13,262	11,650	3,951	3,656
Others	7,224	14,693	4,105	275
	<u>32,422</u>	<u>38,748</u>	<u>18,993</u>	<u>14,540</u>
	<u>32,422</u>	<u>38,748</u>	<u>18,993</u>	<u>14,540</u>



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7 SEGMENT REPORTING

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

The Company considers the business from both service and geographical perspective. From a service perspective, management assesses the performance of processing of sewage water, recycled water and pipeline connection and tap water operation. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants).

(a) Segment information as at and for the year ended 31 December 2011 is as follows:

	Sewage processing and facility construction services			Recycled water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Income from third parties (Note6(18))	825,075	146,946	298,530	105,099	39,976	146,864	1,562,490
Interest income (Note 6(21))	6,513	430	1,055	4,250	65	11,650	23,963
Interest expenses (Note 6(21))	(129,143)	(27,631)	(44,632)	(6,066)	(11,207)	(529)	(219,208)
Investment profit from associate (Note 6(7)(b))	—	—	—	—	—	186	186
Depreciation & Amortisation	(123,133)	(36,249)	(60,991)	(16,832)	(11,624)	(8,436)	(257,265)
Total profit/(loss)	247,774	8,353	27,366	23,412	(225)	69,354	376,034
Income tax expense	(70,749)	(3,380)	(7,456)	(5,499)	(280)	(8,790)	(96,154)
Net profit	177,025	4,973	19,910	17,913	(505)	60,564	279,880
Segment assets	4,574,655	784,819	1,701,045	715,894	335,259	973,652	9,085,324
Segment liabilities	3,047,488	478,126	731,689	680,026	125,954	306,332	5,369,615
Investment in associate	—	—	—	—	—	44,669	44,669
Non-current assets addition other than related to long-term investment	168,180	13,326	51,775	21,978	52,497	358,940	666,696

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2011
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7 SEGMENT REPORTING (Continued)

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

	Sewage processing and facility construction services			Recycled water and pipeline connection	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Income from third parties (Note 6(18))	865,384	141,867	213,043	69,918	37,583	139,973	1,467,768
Interest income (Note 6(21))	2,245	316	1,212	2,905	61	11,640	18,379
Interest expenses (Note 6(21))	(67,645)	(26,134)	(42,595)	(6,141)	(9,019)	—	(151,534)
Investment profit from associate	—	—	—	—	—	1,448	1,448
Depreciation & Amortisation	(103,260)	(36,249)	(56,380)	(18,082)	(8,683)	(4,996)	(227,650)
Total profit	290,591	8,561	2,148	8,014	680	56,832	366,826
Income tax expense	(72,648)	(2,060)	(854)	(2,344)	—	(13,764)	(91,670)
Net profit	217,943	6,501	1,294	5,670	680	43,068	275,156
Segment assets	4,430,461	814,646	1,656,493	619,697	280,618	623,648	8,425,563
Segment liabilities	2,820,941	512,807	759,565	543,806	164,355	47,920	4,849,394
Investment in associate	—	—	—	—	—	45,583	45,583
Non-current assets addition other than related to long-term investment	1,096,234	562	154,786	41,297	12,816	9,184	1,314,879



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8 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks. The Group's overall risk management program 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 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)(e)).

At 31 December 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 Rmb4 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, 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.

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(a) Market risk:

(ii) Interest rate risk: (Continued)

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

	Group				Company		
	Fixed	Floating	Non-interest bearing	Total	Fixed	Floating	Total
At 31 December 2011							
Assets							
Cash and bank balances	2,700	688,993	—	691,693	—	257,969	257,969
Long-term receivables	338,446	—	—	338,446	338,446	—	338,446
Liabilities							
Current borrowings	—	997,265	416	997,681	—	775,364	775,364
Non-current borrowings	—	1,964,130	10,613	1,974,743	—	864,217	864,217
Long-term payables due within 1 year	23,750	6,716	—	30,466	23,750	6,716	30,466
Long-term payables	287,602	98,941	—	386,543	287,602	98,941	386,543
Long-term debenture	689,850	—	—	689,850	689,850	—	689,850
At 31 December 2010							
Assets							
Cash and bank balances	900	539,430	—	540,330	—	161,861	161,861
Long-term receivables	336,286	—	—	336,286	336,286	—	336,286
Liabilities							
Current borrowings	16,364	405,526	1,796	423,686	16,364	265,000	281,364
Non-current borrowings	148,181	2,280,140	10,613	2,438,934	148,181	1,014,100	1,162,281
Long-term payables due within 1 year	24,371	6,339	—	30,710	24,371	6,399	30,710
Long-term payables	299,043	100,561	—	399,604	299,043	100,561	399,604
Short-term debenture	600,000	—	—	600,000	600,000	—	600,000

At 31 December 2011, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by Rmb26 million (2010: Rmb22.6million).

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

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(b) Credit risk :

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

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

The credit risk on trade receivables is concentrated on a few customers, all of which are PRC government bodies. Thus, the management considers that the risk is limited. The maximum credit risk of the Company includes the carrying value of its financial assets on books and is increased by the notional amount of financial guarantees issued for its subsidiaries.

(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.

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(c) Liquidity risk: (Continued)

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2011					
Cash and bank balances	691,693	—	—	—	691,693
Trade and other receivables	1,113,632	—	—	—	1,113,632
Long-term receivables	12,313	84,297	57,770	388,296	542,676
Long-term bank borrowings	(972,464)	(848,099)	(877,479)	(416,701)	(3,114,743)
Long-term payables	(32,278)	(32,572)	(100,021)	(637,322)	(802,193)
Other non-current liabilities	(23,317)	(22,697)	(64,026)	(32,245)	(142,285)
Trade and other payables	(430,576)	—	—	—	(430,576)
Short-term borrowings	(162,416)	—	—	—	(162,416)
Long-term debenture	(46,480)	(46,480)	(839,440)	—	(932,400)
At 31 December 2010					
Cash and bank balances	540,330	—	—	—	540,330
Trade and other receivables	1,050,489	—	—	—	1,050,489
Long-term receivables	9,263	81,107	52,100	409,469	551,939
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)



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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(d) Capital risk management

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

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

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

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

	31 December 2011	31 December 2010
Total borrowings	3,662,274	3,462,620
Less: Cash	(688,993)	(539,430)
Net debt	<u>2,973,281</u>	<u>2,923,190</u>
Total equity	<u>3,715,709</u>	<u>3,576,169</u>
Total capital	<u><u>6,688,990</u></u>	<u><u>6,499,359</u></u>
Gearing ratio	<u>44%</u>	<u>45%</u>

There is no significant change in gearing ratio of the Group during 2011.

(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.

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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	Ma Bai Yu
Qu Jing Capital Water Co., Ltd.	Qijing, 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	Indirect subsidiary of the Company	Limited company	Wang Hui
Hong Hu Capital Water Co., Ltd.	Honghu, the PRC	Sewage processing	Indirect subsidiary of the Company	Limited company	Wang Hui
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Hong Kong, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Tang 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	Production and sales of recycled water and technical consulting for water recycling business	Subsidiary of the Company	Limited company	Tang Fu Sheng
Xi'an Capital Water Co., Ltd.	Xi'an, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	Tianjin, the PRC	Environmental engineering, protection and technical consultation	Subsidiary of the Company	Limited company	Zhang Wen Hui



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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

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

Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
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
Tianjin Jiayuanxing Innovative Energy Technology Co.,Ltd	Tianjin, the PRC	Energy saving, innovative energy research, consulting and transfer service property management	Subsidiary of the Company	Limited company	Tang Fu Sheng
Environmental Digital Management System (Hongkong)	Hongkong, the PRC Co., Ltd.	Software development, environment monitoring and consultancy & maintenance service	Indirect subsidiary of the Company	Limited company	Sun Xiao Bing
Hanshan Capital Environmental Protection Co.,Ltd	Chaohu, the PRC	Sewage processing,	Indirect subsidiary of the Company	Limited company	Zhou Jing Dong

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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

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

	31 December 2010	Additions	31 December 2011
TMICL	1,820,000	—	1,820,000
TICIG	67,700,000	—	67,700,000
Qu Jing Capital Water Co., Ltd.	120,000	58,983	178,983
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	6,000	69,000
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 Jiayuanxing Innovative Energy Technology Co.,Ltd	—	60,000	60,000
Hanshan Capital Environmental Protection Co.,Ltd.	—	9,000	9,000
	31 December 2010	Additions	31 December 2011
	USD'000	USD'000	USD'000
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	7,840	—	7,840
	HK\$'000	HK\$'000	HK\$'000
Environmental Digital Management System (Hong Kong) Co., Ltd.	2,040	—	2,040



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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(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	(3,281)	(0.23)	736,500	51.60

(d) Nature of related parties that do not control or are not controlled by the Company:

	Relationship with the Group
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Controlled by the same ultimate parent company
Tianjin Environment Construction Investment Company Co., Ltd.	Controlled by the same ultimate parent company
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate parent company
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate parent company
Tianjin Environment Construction Investment Co., Ltd.	Controlled by the same ultimate parent company
Tianjin Subway Group Co., Ltd.	Controlled by the same ultimate parent company
Tianjin City Infrastructure Construction Project Management & Consultant Co., Ltd.	Controlled by the same ultimate parent company

(e) 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			2011	2010
Related party	Nature of transaction			
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant		48,535	20,911
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects		4,400	6,530
TICIG	Rental income from TCEP building		2,014	7,053
Tianjin Environment Construction Investment Company Co., Ltd.	Rental income from TCEP building		1,238	—
Tianjin Lecheng Properties Co., Ltd.	Income from supply of heat		404	—
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building		344	674
Tianjin Environment Construction Investment Co., Ltd.	Income from supply of heat		87	—
Tianjin Subway Group Co., Ltd.	Income from supply of heat		76	—
Tianjin City Infrastructure Construction Project Management & Consultant Co., Ltd.	Rental income from TCEP building		—	861

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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(e) Related party transactions (Continued)

(ii) Key management compensation

	2011	2010
Key management compensation	7,067	7,677
	7,067	7,677

(f) Receivables from and payables to related parties

Receivables from related parties

	31 December 2011	31 December 2010
Related party		
Tianjin City Resource Operation Co., Ltd.	801	674
Tianjin Lecheng Properties Limited	404	—
Tianjin Subway Group Co., Ltd.	76	—
TICIG	—	4,038
	801	4,712

(g) 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.



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

For the year ended 31 December 2011
(All amounts in RMB thousand unless otherwise stated)

10 COMMITMENTS

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

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2011 Rmb' million	31 December 2010 Rmb' million	31 December 2011 Rmb' million	31 December 2010 Rmb' million
Sewage water processing plants in:				
– Ji Zhuang Zi (upgrade project)	21	59	15	—
– Xian Yang Lu (upgrade project)	9	29	31	2
– Bei Cang (upgrade project)	10	26	25	1
– Dong Jiao (upgrade project)	18	52	63	69
– Ninghe project	16	—	9	—
– Baoying project	16	—	—	—
– Hangzhou project	4	—	5	—
Water recycling plants in:				
– Ji Zhuang Zi (expansion project)	—	—	16	35
	<u>94</u>	<u>166</u>	<u>164</u>	<u>107</u>

15. Independent Auditor's Report



To the shareholders of

Tianjin Capital Environmental Protection Group Company Limited

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

We have audited the consolidated financial statements of Tianjin Capital Environmental Protection Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 165 to 223, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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



15. Independent Auditor's Report

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2012

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

Consolidated Balance Sheet

As at 31 December 2011

(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December	
		2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,264,574	3,230,110
Intangible assets	7	2,803,037	2,427,782
Land use rights	8	451,784	462,868
Investment properties	9	115,955	119,628
Investment in an associate	11	40,669	41,583
Available-for-sale financial assets	12	4,000	4,000
Long-term receivables	13	338,446	336,286
Trade receivables due after one year	15	68,794	68,794
Other non-current assets		8,634	7,458
		<u>7,095,893</u>	<u>6,698,509</u>
Current assets			
Inventories	14	80,569	32,476
Trade receivables	15	1,096,583	996,949
Prepayments	16	95,706	103,759
Other receivables	17	17,049	53,540
Other current assets		7,831	—
Cash and bank balances	18	691,693	540,330
		<u>1,989,431</u>	<u>1,727,054</u>
Total assets		<u><u>9,085,324</u></u>	<u><u>8,425,563</u></u>



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

As at 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December	
		2011	2010
EQUITY			
Equity attributable to owners of the parent			
Share capital	19	1,427,228	1,427,228
Other reserves	20	708,492	685,343
Retained earnings	20	1,432,617	1,338,002
– Proposed final dividend		57,089	156,995
– Others		1,375,528	1,181,007
		<u>3,568,337</u>	<u>3,450,573</u>
Non-controlling interests		<u>147,372</u>	<u>125,596</u>
Total equity		<u>3,715,709</u>	<u>3,576,169</u>
LIABILITIES			
Non-current liabilities			
Borrowings	21	3,051,136	2,838,538
Deferred revenue	22	369,928	284,974
Deferred income tax liabilities	23	48,479	38,427
		<u>3,469,543</u>	<u>3,161,939</u>
Current liabilities			
Trade payables	24	18,481	22,729
Advances from customers	24	423,387	310,478
Wages payables		8,227	7,374
Income tax payable		7,671	8,757
Other taxes payable		603	7,674
Dividend payable		1,461	1,056
Other payables	24	412,095	274,991
Borrowings	21	1,028,147	1,054,396
		<u>1,900,072</u>	<u>1,687,455</u>
Total liabilities		<u>5,369,615</u>	<u>4,849,394</u>
Total equity and liabilities		<u>9,085,324</u>	<u>8,425,563</u>
Net current assets		<u>89,359</u>	<u>39,599</u>
Total assets less current liabilities		<u>7,185,252</u>	<u>6,738,108</u>

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

Zhang Wenhui
Director

Lin Wenbo
Director

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

As at 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December	
		2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,958,905	2,929,470
Intangible assets		7,887	—
Land use rights	8	435,186	446,079
Investment properties	9	91,659	94,827
Investments in subsidiaries	10	1,281,755	1,151,881
Available-for-sale financial assets	12	4,000	4,000
Long-term receivables	13	338,446	336,286
Trade receivables due after one year	15	68,794	68,794
Other non-current assets		35,045	26,290
		5,221,677	5,057,627
Current assets			
Inventories	14	4,218	3,977
Trade receivables	15	1,010,492	913,618
Prepayments	16	3,458	55,106
Other receivables	17	121,653	145,280
Other current assets		157,331	50,000
Cash and bank balances	18	257,969	161,861
		1,555,121	1,329,842
Total assets		6,776,798	6,387,469



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

As at 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 31 December	
		2011	2010
EQUITY			
Equity attributable to owners of the parent			
Share capital	19	1,427,228	1,427,228
Other reserves	20	706,969	682,793
Retained earnings	20	1,320,023	1,259,436
– Proposed final dividend		57,089	156,995
– Others		1,262,934	1,102,441
Total equity		3,454,220	3,369,457
LIABILITIES			
Non-current liabilities			
Borrowings	21	1,940,610	1,561,885
Deferred revenue	22	204,221	203,288
Deferred income tax liabilities		19,966	17,467
		2,164,797	1,782,640
Current liabilities			
Trade payables	24	3,157	9,730
Advances from customers	24	8,331	63,386
Wages payables		5,790	4,766
Income tax payable		—	3,121
Other taxes payable		2,400	6,041
Dividend payable		1,461	1,056
Other payables	24	330,812	235,198
Borrowings	21	805,830	912,074
		1,157,781	1,235,372
Total liabilities		3,322,578	3,018,012
Total equity and liabilities		6,776,798	6,387,469
Net current assets		397,340	94,470
Total assets less current liabilities		5,619,017	5,152,097

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

Zhang Wenhui
Director

Lin Wenbo
Director

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

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

	Note	Year ended 31 December	
		2011	2010
Revenue	5(a)	1,493,146	1,394,821
Business tax		(8,831)	(43,109)
Cost of sales	25	(835,020)	(762,991)
Gross profit		<u>649,295</u>	<u>588,721</u>
Administrative expenses	25	(104,301)	(89,959)
Other income – net	5(b)	30,523	42,266
Other losses – net		(3,254)	(39,860)
Operating profit		<u>572,263</u>	<u>501,168</u>
Finance income		23,963	18,379
Finance costs		(220,378)	(154,169)
Finance costs-net	27	(196,415)	(135,790)
Share of profits of an associate	11	186	1,448
Profit before income tax		<u>376,034</u>	<u>366,826</u>
Income tax expense	28	(96,154)	(91,670)
Profit/total comprehensive income for the year		<u>279,880</u>	<u>275,156</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the parent		275,786	271,160
Non-controlling interests		4,094	3,996
		<u>279,880</u>	<u>275,156</u>
Earnings per share for profit attributable to the owners of the parent (in Rmb Yuan)			
– basic	30	<u>0.19</u>	<u>0.19</u>
– diluted	30	<u>0.19</u>	<u>0.19</u>
Proposed final dividends	31	<u>57,089</u>	<u>156,995</u>

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

Zhang Wenhui
Director

Lin Wenbo
Director



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

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

	Note	Attributable to owners of the parent				Non-controlling interests	Total
		Share capital	Other reserves	Retained earnings	Sub-total		
Balance at 1 January 2010		1,427,228	659,462	1,206,901	3,293,591	121,920	3,415,511
Comprehensive income							
– Profit for the year		—	—	271,160	271,160	3,996	275,156
Total comprehensive income		—	—	271,160	271,160	3,996	275,156
Transactions with owners							
– Profit appropriation to statutory common reserves, net	20(a)	—	25,881	(25,881)	—	—	—
– Dividends declared		—	—	(114,178)	(114,178)	(320)	(114,498)
Total transactions with owners		—	25,881	(140,059)	(114,178)	(320)	(114,498)
Balance at 31 December 2010		1,427,228	685,343	1,338,002	3,450,573	125,596	3,576,169
Comprehensive income							
– Profit for the year		—	—	275,786	275,786	4,094	279,880
Total comprehensive income		—	—	275,786	275,786	4,094	279,880
Transactions with owners							
– Profit appropriation to statutory common reserves, net	20(a)	—	24,176	(24,176)	—	—	—
– Dividends declared		—	—	(156,995)	(156,995)	—	(156,995)
– Changes in ownership interests in subsidiaries that do not result in a loss of control	34	—	(1,027)	—	(1,027)	17,682	16,655
Total transactions with owners		—	23,149	(181,171)	(158,022)	17,682	(140,340)
Balance at 31 December 2011		1,427,228	708,492	1,432,617	3,568,337	147,372	3,715,709

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

Zhang Wenhui
Director

Lin Wenbo
Director

16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Cash Flow Statement

For the Year Ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

	Note	Year ended 31 December	
		2011	2010
Cash flows from operating activities			
Cash generated from operations	32	916,662	526,956
PRC income tax paid		(95,019)	(80,766)
Interest received	27	12,530	7,113
Net cash generated from operating activities		834,173	453,303
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(626,906)	(821,398)
Deposits for new project bids		(1,800)	—
Release of deposit on project bids		—	10,000
Government grant received		86,022	133,700
Proceeds from disposal of property, plant and equipment	32	808	4,016
Dividends received		200	—
Net cash used in investing activities		(541,676)	(673,682)
Cash flows from financing activities			
Proceeds from capital contributions by minority shareholders of subsidiaries		19,091	—
Proceeds from borrowings		1,249,200	702,100
Proceeds from issuance of debenture		689,500	597,600
Repayment of borrowings		(1,738,015)	(872,075)
Interest paid		(203,684)	(144,621)
Dividends paid to company's shareholders		(156,590)	(115,456)
Acquisition of non-controlling interests		(2,436)	—
Net cash generated from / (used in) financing activities		(142,934)	167,548
Net increase/(decrease) in cash and bank balances		149,563	(52,831)
Cash and bank balances at beginning of the year		539,430	592,261
Cash and bank balances at end of the year	18	688,993	539,430

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

Zhang Wenhui
Director

Lin Wenbo
Director



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

Notes to the Consolidated Financial Statements

For the year ended 31 December 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 and construction and management of related facility, supply of tap water and recycled water, and supply of heat and cooling and construction and management of related facility 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
Qu Jing, Yunnan	16 August 2011	QuJing Housing and Urban Construction Bureau
Chao hu, Anhui	25 August 2011	Hanshan Housing and Urban 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 (note 2.6(a)).

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

1 Company profile and principal activities (Continued)

(a) Processing of sewage water (Continued)

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

Dong Jiao:

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

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

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

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

All other sewage processing plants:

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

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

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

(b) Construction and management of sewage water facility

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

1 Company profile and principal activities (Continued)

(c) Supply of tap water

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

(d) Recycled water and pipeline connection

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

(e) Heat and cooling supply services

The heat and cooling supply services include design, construction, operations and transfer of centralized heat and cooling infrastructures; and provision of heat and cooling services.

These consolidated financial statements were approved by the Directors of the Company on 22 March 2012.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures

New and amended 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' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

The Group has not yet made a comprehensive assessment of the impact of these standards and amendments. Preliminary assessment made by management indicated that there would be no significant impact on the Group's consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.2 Consolidation

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

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(b) *Changes in ownership interests in subsidiaries without changes of control*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) *Associates*

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

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

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit/ (loss) of an associate' in the income statement.



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

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(c) Associates (Continued)

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

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

2.3 Segment reporting

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

2.4 Translation of foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.4 Translation of foreign currencies (Continued)

(b) Transactions and balances (Continued)

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

2.5 Property, plant and equipment

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

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



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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

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

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

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

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

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

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

2.6 Intangible assets

(a) Concession services rights

As described in Note 1(a) and (e), the Group engages with government bodies and their subordinate enterprises and participates in the development, financing, operation and maintenance of infrastructure for public services (concession services) over a specified period of time (concession services period). The Group has access to operate the infrastructure to provide the concession services in accordance with the terms specified in the arrangement.

The arrangement is governed by the relevant Concession Services Agreements which set out performance standards and mechanisms for adjusting prices.

The concession services arrangement is within the scope of HK (IFRIC) – Interpretation 12, and the Group recognises the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) 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 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.

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.6 Intangible assets (Continued)

(b) *Technical know-how and software*

Separately acquired technical know-how and software is shown at historical cost. Technical know-how and software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how and software over their estimated useful lives.

2.7 *Land use rights*

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

2.8 *Investment properties*

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

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

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

2.9 Impairment of non-financial assets

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



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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.14 and 2.15).

(c) Available-for-sale financial assets

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

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

2.10.2 Recognition and measurement

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

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within ‘other (losses)/gains – net’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as ‘gains and losses from investment securities’.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group’s right to receive payments is established.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.



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

For the year ended 31 December 2011
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2 Summary of significant accounting policies (Continued)

2.12 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.12 Impairment of financial assets (Continued)

(b) *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

Impairment testing of trade and other receivables is described in note 2.14.

2.13 Inventories

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

Except for work in progress, cost for raw materials, finished goods and low cost consumables are determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). 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 work in progress. Where negative, it is recognized in liabilities.

Cost is determined using the weighted average method. The Group adopts the perpetual inventory system.



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

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2 Summary of significant accounting policies (Continued)

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.19 Borrowing Cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.21 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.



16. Financial statements prepared in accordance with Hong Kong
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2 Summary of significant accounting policies (Continued)

2.21 Current and deferred income tax (Continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) *Retirement benefit obligation*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligation of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred.

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2 Summary of significant accounting policies (Continued)

2.22 Employee benefits (Continued)

(b) Housing fund

The Group provides housing fund based on certain percentage of the wages and with no more than the upper limit of the requirement. The housing fund is paid to government social security organisation and corresponding costs are expensed or included in the cost of sales for the current year. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods.

2.23 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services performed 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; when 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 and heat and cooling supply

Revenues from sewage water processing and heat and cooling supply are recognised when services are rendered.

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2 Summary of significant accounting policies (Continued)

2.24 Revenue recognition (Continued)

(b) *Construction contract*

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

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

(c) *Sales of tap water and recycled water*

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

(d) *Rental income*

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

(e) *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(f) *Dividend income*

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

2.25 Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the shareholders of the Company.

For the year ended 31 December 2011
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2 Summary of significant accounting policies (Continued)

2.26 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

3 Financial risk management

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

(a) Market risk:

(i) Foreign currency risk:

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in Rmb. All of the Group's borrowings are denominated in Rmb. The sole foreign currency exposure of the Group arises from fluctuation of US dollar and Japanese Yen ("JPY") pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from TSC on 9 November 2010 (Note 21(e)).

At 31 December 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 Rmb 4 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.



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For the year ended 31 December 2011
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3 Financial risk management (Continued)

(a) Market risk: (Continued)

(ii) Interest rate risk: (Continued)

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

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

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

	Group				Company		
	Fixed	Floating	Non-interest bearing	Total	Fixed	Floating	Total
At 31 December 2011							
<i>Assets</i>							
<i>Cash and bank balances</i>	2,700	688,993	—	691,693	—	257,969	257,969
<i>Long-term receivables</i>	338,446	—	—	338,446	338,446	—	338,446
<i>Liabilities</i>							
<i>Current borrowings</i>	—	997,265	416	997,681	—	775,364	775,364
<i>Non current borrowings</i>	—	1,964,130	10,613	1,974,743	—	864,217	864,217
<i>Long-term payable due within 1 year</i>	23,750	6,716	—	30,466	23,750	6,716	30,466
<i>Long-term payable</i>	287,602	98,941	—	386,543	287,602	98,941	386,543
<i>Long-term debenture</i>	689,850	—	—	689,850	689,850	—	689,850
At 31 December 2010							
<i>Assets</i>							
<i>Cash and bank balances</i>	900	539,430	—	540,330	—	161,861	161,861
<i>Long-term receivables</i>	336,286	—	—	336,286	336,286	—	336,286
<i>Liabilities</i>							
<i>Current borrowings</i>	16,364	405,526	1,796	423,686	16,364	265,000	281,364
<i>Non current borrowings</i>	148,181	2,280,140	10,613	2,438,934	148,181	1,014,100	1,162,281
<i>Long-term payable due within 1 year</i>	24,371	6,339	—	30,710	24,371	6,339	30,710
<i>Long-term payable</i>	299,043	100,561	—	399,604	299,043	100,561	399,604
<i>Short-term debenture</i>	600,000	—	—	600,000	600,000	—	600,000

At 31 December 2011, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by Rmb26 million (2010: Rmb22.6 million).

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

For the year ended 31 December 2011
(All amounts in Rmb thousand unless otherwise stated)

3 Financial risk management (Continued)

(b) **Credit risk:**

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

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

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

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

(c) **Liquidity risk:**

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



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3 Financial risk management (Continued)

(c) Liquidity risk: (Continued)

The Group's financial assets and 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
<i>At 31 December 2011</i>					
<i>Cash and bank balance</i>	691,693	—	—	—	691,693
<i>Trade and other Receivables</i>	1,113,632	—	—	—	1,113,632
<i>Long-term Receivables</i>	12,313	84,297	57,770	388,296	542,676
<i>Long-term bank borrowings</i>	(972,464)	(848,099)	(877,479)	(416,701)	(3,114,743)
<i>Long-term payable</i>	(32,278)	(32,572)	(100,021)	(637,322)	(802,193)
<i>Other non-current liabilities</i>	(23,317)	(22,697)	(64,026)	(32,245)	(142,285)
<i>Trade and other payables</i>	(430,576)	—	—	—	(430,576)
<i>Short-term borrowings</i>	(162,416)	—	—	—	(162,416)
<i>Long-term debenture</i>	(46,480)	(46,480)	(839,440)	—	(932,400)
<i>At 31 December 2010</i>					
<i>Cash and bank balance</i>	540,330	—	—	—	540,330
<i>Trade and other Receivables</i>	1,050,489	—	—	—	1,050,489
<i>Long-term Receivables</i>	9,263	81,107	52,100	409,469	551,939
<i>Long-term bank borrowings</i>	(471,626)	(950,320)	(1,064,759)	(639,677)	(3,126,382)
<i>Long-term payable</i>	(32,038)	(32,278)	(98,809)	(671,105)	(834,230)
<i>Other non-current liabilities</i>	(22,091)	(21,273)	(53,473)	(70,696)	(167,533)
<i>Trade and other payables</i>	(297,720)	—	—	—	(297,720)
<i>Short-term borrowings</i>	(76,902)	—	—	—	(76,902)
<i>Short-term debenture</i>	(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.

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3 Financial risk management (Continued)

(d) Capital risk management (Continued)

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

	As at 31 December	
	2011	2010
Total borrowings	3,662,274	3,462,620
Less: Cash	(688,993)	(539,430)
	2,973,281	2,923,190
Net debt		
Total equity	3,715,709	3,576,169
	6,688,990	6,499,359
Total capital		
Gearing ratio	44%	45%

There is no significant change in gearing ratio of the Group during 2011.

(e) Fair value estimation

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

4 Critical accounting estimate and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Group's principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year is in relation to impairment of trade and other receivables.

- (a) The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 31 December 2011 are not impaired.



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4 Critical accounting estimate and judgements (Continued)

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

5 Segment information

An analysis of revenue and contributions to operating profit for the year by principal activities is as follows:

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

	2011	2010
Sales turnover	1,493,146	1,394,821
Other income – net	30,523	42,266
	<hr/>	<hr/>
Total revenues	<u>1,523,669</u>	<u>1,437,087</u>

(b) Analysis of other income

	2011		2010	
	Income	Cost	Income	Cost
Technical service	55,101	31,965	51,562	23,342
Rental	12,027	4,813	19,272	4,961
Other	2,416	2,243	2,113	2,378
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>69,544</u>	<u>39,021</u>	<u>72,947</u>	<u>30,681</u>

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(All amounts in Rmb thousand unless otherwise stated)

5 Segment information

(c) Operating segment analysis

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

The meeting considers the business from both service and geographical perspectives. From a service perspective, management assesses the performance of processing of sewage water and construction of related facilities, recycled water and pipeline connection and tap water operation. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants).

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

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

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2011 and 2010 respectively is as follows:



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5 Segment information (Continued)

(c) Operating segment analysis (Continued)

(i) For the year ended 31 December 2011

	Sewage processing and facility construction services			Recycled water and pipeline connection	Tap water operations	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Segment revenue	825,075	146,946	298,530	105,099	39,976	108,043	1,523,669
Segment expense	(577,301)	(138,593)	(271,164)	(81,687)	(40,201)	(38,875)	(1,147,821)
Results before share of profits of an associate	247,774	8,353	27,366	23,412	(225)	69,168	375,848
Share of profits of an associate (note11)							186
Profit before tax							376,034
Income tax expense							(96,154)
Profit for the year							279,880
Segment assets	4,574,655	784,819	1,701,045	715,894	335,259	932,983	9,044,655
Investment in an associate	—	—	—	—	—	40,669	40,669
Total assets	4,574,655	784,819	1,701,045	715,894	335,259	973,652	9,085,324
Total liabilities	3,047,488	478,126	731,689	680,026	125,954	306,332	5,369,615
Other information							
– Interest income (note27)	6,513	430	1,055	4,250	65	11,650	23,963
– Interest expenses (note27)	(129,143)	(27,631)	(44,632)	(6,066)	(11,207)	(529)	(219,208)
– Depreciation	(113,184)	—	(3,476)	(16,700)	—	(6,477)	(139,837)
– Amortization	(9,949)	(36,249)	(57,515)	(132)	(11,624)	(1,959)	(117,428)
– Capital expenditures	168,180	13,326	51,775	21,978	52,497	358,940	666,696

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5 Segment information (Continued)

(c) Operating segment analysis (Continued)

(ii) For the year ended 31 December 2010

	Sewage processing and facility construction services			Recycled water and pipeline connection	Tap water operations	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Segment revenue	865,384	141,867	213,043	69,918	37,583	109,292	1,437,087
Segment expense	(574,793)	(133,306)	(210,895)	(61,904)	(36,903)	(53,908)	(1,071,709)
Results before share of profits of an associate	290,591	8,561	2,148	8,014	680	55,384	365,378
Share of profits of an associate (note11)							1,448
Profit before tax							366,826
Income tax expense							(91,670)
Profit for the year							<u>275,156</u>
Segment assets	4,430,461	814,646	1,656,493	619,697	280,618	582,065	8,383,980
Investment in an associate	—	—	—	—	—	41,583	41,583
Total assets	4,430,461	814,646	1,656,493	619,697	280,618	623,648	8,425,563
Total liabilities	2,820,941	512,807	759,565	543,806	164,355	47,920	4,849,394
Other information							
– Interest income (note27)	2,245	316	1,212	2,905	61	11,640	18,379
– Interest expenses (note27)	(67,645)	(26,134)	(42,595)	(6,141)	(9,019)	—	(151,534)
– Depreciation	(92,748)	—	(2,077)	(18,082)	—	(4,919)	(117,826)
– Amortization	(10,512)	(36,249)	(54,303)	—	(8,683)	(77)	(109,824)
– Capital expenditures	<u>1,096,234</u>	<u>562</u>	<u>154,786</u>	<u>41,297</u>	<u>12,816</u>	<u>9,184</u>	<u>1,314,879</u>



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6 Property, plant and equipment

(a) Group

	Buildings and structures (note (i))	Machinery and equipment	Motor vehicles and others	Construction in progress ("CIP") (Note (c))	Total
<i>Cost</i>					
At 1 January 2010	2,421,274	339,507	99,107	374,804	3,234,692
Reclassification (note(iv))	(793,973)	748,562	45,411	—	—
Additions	49,322	599,751	64,070	454,847	1,167,990
Transfers	35,198	89,581	1,221	(126,000)	—
Disposals	(24,035)	(86,703)	(11,797)	—	(122,535)
Transferred to land use rights (Note 8 and note(iv))	(97,602)	—	—	—	(97,602)
At 31 December 2010	1,590,184	1,690,698	198,012	703,651	4,182,545
Additions	489	479	1,055	190,374	192,397
Transfers	1,717	3,007	1,136	(5,860)	—
Transfer to intangible assets	—	—	—	(7,300)	(7,300)
Disposals	(67)	(12,751)	(27,232)	—	(40,050)
At 31 December 2011	1,592,323	1,681,433	172,971	880,865	4,327,592
<i>Accumulated depreciation</i>					
At 1 January 2010	(639,239)	(188,709)	(55,546)	—	(883,494)
Reclassification (note(iv))	132,319	(113,882)	(18,437)	—	—
Charge for the year	(59,543)	(43,296)	(11,314)	—	(114,153)
Disposals	13,401	37,202	3,261	—	53,864
Transferred to land use rights (Note 8 and note(iv))	7,348	—	—	—	7,348
At 31 December 2010	(545,714)	(308,685)	(82,036)	—	(936,435)
Charge for the year	(45,976)	(75,094)	(15,094)	—	(136,164)
Disposals	41	2,489	23,051	—	25,581
At 31 December 2011	(591,649)	(381,290)	(74,079)	—	(1,047,018)
<i>Impairment</i>					
At 31 December 2010 and 2011	(11,000)	(4,068)	(932)	—	(16,000)
<i>Net book value</i>					
At 31 December 2011	<u>989,674</u>	<u>1,296,075</u>	<u>97,960</u>	<u>880,865</u>	<u>3,264,574</u>
At 31 December 2010	<u>1,033,470</u>	<u>1,377,945</u>	<u>115,044</u>	<u>703,651</u>	<u>3,230,110</u>

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6 Property, plant and equipment (Continued)

(b) Company

	Buildings and structures	Machinery and equipment	Motor vehicles and others	Construction in progress ("CIP") (Note (c))	Total
<i>Cost</i>					
At 1 January 2010	2,304,152	192,950	68,230	323,388	2,888,720
Reclassification (note(iv))	(819,358)	778,298	41,060	—	—
Additions	49,971	598,802	55,670	416,445	1,120,888
Transfers	—	89,510	359	(89,869)	—
Disposals	(23,922)	(82,132)	(11,074)	—	(117,128)
Transfer to Land use rights (Note 8 and note(iv))	(92,850)	—	—	—	(92,850)
At 31 December 2010	1,417,993	1,577,428	154,245	649,964	3,799,630
Additions	—	309	1,048	168,452	169,809
Transfers	360	3,007	1,136	(4,503)	—
Transfer to intangible assets	—	—	—	(7,300)	(7,300)
Disposals	(67)	(10,823)	(22,635)	—	(33,525)
At 31 December 2011	1,418,286	1,569,921	133,794	806,613	3,928,614
<i>Accumulated depreciation</i>					
At 1 January 2010	(621,213)	(166,157)	(48,523)	—	(835,893)
Reclassification (note(iv))	133,303	(115,594)	(17,709)	—	—
Charge for the year	(54,419)	(30,571)	(9,587)	—	(94,577)
Disposals	13,401	36,397	3,316	—	53,114
Transfer to Land use rights (Note 8 and note(iv))	7,196	—	—	—	7,196
At 31 December 2010	(521,732)	(275,925)	(72,503)	—	(870,160)
Charge for the year	(42,837)	(63,205)	(13,862)	—	(119,904)
Disposals	41	1,429	18,885	—	20,355
At 31 December 2011	(564,528)	(337,701)	(67,480)	—	(969,709)
<i>Net book value</i>					
At 31 December 2011	853,758	1,232,220	66,314	806,613	2,958,905
At 31 December 2010	896,261	1,301,503	81,742	649,964	2,929,470



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6 Property, plant and equipment (Continued)

(b) Company (Continued)

Note:

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) The Group's depreciation expense of Rmb128 million (2010: Rmb104 million) has been included in cost of revenue and Rmb8 million (2010: Rmb10 million) in administrative expenses.
- (iii) As at 31 December 2011, the certificate of title to the building and land use rights included in property, plant and equipment, investment properties and land use rights with carrying amount of Rmb 295 million (cost of Rmb 325 million) (31 December 2010: carrying amount of Rmb 310 and cost of Rmb 332 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the Directors believe that the titles will be received in due course without additional significant cost to the Group, if any.
- (iv) In 2010, based on final completion report of relevant newly constructed sewage processing plants as approved by authorities, management reclassified certain property, plant and equipment among different categories, which were previously classified as per budget in 2007.

(c) Construction in progress comprised the following projects:

	Budget	As at 31 December 2010	Additions	Transferred to property, plant and equipment	Transferred to Intangible Assets	As at 31 December 2011	Source of fund	Incurred cost to budget cost ratio (%)
Water recycling plants:								
– Bei Chen recycling plants	97,000	57,218	177	—	—	57,395	Self-raised fund	59%
Sewage water processing plants:								
– Dong Jiao (upgrade project)	373,500	219,656	72,354	—	—	292,010	Self-raised fund	78%
– XianYang Lu (upgrade project)	205,510	132,696	32,911	—	—	165,607	Self-raised fund	81%
– Bei Cang (upgrade project)	166,000	115,496	15,644	—	—	131,140	Self-raised fund	79%
– Ji Zhuang Zi (upgrade project)	191,660	111,669	44,406	—	—	156,075	Self-raised fund	81%
Others		13,229	2,960	(4,503)	(7,300)	4,386	Self-raised fund	
Total –Company		649,964	168,452	(4,503)	(7,300)	806,613		
Water recycling plants:								
– Ji Zhuang Zi (expansion project)	87,573	52,716	19,169	—	—	71,885	Self-raised fund	82%
Others		971	2,753	(1,357)	—	2,367	Self-raised fund	
Total –Group		703,651	190,374	(5,860)	(7,300)	880,865		
<i>Including: Capitalised borrowing costs</i>								
– Group		13,276	18,435	—	—	31,711		

Borrowing costs have been capitalized for the year ended 31 December 2011 at an average interest rate of 6.47% per annum (2010: 5.83%).

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7 Intangible assets

The movements of the Group's intangible assets are as follows:

	Concession right	Technical know-how and Software	Total
Cost			
At 1 January 2010	2,585,543	—	2,585,543
Addition	159,321	—	159,321
At 31 December 2010	2,744,864	—	2,744,864
Addition	473,292	8,307	481,599
At 31 December 2011	3,218,156	8,307	3,226,463
Amortisation			
At 1 January 2010	(217,847)	—	(217,847)
Charge for the year	(99,235)	—	(99,235)
At 31 December 2010	(317,082)	—	(317,082)
Charge for the year	(105,924)	(420)	(106,344)
At 31 December 2011	(423,006)	(420)	(423,426)
Net book value			
At 31 December 2011	2,795,150	7,887	2,803,037
At 31 December 2010	2,427,782	—	2,427,782

- (a) Certain of concession rights with net book value of Rmb242 million (2010: Rmb252 million) have been secured against loan facilities (Note 21(a)(i)).
- (b) In 2011, borrowing cost of Rmb712 thousand (2010: Rmb4,578 thousand) have been capitalised in concession right at an average interest of 7.05% (2010: 6.02%).
- (c) The remaining amortisation period of concession rights range from 17 to 30 years.



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8 Land use rights

All the Group's and Company's land use rights are located in the PRC and are held on medium term leases of 25 to 50 years. The Group's and Company's interests in land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

	Group	Company
Cost		
At 1 January 2010	495,927	474,416
Transfer from plant, property and equipment (Note6(iv))	97,602	92,850
	<hr/>	<hr/>
At 31 December 2010 and 2011	593,529	567,266
	<hr/>	<hr/>
Amortisation		
At 1 January 2010	(112,724)	(103,480)
Charge for the year	(10,589)	(10,511)
Transferred from plant, property and equipment(Note6(iv))	(7,348)	(7,196)
	<hr/>	<hr/>
At 31 December 2010	(130,661)	(121,187)
Charge for the year	(11,084)	(10,893)
	<hr/>	<hr/>
At 31 December 2011	(141,745)	(132,080)
	<hr/>	<hr/>
Net book value		
At 31 December 2011	<u>451,784</u>	<u>435,186</u>
	<hr/>	<hr/>
At 31 December 2010	<u>462,868</u>	<u>446,079</u>
	<hr/>	<hr/>

9 Investment properties

	Group	Company
Cost		
At 31 December 2010 and 2011	137,374	110,648
	<hr/>	<hr/>
Accumulated depreciation		
At 1 January 2010	(14,073)	(12,653)
Charge for the year	(3,673)	(3,168)
	<hr/>	<hr/>
At 31 December 2010	(17,746)	(15,821)
Charge for the year	(3,673)	(3,168)
	<hr/>	<hr/>
At 31 December 2011	(21,419)	(18,989)
	<hr/>	<hr/>
Net book value		
At 31 December 2011	<u>115,955</u>	<u>91,659</u>
	<hr/>	<hr/>
At 31 December 2010	<u>119,628</u>	<u>94,827</u>
	<hr/>	<hr/>

The Company's investment properties represent the apportioned cost of its office building located in Tianjin leased to third parties. The fair value of the entire office building at 31 December 2011 based on the Directors' assessment was approximately Rmb224 million (2010: Rmb173 million) against cost of Rmb167 million.

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10 Investments in subsidiaries- Company

	2011	2010
Subsidiaries	1,308,255	1,178,381
Less: Impairment of subsidiaries (note(iv))	(26,500)	(26,500)
	1,281,755	1,151,881

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 Mainland China.

All subsidiaries are limited liability companies.

	Investment cost	31 Dec 2010	Carrying Value Addition 2011	31 Dec share %	Interest held /Voting
Xi'an Capital Water Co., Ltd.	270,000	270,000	—	270,000	100
Hangzhou Tianchuang Water Co., Ltd	180,212	180,212	—	180,212	70
Qijing Capital Water Co., Ltd. (note (i))	154,917	108,081	46,836	154,917	87
Tianjin Water Recycling Co., Ltd. (note (ii))	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. (note (ii))	69,202	62,100	7,102	69,202	100
Anguo Capital Water Co., Ltd.	41,000	41,000	—	41,000	100
Baoying Capital Water Co., Ltd. (note (i))	37,100	26,600	10,500	37,100	70
Tianjin Capital New Materials Co., Ltd. (note (iv))	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. (note (i))	5,000	2,000	3,000	5,000	100
Tianjin Zichuang Investment Co., Ltd	23,400	23,400	—	23,400	100
Tianjin Jinning Capital Water Co., Ltd	15,000	15,000	—	15,000	100
Tianjin Capital Water Co., Ltd	5,000	5,000	—	5,000	100
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd (note (iii))	60,000	—	60,000	60,000	100
		1,178,381	129,874	1,308,255	

- (i) In 2011, the Company made additional capital injection to these subsidiaries.
- (ii) In 2011, the Company acquired these subsidiaries' non-controlling interests.
- (iii) This subsidiary was newly established by the Company in 2011.
- (iv) Full provision has been made for investment in this subsidiary of approximately Rmb26.5 million as at 31 December 2011 (31 December 2010: Rmb26.5 million).
- (v) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.
- (vi) In 2011, the cash dividend declared by the subsidiaries was Rmb 1,889 thousand.



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11 Investment in an associate - Group

	2011	2010
Beginning of the year	41,583	40,135
Share of profit	186	1,448
Dividends declared by the associate	(1,100)	—
End of the year	<u>40,669</u>	<u>41,583</u>

(a) The Group's share of the results of its associate, and its assets and liabilities, are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Share of Profit	% interest held
2010 Tianjin International Machinery Co., Ltd.	PRC	<u>505,041</u>	<u>339,760</u>	<u>1,604,027</u>	<u>1,448</u>	<u>27.5%</u>
2011 Tianjin International Machinery Co., Ltd.	PRC	<u>632,344</u>	<u>461,409</u>	<u>1,628,952</u>	<u>186</u>	<u>27.5%</u>

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

12 Available-for-sale financial assets

	Group		Company	
	2011	2010	2011	2010
Unquoted equity investments, at cost	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>

13 Long-term receivables

	Group		Company	
	2011	2010	2011	2010
Receivables from toll road concession	<u>338,446</u>	<u>336,286</u>	<u>338,446</u>	<u>336,286</u>

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.

14 Inventories

	Group		Company	
	2011	2010	2011	2010
Raw materials	10,960	10,127	4,193	3,570
Finished goods	3,682	3,682	—	—
Spare parts and low cost consumables	434	756	25	407
Work in progress	68,493	20,911	—	—
	<u>83,569</u>	<u>35,476</u>	<u>4,218</u>	<u>3,977</u>
Less: Write-down to net realisable value	(3,000)	(3,000)	—	—
	<u>80,569</u>	<u>32,476</u>	<u>4,218</u>	<u>3,977</u>

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15 Trade receivables

	Group		Company	
	2011	2010	2011	2010
Due from TSC for:				
– Sewage processing service	998,903	691,168	998,903	691,168
– Construction of sewage processing plants (note (b))	68,794	241,792	68,794	241,792
	<u>1,067,697</u>	<u>932,960</u>	<u>1,067,697</u>	<u>932,960</u>
Toll road fee receivable	—	38,200	—	38,200
	<u>(68,794)</u>	<u>(68,794)</u>	<u>(68,794)</u>	<u>(68,794)</u>
Less: Non-current portion (note (b))	998,903	902,366	998,903	902,366
Due from others – current	97,680	94,583	11,589	11,252
	<u>1,096,583</u>	<u>996,949</u>	<u>1,010,492</u>	<u>913,618</u>

(a) Ageing of trade receivables prior to the classification to non-current is as follows:

	Group		Company	
	2011	2010	2011	2010
Within 1 year	865,014	785,601	779,073	702,420
1 to 2 years	231,419	38,350	231,419	38,200
Over 2 years	68,944	241,792	68,794	241,792
	<u>1,165,377</u>	<u>1,065,743</u>	<u>1,079,286</u>	<u>982,412</u>

(b) As at 31 December 2011, the balance of sewage water plant construction is over-due. Since TSC is the Chinese government subordinate enterprise which has good creditability history, management believes that the balance is not impaired.

16 Prepayments

The ageing of prepayments is analysed below:

	Group		Company	
	2011	2010	2011	2010
Within 1 year	79,204	69,157	1,785	48,994
1 to 2 years	13,928	20,949	1,565	6,080
Over 2 years	2,574	13,653	108	32
	<u>95,706</u>	<u>103,759</u>	<u>3,458</u>	<u>55,106</u>

As at 31 December 2011, the prepayments aged over one year were mainly for plant construction projects and recycled water pipeline connection services for which the projects have not been completed and hence balances remain outstanding.



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17 Other receivables

	Group		Company	
	2011	2010	2011	2010
Project deposits	6,681	26,776	2,743	26,720
Payment on behalf of customers	1,381	1,683	12	—
Receivables from subsidiaries	—	—	112,534	111,346
Others	8,987	25,081	6,364	7,214
	<u>17,049</u>	<u>53,540</u>	<u>121,653</u>	<u>145,280</u>

The ageing of the Group's other receivables is analysed below:

	2011		2010	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	3,000	18	16,119	30
1 to 2 years	3,132	18	7,021	13
2 to 3 years	3,933	23	3,461	7
Over 3 years	6,984	41	26,939	50
	<u>17,049</u>	<u>100</u>	<u>53,540</u>	<u>100</u>

In December 2011, project deposits of Rmb 25 million, of which the ageing is over 3 years, was received.

18 Cash and bank balances

Majority of the bank balances as at 31 December 2011 were deposited with state owned banks.

	Group		Company	
	2011	2010	2011	2010
Cash on hand and in bank	<u>691,693</u>	<u>540,330</u>	<u>257,969</u>	<u>161,861</u>
Including:				
Special funds for construction in progress (note (a))	48,259	111,179	43,442	102,883
Restricted bank deposits due within 1 year (note (b))	<u>2,700</u>	<u>900</u>	<u>—</u>	<u>—</u>

- (a) The special funds for construction in progress represent the unutilised balances of the special loans obtained for sewage processing projects and recycled water projects.
- (b) Represented deposits for project bids due within one year.

Cash and bank balances comprise the following for the purposes of the cash flow statement:

	Group	
	2011	2010
Cash and bank balances	691,693	540,330
Restricted bank deposits	(2,700)	(900)
	<u>688,993</u>	<u>539,430</u>

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

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19 Share capital

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

	Circulating A shares	Circulating H shares	Total
At 31 December 2010 and 2011	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.

20 Reserves and retained earnings

The reconciliation and movement of other reserves and retained earnings are as follows:

(a) Group

	Capital reserve (note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2010	383,338	276,124	659,462	1,206,901	1,866,363
Profit for the year	—	—	—	271,160	271,160
Profit appropriation to statutory common reserves, net (Note (ii))	—	25,881	25,881	(25,881)	—
Dividends declared for 2009	—	—	—	(114,178)	(114,178)
Balance at 31 December 2010	383,338	302,005	685,343	1,338,002	2,023,345
Profit for the year	—	—	—	275,786	275,786
Profit appropriation to statutory common reserve, net (Note (ii))	—	24,176	24,176	(24,176)	—
Dividends declared for 2010	—	—	—	(156,995)	(156,995)
Changes in ownership interests in subsidiaries that do not result in a loss of control	(1,027)	—	(1,027)	—	(1,027)
Balance at 31 December 2011	382,311	326,181	708,492	1,432,617	2,141,109

(b) Company

	Capital reserve (note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2010	380,788	276,124	656,912	1,140,686	1,797,598
Profit for the year	—	—	—	258,809	258,809
Profit appropriation to statutory common reserves, net (Note (ii))	—	25,881	25,881	(25,881)	—
Dividends declared for 2009	—	—	—	(114,178)	(114,178)
Balance at 31 December 2010	380,788	302,005	682,793	1,259,436	1,942,229
Profit for the year	—	—	—	241,758	241,758
Profit appropriation to statutory common reserves, net (Note (ii))	—	24,176	24,176	(24,176)	—
Dividends declared for 2010	—	—	—	(156,995)	(156,995)
Balance at 31 December 2011	380,788	326,181	706,969	1,320,023	2,026,992

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20 Reserves and retained earnings (Continued)

(b) Company (Continued)

Notes:

- (i) Capital reserve comprises share premium arising from the issuance of shares and the adjustment arising from transaction with non-controlling interest of the subsidiaries. This reserve can be utilised to offset prior years' losses or for issuance of bonus shares.
- (ii) General reserve represents the statutory common reserve.

According to the PRC Companies Law and the Company's Articles of Association, the 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.

21 Borrowings

	Note	2011	Group 2010	2011	Company 2010
<i>Non-current:</i>					
Long-term bank borrowings	(a)	2,690,760	2,639,030	1,405,400	1,274,100
Less: Current portion	(a)	(825,720)	(329,470)	(623,000)	(210,000)
		<u>1,865,040</u>	<u>2,309,560</u>	<u>782,400</u>	<u>1,064,100</u>
Long-term debenture	(d)	689,850	—	689,850	—
Long-term payable	(e)	386,543	399,604	386,543	399,604
Other non-current liabilities	(f)	109,703	129,374	81,817	98,181
		<u>3,051,136</u>	<u>2,838,538</u>	<u>1,940,610</u>	<u>1,561,885</u>
<i>Current:</i>					
Current portion of long-term bank borrowings	(a)	825,720	329,470	623,000	210,000
Current portion of long-term payable	(e)	30,466	30,710	30,466	30,710
Short-term bank borrowings	(b)	152,000	73,000	136,000	55,000
Short-term debenture	(c)	—	600,000	—	600,000
Other current liabilities	(f)	19,961	21,216	16,364	16,364
		<u>1,028,147</u>	<u>1,054,396</u>	<u>805,830</u>	<u>912,074</u>

(a) Long-term bank borrowings

	Note	2011	Group 2010	2011	Company 2010
Borrowings from:					
China Construction Bank Industrial and Commercial Bank of China	(i)	910,900	936,850	372,400	367,100
State Development Bank	(ii)	446,900	456,000	—	—
Shanghai Bank	(iii)	348,500	342,500	173,000	157,000
Agricultural Bank of China	(iv)	320,000	250,000	320,000	250,000
Shenzhen Development Bank	(v)	235,460	198,680	150,000	100,000
China Merchants Bank	(iv)	200,000	200,000	200,000	200,000
China Everbright Bank	(iv)	70,000	—	70,000	—
Industrial Bank	(vi)	50,000	50,000	50,000	50,000
Bank of China	(iv)	40,000	50,000	40,000	50,000
China CITIC Bank	(vii)	35,000	40,000	—	—
Shanghai Pudong Development Bank	(iv)	30,000	100,000	30,000	100,000
	(viii)	4,000	15,000	—	—
		<u>2,690,760</u>	<u>2,639,030</u>	<u>1,405,400</u>	<u>1,274,100</u>

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21 Borrowings (Continued)

(a) Long-term bank borrowings (Continued)

Notes:

- (i) Includes Rmb148 million (2010: Rmb162 million); and secured by the right to receive tap water and sewage processing fees (Note 7(a)). Rmb378 million and Rmb12.5 million (2010: Rmb389 million and Rmb18.75 million) secured by the guarantee of Tianjin City Infrastructure Construction and Investment Group Company Limited (“TICIG”) and the Company, respectively. The remaining balance of about Rmb372.4 million (2010: Rmb367.1 million) is unsecured.
- (ii) Secured by the Company’s guarantee (2010: Rmb456 million).
- (iii) Includes Rmb175.5 million (2010: Rmb185.5 million) secured by the Company’s guarantee and the remaining Rmb173 million (2010: Rmb157 million) is unsecured.
- (iv) These borrowings are unsecured.
- (v) Includes Rmb85.46 million (2010: Rmb98.68 million) secured by the guarantee of the Company, and the remaining Rmb150 million (2010: Nil) is unsecured.
- (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 (2010: Rmb15 million) .
- (ix) Summary of terms of long-term bank borrowings:

	Group		Company	
	2011	2010	2011	2010
Pledge	198,000	212,000	50,000	50,000
Guarantee	1,137,360	1,302,930	—	100,000
Unsecured	1,355,400	1,124,100	1,355,400	1,124,100
	<u>2,690,760</u>	<u>2,639,030</u>	<u>1,405,400</u>	<u>1,274,100</u>

- (x) These long term bank borrowings bear a weighted average interest of 6.44% in 2011 (2010: 5.4%)
- (xi) These borrowings mature as follows:

	Group		Company	
	2011	2010	2011	2010
Within 1 year	825,720	329,470	623,000	210,000
In the 2 year	752,180	841,720	608,000	636,000
In the 3 to 5 year	733,260	888,160	163,400	415,000
After the 5 year	379,600	579,680	11,000	13,100
	<u>2,690,760</u>	<u>2,639,030</u>	<u>1,405,400</u>	<u>1,274,100</u>



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21 Borrowings (Continued)

(a) Long-term bank borrowings (Continued)

Notes: (Continued)

(xii) Bank borrowings which are exposed to interest-rate changes and the contractual repricing dates are as follows:

	Group		Company	
	2011	2010	2011	2010
6 months or less	1,750,760	1,619,680	1,155,400	1,000,000
6- 12 months	<u>940,000</u>	<u>969,350</u>	<u>250,000</u>	<u>224,100</u>

(b) Short-term bank borrowings

	Note	Group		Company	
		2011	2010	2011	2010
Borrowings from:					
Shanghai Pudong Development Bank	(i)	52,000	73,000	36,000	55,000
China Minsheng Bank	(i)	<u>100,000</u>	—	<u>100,000</u>	—
		<u>152,000</u>	<u>73,000</u>	<u>136,000</u>	<u>55,000</u>

Notes:

(i) Includes Rmb16 million (2010:Rmb18 million) secured by the Company's holding company's guarantee and Rmb136 million (2010:Rmb55 million) is unsecured. The weighted average interest rate of short-term bank borrowings in 2011 is 6.85% (2010: 5.35%) per annum.

(ii) The carrying amounts of short-term bank borrowings approximate their fair values as at 31 December 2011 either due to their short-term maturity or because they bear interest at prevailing market rates throughout their maturity period.

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

	Group		Company	
	2011	2010	2011	2010
Guarantee	16,000	18,000	—	—
Unsecured	<u>136,000</u>	<u>55,000</u>	<u>136,000</u>	<u>55,000</u>
	<u>152,000</u>	<u>73,000</u>	<u>136,000</u>	<u>55,000</u>

(c) Short-term debenture

	2010	Issue	Repayment	2011
Short-term debenture - Par value	<u>600,000</u>	<u>—</u>	<u>(600,000)</u>	<u>—</u>

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 were repaid in full on maturity.

**16. Financial statements prepared in accordance with Hong Kong
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21 Borrowings (Continued)

(d) Long-term debenture

	2010	Addition	Repayment/ amortization	2011
Long-term debenture				
Par value	—	700,000	—	700,000
Transaction cost	—	(10,500)	350	(10,150)
	<u>—</u>	<u>689,500</u>	<u>350</u>	<u>689,850</u>

On 16 November 2011, the Company issued a long-term debenture at par value of Rmb 700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The debenture matures five years from the issue date, and bears fixed interest rate at 6.64% per annum. The principal will be repaid on maturity.

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

	Group and Company			
	2011 Payable	2011 Unrecognized financial charges	2010 Payable	2010 Unrecognized financial charges
Payable to TSC for assets acquisition	<u>802,193</u>	<u>(385,184)</u>	<u>834,230</u>	<u>(403,916)</u>

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

	Maturity date	Original balance	Effective interest rate	Ending balance	Current portion
TSC	20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>386,543</u>	<u>30,466</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 Rmb691 million. The balance will be settled in Rmb translating at exchange rates prevailing on each repayment date over the remaining 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%.

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

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21 Borrowings (Continued)

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

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

	Group and Company	
	2011	2010
JPY	631,576	656,952
US dollar	170,617	177,278
	<u>802,193</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.

(iii) The long-term payable mature as follows, and as at 31 December 2011, the current portion of long-term payable of Rmb30.5 million was classified as current liabilities.

	Group and Company	
	2011	2010
Within 1 year	30,466	30,710
In the 2 year	29,021	29,203
In the 3 to 5 year	79,450	79,684
After the 5 year	278,072	290,717
	<u>417,009</u>	<u>430,314</u>

(f) Other liabilities

	Group		Company	
	2011	2010	2011	2010
<i>Non-current:</i>				
- Government loan for sewage water processing plants construction (note(i))	81,817	98,181	81,817	98,181
- Government loan for water recycling plants construction (note(ii))	17,273	20,454	—	—
- Others	10,613	10,739	—	—
	<u>109,703</u>	<u>129,374</u>	<u>81,817</u>	<u>98,181</u>
<i>Current:</i>				
- Current portion of government loan for sewage water processing plants construction (note(i))	16,364	16,364	16,364	16,364
- Current portion of government loan for water recycling plants construction (note(ii))	3,181	3,181	—	—
- Others	416	1,671	—	—
	<u>19,961</u>	<u>21,216</u>	<u>16,364</u>	<u>16,364</u>

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

For the year ended 31 December 2011
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21 Borrowings (Continued)

(f) Other liabilities (Continued)

Notes:

- (i) A loan was taken from TMEB by the company during 2005 specifically for construction of sewage water processing plants. The current portion of the long-term loan is Rmb16 million at the end of year 2011 (2010: Rmb16 million). The loan is repayable in equal installments over eleven years from 2007. The loan bears interest at 5% per annum for the first six years. From the seventh year to maturity, the interest will be based on the one-year deposit plus 0.3% premium.
- (ii) A loan was taken from TMEB by Tianjin Water Recycling Co., Ltd, the subsidiary of the company during 2003 specifically for construction of water recycling plants. The current portion of the long-term loan is Rmb3 million at the end of year 2011 (2010: Rmb3 million). The loan is repayable in equal installments over eleven years from 2007. The interest will be based on the one-year deposit plus 0.3% premium.

(g) As at year end, the Group has the following committed undrawn banking facilities:

	2011	Group	2010
Floating rate expiring within 1 year	309,600		445,900
	309,600		445,900

22 DEFERRED REVENUE

Deferred revenue represents the subsidies received from governmental bodies in relation to Group's certain construction and research & development projects. The detail of deferred revenue is as below:

	2011	2010
Sewage water processing plants :		
– Xian Yang Lu (upgrade project)	67,500	67,500
– Ji Zhuang Zi (upgrade project)	39,700	39,700
– Dong Jiao (upgrade project)	38,600	38,600
Water recycling plants in:		
– Dong Jiao	25,762	27,000
– Bei Chen	21,000	21,000
Others	11,659	9,488
Total-Company	204,221	203,288
Heating supply service project:	84,156	—
Water recycling plants :		
– Ji Zhuang Zi (sewage reuse project)	43,371	44,686
– Ji Zhuang Zi (expansion project)	21,000	21,000
– Xian Yang Lu (water recycling project)	15,585	16,000
Others	1,595	—
Total-Group	369,928	284,974



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
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23 DEFERRED INCOME TAX LIABILITIES

	2011	2010
	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	48,479	193,916
	<u>48,479</u>	<u>193,916</u>
		Deferred income tax liabilities
		Taxable temporary differences
		38,427
		<u>38,427</u>
		<u>153,708</u>

24 Trade payables, advances from customers and other payables

	Group		Company	
	2011	2010	2011	2010
Trade payables (note (a))	18,481	22,729	3,157	9,730
Advances from customers (note (b))	423,387	310,478	8,331	63,386
Other payables (note (c))	412,095	274,991	330,812	235,198
	<u>853,963</u>	<u>608,198</u>	<u>342,300</u>	<u>308,314</u>

(a) As at 31 December 2011, the majority of trade payables are aged within one year.

(b) Advances from customers comprise:

	Group		Company	
	2011	2010	2011	2010
For pipeline connection services	407,679	245,167	—	—
For heat supply service	6,881	—	—	—
For project Han Gu	4,521	59,612	4,521	59,612
Other advances	4,306	5,699	3,810	3,774
	<u>423,387</u>	<u>310,478</u>	<u>8,331</u>	<u>63,386</u>

(c) Other payables comprise:

	Group		Company	
	2011	2010	2011	2010
Construction costs payable	224,627	168,316	101,302	109,499
Payable for purchase of property, plant and equipment and concession rights	111,179	67,337	20,607	—
Interest payable for long term debenture (Note 21(d))	7,747	—	7,747	—
Others	68,542	39,338	201,156	125,699
	<u>412,095</u>	<u>274,991</u>	<u>330,812</u>	<u>235,198</u>

The carrying value of trade and other payables approximates their fair value due to their short-term maturities.

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25 Expense by nature

Expenses included in cost of sales and administrative expenses are analysed as follows:

	2011	2010
Utilities	176,337	162,521
Depreciation of property, plant and equipment and investment properties	139,837	117,826
Employee benefit expense (Note 26)	137,742	118,566
Amortisation of intangible assets and land use right	117,428	109,824
Cost for construction contract	110,900	116,549
Repair and maintenance expenses	60,927	65,163
Raw materials and consumables used	48,919	48,692
Cost of water recycling pipeline connection service	28,205	14,706
Other taxes	9,624	6,944
Toll road management fee	7,120	7,120
Auditors' remuneration	4,200	3,800
Operating lease rentals for land and buildings	784	860
Outgoings in relation to investment properties	434	798
Others	96,864	79,581
	<u>939,321</u>	<u>852,950</u>

26 Employee benefit expense

(a) The analysis of employee benefits is as follows:

	2011	2010
Wages and salaries	92,677	82,657
Social security costs	21,970	16,750
Pension costs – defined contribution plans	11,922	12,266
Other benefits	11,173	6,893
	<u>137,742</u>	<u>118,566</u>

(b) The aggregate amounts of emoluments payable to the Directors during the year are as follows:

	2011	2010
Fees	347	540
Salaries and other emoluments	1,625	2,654
Contribution to retirement benefit scheme	68	80
	<u>2,040</u>	<u>3,274</u>

Emoluments paid to the Company's independent non-executive directors amounted to Rmb660 thousand during the year have been included in the above (2010: Rmb510 thousand).



16. Financial statements prepared in accordance with Hong Kong Financial Reporting Standards
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26 Employee benefit expense (Continued)

(c) Details of emoluments of individual directors are set out as below:

	2011	2010
Executive Directors:		
Zhang Wenhui	742	835
Lin Wenbo	674	710
Fu Yana	555	541
Zhong Huifang	100	498
An Pindong	100	100
Chen Yinxing	100	100
Non-executive Directors:		
Xie Rong	220	170
Di Xiaofeng	220	170
Li Jieying	220	170
	<u>2,931</u>	<u>3,294</u>

None of the Directors of the Company received emoluments in excess of HK\$1,000,000 during the year.

(d) The five individuals whose emoluments were the highest in the Group for the year include 3 (2010: 4) Directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2010: 1) individual during the year are as follows:

	2011	2010
Salaries and other emoluments	988	427
Contribution to retirement benefit scheme	45	20
	<u>1,033</u>	<u>447</u>

27 Finance costs – net

	2011	2010
Interest expenses of borrowings	238,355	168,884
Less: Capitalised interest	(19,147)	(17,350)
Net interest expenses	219,208	151,534
Less: Interest income	(23,963)	(18,379)
– long-term receivables	(11,433)	(11,266)
– bank deposits	(12,530)	(7,113)
Others	1,170	2,635
	<u>196,415</u>	<u>135,790</u>
Interest rate per annum at which finance costs were capitalised	<u>6.75%</u>	<u>5.83%</u>

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28 Income tax expense

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong (2010: Nil). PRC income tax is calculated at the statutory rate of 12.5% to 25% (2010: 12.5% to 25%).

	2011	2010
Tax charge comprises:		
Current income tax	86,102	83,441
Deferred income tax	10,052	8,229
	96,154	91,670
	96,154	91,670

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

	2011	2010
Profit before income tax	376,034	366,826
Calculated at applicable income tax rates (25%)	94,009	91,707
Effect of different income tax rate applicable to certain subsidiaries	(2,432)	(3,126)
Income not subject to tax	(1,214)	(1,685)
Expenses not deductible for taxation purposes	2,326	255
Utilisation of previously deductible tax losses for which no deferred income tax assets was recognised	(3,379)	(690)
Current year tax losses for which no deferred income tax asset was recognised	6,844	5,209
Income tax expense	96,154	91,670
	96,154	91,670

29 Profit attributable to owners of the parent

The profit attributable to equity holders of the Company for the year is dealt with in the financial statements of the Company to the extent of approximately Rmb242 million (2010: Rmb259million).

30 Earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb276 million (2010: Rmb271 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 is calculated using the same bases as described above for calculating basic earnings per share.

	2011	2010
Profit attributable to owners of the parent	275,786	271,160
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (Rmb Yuan)	0.19	0.19
	0.19	0.19

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31 Dividends

The dividends paid in 2011 and 2010 were Rmb157 million (Rmb0.11 per share) and Rmb114 million (Rmb0.08 per share) respectively. A dividend in respect of the year ended 31 December 2011 of Rmb0.04 per share, amounting to a total dividend of Rmb57 million, is to be approved at the annual general meeting. These financial statements do not reflect this dividend payable.

32 Cash generated from operations

	2011	2010
Profit for the year	279,880	275,156
Adjustments for:		
– Taxation	96,154	91,670
– Amortisation of deferred revenue	(2,968)	(1,314)
– Depreciation and amortisation	257,265	227,650
– Share of profit of an associate	(186)	(1,448)
– Investment income from available-for-sale financial assets	(200)	—
– Loss on disposal of property, plant and equipment	13,661	47,553
– Interest income	(12,530)	(7,113)
– Interest expense-net	219,208	151,534
	<hr/>	<hr/>
Changes in working capital		
– Increase in inventories	(48,093)	(22,823)
– Increase in trade receivables, other receivables and prepayments	(33,051)	(274,268)
– Increase in trade payables, advance from customers and other payables	147,522	40,359
	<hr/>	<hr/>
Cash generated from operations	<u>916,662</u>	<u>526,956</u>

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2011	2010
Net book amount	14,469	68,671
Loss on disposal of property, plant and equipment (Note (i))	(13,661)	(47,553)
Proceeds to be received	—	(17,102)
	<hr/>	<hr/>
Proceeds from sale of property, plant and equipment	<u>808</u>	<u>4,016</u>

(i) Loss on disposal of property, plant and equipment is included in Other losses – net in consolidated statement of comprehensive income.

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33 Commitments

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

	Contracted but not provided for		Authorised but not contracted for	
	2011 Rmb' million	2010 Rmb' million	2011 Rmb' million	2010 Rmb' million
Sewage water processing plants in:				
– Ji Zhuang Zi (upgrade project)	21	59	15	—
– Xian Yang Lu (upgrade project)	9	29	31	2
– Bei Cang (upgrade project)	10	26	25	1
– Dong Jiao (upgrade project)	18	52	63	69
– Ning He project	16	—	9	—
– Baoying project	16	—	—	—
– Hang Zhou project	4	—	5	—
Water recycling plants in:				
– Ji Zhuang Zi (expansion project)	—	—	16	35
	94	166	164	107
	94	166	164	107

34 Transactions with non-controlling interests

(a) Acquisition of additional interest in a subsidiary

On 15 June 2011, the Company acquired an additional 2% of the issued shares of Tianjin Water Recycling Co., Ltd from its non-controlling shareholders. The transaction date is 31 May 2011 and the Company became the only investor of Tianjin Water Recycling Co., Ltd. The changes in the capital reserve is summarised as follows:

Consideration paid	2,436
Less: Carrying amount of non-controlling interests acquired	(1,409)
	1,027
Excess of consideration paid	1,027



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35 Related party transactions

The Group is controlled by Tianjin Municipal Investment Company Limited (incorporated in PRC), which owns 51.6% of the Company's shares. The remaining 48.4% of the shares are widely held. The ultimate parent of the Group is Tianjin City Infrastructure Construction and Investment Group Company Limited ("TICIG", incorporated in the PRC, and funded by State-owned Assets Supervision and Administration Commission of Tianjin government).

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

(i) *Income:*

Related party	Nature of transaction	2011	2010
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant	48,535	20,911
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects	4,400	6,530
TICIG	Rental income from TCEP building	2,104	7,053
Tianjin Environment Construction Investment Company Limited	Rental income from TCEP building	1,238	—
Tianjin Lecheng Properties Limited	Income from supply of heat	404	—
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building	344	674
Tianjin Environment Construction Investment Company Limited	Income from supply of heat	87	—
Tianjin Subway Group Limited company	Income from supply of heat	76	—
Tianjin City Infrastructure Construction Project Management & Consultant Co., Ltd.	Rental income from TCEP building	—	861
		<u> </u>	<u> </u>

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

(ii) *Key management compensation is disclosed in Note 26(d).*

(iii) *Trade receivables*

	2011	2010
Trade receivables from related parties		
– Tianjin City Resource Operation Co., Ltd.	801	674
– Tianjin Lecheng Properties Limited	404	—
– Tianjin Subway Group Limited company	76	—
– TICIG	—	4,038
	<u> </u>	<u> </u>

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35 Related party transactions (Continued)

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

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

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

36 Financial guarantee contracts

As at 31 December 2011, the Company had given guarantees of approximately Rmb762 million (2010: Rmb799 million) to banks of certain subsidiaries in respect of their banking facilities, of which Rmb755 million of the facilities had been drawn by the subsidiaries.

The Directors consider the subsidiaries to be financially resourceful to settle their obligations.

17. List of Documents Available for Inspection

1. The 2011 Annual Report and its summary signed by the Chairman of the Company;
2. The financial statements signed and sealed by the legal representative of the Company, the officer-in-charge of the accounting work and the officer-in-charge of the Accounting Department;
3. Originals of all documents and announcements publicly disclosed in newspapers designated by the CSRC during the reporting period;
4. The Articles of Association of the Company.