



*Interim Report for the six  
months ended 30th June 2012*



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

## I. IMPORTANT

- (1) The board of directors (the “**Board**”) and supervisory committee (the “**Supervisory Committee**”) of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) and its directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management confirm that the information in this 2012 interim report (the “**Interim Report**”) does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of the contents of this report.
- (2) The interim financial statements of the Company for the six months ended 30 June 2012 are unaudited.

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

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

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

No.

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

No.

## II. COMPANY PROFILE

### (I) Information of the Company

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

## (II) Contact Persons and Contact Details

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

## (III) Basic Information

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

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

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

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

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

## (VI) Other Basic Information of the Company

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

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

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

Unit: '000      Currency: RMB

	<b>As at the end of the current reporting period</b>	<b>As at the end of last year</b>	<b>Increase/Decrease as at the end of the current reporting period as compared to the end of last year (%)</b>
Total assets	9,647,030.00	9,085,324.00	6.18
Equity interest attributable to the owners of the Company (or shareholders' equity)	3,626,204.00	3,568,337.00	1.62
Net assets per share attributable to the shareholders of the Company (RMB/share)	2.54	2.50	1.60
	<b>Reporting period (January – June)</b>	<b>Same period of last year</b>	<b>Increase/Decrease for the current reporting period as compared to the same period last year (%)</b>
Operating profit	159,588.00	194,800.00	-18.08
Total profit	162,364.00	185,698.00	-12.57
Net profit attributable to the shareholders of the Company	114,956.00	137,674.00	-16.50
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	112,874.00	144,501.00	-21.89
Basic earnings per share (RMB)	0.08	0.10	-20.00
Basic earnings per share after deduction of extraordinary items (RMB)	0.08	0.10	-20.00
Diluted earnings per share (RMB)	0.08	0.10	-20.00
Weighted average return on net assets ratio (%)	3.17	4.00	Decreased by 0.83 percentage point
Net cash flow from operating activities	212,540.00	355,697.00	-40.25
Net cash flow per share from operating activities (RMB)	0.15	0.25	-40.00

## 2. Extraordinary profit and loss items and amounts

Unit: '000      Currency: RMB

<b>Extraordinary items</b>	<b>Amount</b>
Profit/loss from disposal of non-current assets	-2,190
Other non-operating income and expenses except for the above items	4,966
Income tax effect	-694
Total	2,082

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

There is no difference between the financial reports prepared in accordance with Hong Kong Financial Reporting Standards and the PRC Accounting Standards for Business Enterprises.

## III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### (I) Table of share changes

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

### (II) Shareholders and actual controller

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

Total number of shareholders as at the end of the reporting period      99,247 shareholders, including 108 shareholders holding H shares

## Shareholdings of the top ten shareholders

Shareholders	Nature of shareholders	Percentage of shareholding (%)	Total number of shares held (shares)	Increase/Decrease during the reporting period (shares)	Number of restricted circulating shares held (shares)	Number of shares pledged or frozen (shares)
Tianjin Municipal Investment Company Limited (“TMICL”)	State-owned legal person	51.60	736,499,791	0	0	Pledged 351,940,000
HKSCC Nominees Limited	Unknown	23.33	332,918,900	-684,000	0	Unknown
Zhou Jun	Unknown	0.42	5,975,000	-202,700	0	Unknown
Shenyang Railway Coal Dealing Co., Ltd.	Unknown	0.21	3,000,000	0	0	Unknown
HO MAN PING	Unknown	0.14	2,014,000	0	0	Unknown
Yu Yan	Unknown	0.11	1,499,128	1,499,128	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	0.09	1,272,289	94,400	0	Unknown
FUNG CHUN KIT	Unknown	0.08	1,130,000	0	0	Unknown
China Electronics Finance Co., Ltd	Unknown	0.08	1,100,000	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	0.07	1,060,635	-1,464,995	0	Unknown



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

Shareholders	Number of non-restricted circulating shares held (shares)	Type of shares
TMICL	736,499,791	RMB Ordinary Shares
HKSCC Nominees Limited	332,918,900	H Shares
Zhou Jun	5,975,000	RMB Ordinary Shares
Shenyang Railway Coal Dealing Co., Ltd.	3,000,000	RMB Ordinary Shares
HO MAN PING	2,014,000	H Shares
Yu Yan	1,499,128	RMB Ordinary 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))	1,272,289	RMB Ordinary Shares
FUNG CHUN KIT	1,130,000	H Shares
China Electronics Finance Co., Ltd	1,100,000	RMB Ordinary Shares
Agricultural Bank of China – Soochow CSI Emerging Industry Index Fund (中國農業銀行股份有限公司 – 東吳中證新興產業指數證券投資基金)	1,060,635	RMB Ordinary Shares

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

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

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

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

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

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

As at 30 June 2012, the following entity, other than the Directors, Supervisors or chief executive of the Company, had interests and/or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

Name of shareholder	Capacity	Number and class of securities (Note)	Approximate percentage in the relevant class of securities	Approximate percentage in the total issued share capital of the Company
TMICL	Beneficial owner	736,499,791 A Shares (L)	67.74%	51.60%
Wuxi Municipal State Asset Administration Committee	Interest of corporation controlled by you	17,050,000 H Shares (L)	5.01%	1.19%
Xian Lian International Company Limited	Beneficial owner	17,050,000 H Shares (L)	5.01%	1.19%
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 entity's long positions in the shares.

Save as disclosed above, there is no person (other than the Directors, Supervisors or chief executive of the Company) who, as at 30 June 2012, had an interest and/or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

#### IV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

As at 30 June 2012, the interests and/or short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules"), to be notified to the Company and the HKSE were as follows:

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

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

Save as disclosed above, none of the Directors, Supervisors or chief executives of the Company, who, as at 30 June 2012, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the HKSE.

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

Due to work needs, at the 26th meeting of the fifth Board of the Company, appointment of Mr. Zhang Jian as deputy general manager of the Company was considered and approved on 17 January 2012, for a term until 17 December 2012.

## **V. REPORT OF THE BOARD**

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

During the first half of 2012, the Company and its subsidiaries (the “Group”) under the leadership of the Board continued to take technology as guide and carry out technology research and development and achievements commercialisation in respect of the industrial chain of sewage water treatment business, to improve the competitive advantages of the Group in the water industry and optimize its business structure. In respect of the industrial chain of the sewage water treatment business, there were no changes in the water projects invested and operated by the Group. Due to the increase in the incoming volume of sewage water of certain operated projects and commencement of commercial operation of two projects, during the reporting period, the volume of sewage water being processed increased as compared to the same period last year. Due to factors such as operation at higher standards, the operating costs of the sewage water treatment projects increased significantly. Revenue from the sewage water treatment plant operation services and technical services business increased significantly as compared to the same period last year. There were no new projects for the sewage water treatment plant construction business and all the projects were finishing works in the previous year. Both revenue and costs have decreased significantly. In respect of the resources and energies business, there were no changes in the production scale of the recycled water business with decrease in the sales volume while revenue and costs of the recycled water pipeline connection business increased significantly. During the reporting period, the new energy heat and cold supply service projects operated stably with services conforming with standards, and began to have cold supply service capacities, thus had an additional source of revenue and achieved business expansion as compared to the same period last year. In respect of the scientific and technological achievements commercialisation business, the Group proactively carried out promotion of the patented product, namely CYYF sewage water treatment plant all-process deodorization technology and products, which laid foundation for further development.

Due to factors such as increase in the principal and interest rate of loans, the finance costs of the Group increased significantly during the reporting period as compared to the same period last year. Due to the substantial completion of the upgrade and renovation projects of four sewage water treatment plants in Tianjin, the assets retirement and non-operating expenses decreased significantly as compared to the same period last year.

During the reporting period, the operating income of the Group was RMB765,100,400, increased by 1.95% as compared to the same period last year. The operating profit was RMB159,588,300, decreased by 18.08% as compared to the same period last year. The net profit was RMB114,955,800 (excluding profit and loss attributable to minority shareholders), decreased by 16.5% as compared to the same period last year.

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

- a. During the reporting period, the Group had a total sewage water treatment volume of 442,081,000 cubic metres, increased by 8.68% as compared to the same period last year. This was mainly attributable to an increase in the incoming volume of sewage water at the four sewage water treatment plants of the Company, namely in Jizhuangzi and the sewage water treatment plants in Baoying and Xianning, Hubei and the incoming volume of sewage water at the new sewage water treatment plants in Hanshan, Fuyang and Xicheng, Qujin during the reporting period as compared to the same period last year. Total income from sewage water treatment services increased by 8.16% to RMB597,571,900 and costs increased by 13.77% as compared to the same period last year. The operating profit margin of the sewage water treatment business decreased. Both revenue and costs of the sewage water treatment plant construction business decreased by 92% as compared to the same period last year. During the reporting period, the operating profit margin of the Group's sewage water treatment and construction business increased by 2.97% as compared to the same period last year.
- b. During the reporting period, the Group continued to apply great efforts to boost the sewage water treatment plant operation services and technical services, and generated a revenue of RMB22,889,700, representing an increase of 33.94% as compared to the same period last year.
- c. During the reporting period, the sales volume of recycled water of the Group was RMB4,937,000 cubic metres, decreased by 17.1% as compared to the same period last year. The decrease in the sales volume was mainly attributable to the decrease in the water usage volume of some users as well as no new users. Revenue from the recycled water pipeline connection business was RMB44,601,600, increased by 99.74% as compared to the same period last year. This was mainly attributable to the significant increase in the completion areas of the pipeline connection business as compared to the same period last year. Costs of the pipeline connection business increased accordingly. The operating profit margin of the recycled water pipeline connection business increased by 4.5% as compared to the same period last year.

- d. During the reporting period, the sales volume of the tap water business of the Group was 21,243,000 cubic metres, increased by 7.8% as compared to the same period last year. This was mainly attributable to the increase in the on-grid agreed water volume of Anguo tap water plant. The tap water business generated a sales revenue of RMB21,545,500, representing an increase of 8.62% as compared to the same period last year. The operating costs increased by 4.49% as compared to the same period last year. The operating profit margin increased by 2.5% as compared to the same period last year.
- e. During the reporting period, the toll collection business of the Group realized RMB33,513,400 in revenue, which was similar to the level recorded during the same period last year. According to the relevant national requirements, the collection of toll for Tianjin City Indebted Road ceased on 1 January 2010, and the toll collection from 6 toll stations in which the Company owned the rights of toll collection also ceased. According to the spirit of the Jin Zheng Ban (2010) No.51 Document “Opinions on the Implementation of Oil Prices and Tax Expenses Reforms and the Cancellation of Toll Collection on Government Indebted Tier 2 Roads” dated 19 May 2010, the Company was still able to recognize income from the road toll business based on the amount stated in the “Subcontracting Toll Collection Agreement” during the reporting period.

f. Heat and cold supply service business

The Tianjin Cultural Centre centralized energy station project invested, constructed and operated by the Group commenced successively to provide heat supply service to users within the area of the Tianjin Cultural Centre since the end of 2011. During the reporting period, this business generated a revenue from heat supply service of RMB20,928,000. This project commenced successively to provide cold supply service to users within the area of the Tianjin Cultural Centre since this June.

g. Revenue from the sewage water treatment technical consultation and deodorization ancillary engineering business

During the reporting period, the deodorization ancillary engineering and technical consultation business of the Group generated a total revenue of RMB3,100,000.

## 1. Principal businesses by industry

Unit: 0'000 Currency: RMB

By industry	Operating revenue	Operating cost	Operating profit margin (%)	Increase/ decrease in operating revenue as compared to the same period last year	Increase/ decrease in operating cost as compared to the same period last year	Increase/ decrease in operating profit margin as compared to the same period last year
				(%)	(%)	(%)
Sewage water treatment and sewage water treatment plant construction business	60,332	33,308	44.79	-5.01	-9.87	Increased by 2.97 percentage points
Recycled water pipeline connection and water supply business <sup>(Note 1)</sup>	5,521	3,813	30.94	63.08	53.10	Increased by 4.5 percentage points
Toll collection business	3,351	356	89.38	Flat	Flat	Flat
Tap water supply business	2,155	1,364	36.68	8.62	4.49	Increased by 2.5 percentage points
Heat supply service <sup>(Note 2)</sup>	2,093	2,299	-9.84	—	—	—
Other business <sup>(Note 3)</sup>	101	59	41.80	-64.63	-71.90	Increased by 15.05 percentage points

Among which: During the reporting period, the total transaction amount of connected transactions in respect of the sale of products and provision of services by the Company to connected persons was RMB15,373,000.

### Notes:

- (1) The completion area of pipeline connection business of Tianjin Water Recycling Company Limited increased and accordingly both income and costs increased significantly as compared to the same period last year.
- (2) During the same period last year, Tianjin Jiayuanxing Innovative Energy Technology Company Limited had not commenced operation, hence there was no revenue and cost.
- (3) These mainly represented revenue from integrated system, software technology and consultation services, etc.

## 2. Principal businesses by geographical regions

Unit: 0'000 Currency: RMB

Region	Operating revenue	Increase/decrease in operating revenue as compared to the same period last year (%)
Tianjin	51,180	-0.73
Qijing	3,300	-12.59
Guizhou	1,206	-0.49
Fuyang	2,058	20.83
Baoying	612	0.55
Hangzhou	7,749	13.57
Wendeng	1,227	7.16
Xi'an	3,735	0.49
Anguo	820	31.38 <i>(Note 1)</i>
Wuhan	1,655	25.50
Hong Kong	11	-71.40 <i>(Note 2)</i>

*Notes:*

- (1) The greater increase in the revenue from principal operations of Anguo Capital Water Company Limited as compared to the same period last year was mainly attributable to the increase in the water supply volume resulted from the completion of tap water plants and city pipeline network renovation projects.
- (2) The revenue from integrated system and software technology services of Tianjin Capital Environmental Protection (Hong Kong) Company Limited decreased as compared to the same period last year.



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

As at 30 June 2012, the Group had total assets in the amount of RMB9,647,030,000, increased by 6.18% or RMB561,706,000 as compared to the beginning of the year. Total liabilities were RMB5,870,751,000, increased by 9.33% or RMB501,136,000 as compared to the beginning of the year. Equity interest attributable to the shareholders of the Company was RMB3,626,204,000, increased by 1.62% or RMB57,866,000 as compared to the beginning of the year. Net profit attributable to the Company for the first half of 2012 was RMB114,956,000, decreased by 16.50% as compared to the same period last year. Analysis of items with more significant changes is set out below:

Unit: '000 Currency: RMB

Items	As at the end of the period	As at the beginning of the period	Amount increased/decreased	Change (%)	Explanation of change
Trade payables	44,976	18,481	26,495	143.36	This mainly represented costs payable by the sewage water treatment plants of the Company such as the operating costs.
Taxes payable	13,691	8,274	5,417	65.46	This mainly represented enterprise income tax payable as at the end of the period.
Other current assets	14,751	7,831	6,920	88.37	This mainly represented deductible input tax.
Items	Jan-Jun 2012	Jan-Jun 2011	Amount increased/decreased	Change (%)	Explanation of change
Business tax and surcharge	4,700	3,608	1,092	30.26	This was attributable to the increase in revenue from ancillary engineering of Tianjin Water Recycling Company Limited, a subsidiary of the Company, during the current period as compared to the same period last year.

Items	Jan-Jun 2012	Jan-Jun 2011	Amount increased/decreased	Change (%)	Explanation of change
Finance costs	112,291	76,329	35,962	47.12	This was attributable to the increase in the principal and interest rate of loans as well as amortization on finance costs of acquisition of foreign assets.
Investment income	1,084	-289	1,373	-475.40	Income from the Company's investment in joint ventures, Tianjin International Machinery Company Limited and Tianjin Beifang Rencraigang Company Limited during the current period increased as compared to the same period last year.
Non-operating expenses	2,254	13,524	-11,270	-83.34	During the same period last year, the upgrading and renovation projects of sewage water treatment plants of the Company incurred larger amount of loss of assets retirement.
Net cash flow from operating activities	212,540	355,697	-143,157	-40.25	During the same period last year, the Company recovered part of previous outstanding construction and management fees, thus cash inflow from operating activities showed a peak value.
Net cash flow from financing activities	300,625	-175,322	475,947	-271.47	During the current period, total borrowings increased as compared to the same period last year, thus net cash flow from financing activities was higher than the previous period.

Items	Jan-Jun 2012	Jan-Jun 2011	Amount increased/decreased	Change (%)	Explanation of change
Net increase in cash and cash equivalents	292,258	-29,291	321,549	-1,097.77	This was mainly attributable to the increase in net cash flow from financing activities as compared to the same period last year.

#### (IV) Investment of the Company

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

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

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

- (1) The upgrading and renovation projects of four sewage water treatment plants in Tianjin, namely, Xianyanglu, Beicang, Jizhuangzi and Dongjiao: The investor was the Company, and the total investment amount of the projects was approximately RMB1.178 billion. During the reporting period, an investment of RMB103 million in these projects was completed. Currently, the projects are in the stage of settlement of project accounts and inspection and acceptance.
- (2) Jizhuangzi recycled water plant reconstruction and expansion project: The investor was the Group's subsidiary, Tianjin Water Recycling Company Limited, and the total investment amount of the project was RMB87.57 million. The project has been entirely completed and is in the stage of joint testing and trial operation. During the reporting period, the project was conducting settlement of project accounts and inspection and acceptance.
- (3) Tianjin Cultural Centre centralized energy station project: The investor was the Group's subsidiary, Tianjin Jiayuanxing Innovative Energy Technology Company Limited, and the total investment amount of the project was approximately RMB433 million. During the reporting period, an investment of RMB7.89 million was completed. During the reporting period, main work completed was supply of cold to southern area. Currently, the project is able to supply cold to all users within the area. The ice storage system is still in the stage of test run.

- (4) Wendeng City Gejia Town sewage water treatment plant project: The investor was the Group's subsidiary, Wendeng Capital Water Company Limited, and the total investment amount of the project was RMB18.1 million. The project has been entirely completed and is currently in the test run and relevant inspection and acceptance stage.
- (5) 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 total investment amount of the project was RMB22.99 million. During the reporting period, an investment of RMB2.31 million was completed. Currently, the project has been entirely completed.
- (6) Phase 2 of the Baoying Xianhe sewage water treatment plant project: The investor was the Group's subsidiary, Baoying Capital Water Company Limited, and the total investment amount of the project was RMB38.3 million. During the reporting period, an investment of RMB3.9 million was completed. During the reporting period, main works completed were clearance of backfill into deep treatment area and road pavement, rectification of analog screen and automatic control system, etc.
- (7) Ninghe Modern Industrial Zone sewage water treatment plant project: The investor was the Group's subsidiary, Jinning Capital Environmental Water Company Limited, and the total investment amount of the project was RMB46.61 million. During the reporting period, an investment of RMB7.9 million was completed. During the reporting period, main works completed were construction of main structures throughout the plant, water supply, process pipelines and rain and sewage water pipelines in the plant, etc.
- (8) City water supply system of Anguo City reconstruction and expansion project: The investor was the Group's subsidiary, Anguo Capital Water Company Limited, and the total investment amount of the project was RMB33 million. During the reporting period, an investment of RMB330,000 was completed. Currently, the project has been entirely completed and is in the stage of settlement of project accounts .
- (9) 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 total investment amount of the project was approximately RMB76.8 million. During the reporting period, main works completed were plant landscaping and installation and test run of deodorization system.

**(V) Formulation and implementation of the cash dividend payment policy during the reporting period**

1. The cash dividend payment policy of the Company: Pursuant to Article 195 of the Articles of Association, 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 2011 Annual General Meeting, the 2011 profit appropriation plan was considered and approved. The Company made a payment of RMB0.04 (including tax) in cash per share to holders of A shares and RMB0.04 (equivalent to HK\$0.04919) (including tax) per share to holders of H shares. The Company published an announcement relating to dividend payment to A shares shareholders in the PRC on 28 June 2012. The shareholding registration date was 3 July 2012. The Company published an announcement relating to dividend distribution to H shares shareholders and an announcement relating to dividend payment to H shares shareholders in Hong Kong on 25 April 2012 and 23 May 2012 respectively. Distribution of the dividends to the holders of A shares and H shares has been completed on 10 July 2012.
3. During the reporting period, the formulation and implementation of the cash dividend payment policies was in full compliance with the provisions of the Articles of Association and requirements of resolutions of general meeting. Relevant decision-making procedures and mechanism was sound and complete and the independent non-executive Directors conducted due diligence and played their due roles. The Group will amend the provisions in the Articles of Association regarding dividend payment policies as soon as possible to further specify dividend payment standards and percentages as well as channels for minority shareholders to fully express their opinions and requirements so as to fully protect their legal rights and interests.

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

There were no seasonal changes in the Group's borrowings requirement. As at 30 June 2012, there were no outstanding bank loans and interests not being repaid upon maturity. Details of the bank borrowings of the Group are stated in the notes to the condensed consolidated financial statements of the Group as at 30 June 2012.

According to the accounting report prepared in accordance with the PRC Accounting Standards for Business Enterprises, the gearing ratio was 60.86% as at 30 June 2012.

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

The operations and customers of the Group's subsidiaries are located in the PRC. Most of the operating assets and transactions are settled in RMB, and all of the Group's borrowings are denominated in RMB. Therefore, the Group has no significant foreign exchange risk. The sole foreign exchange exposure of the Group arises from long-term payables. Such long-term payables are resulted from the Asset Transfer Agreement signed between the Company and Tianjin Sewage Company on 9 November 2010 for the purchase of assets generated from foreign bank loans, involving mainly US dollars and Japanese Yen.

As at 30 June 2012, if RMB had weakened/strengthened by 5% against the US dollar, with all other variables held constant, the after tax profit for the year would have been RMB3.7 million (2011: RMB6 million) lower/higher, mainly as a result of the foreign exchange losses/gains on the translation of US dollar-denominated portion of long-term payables. As at 30 June 2012, if RMB had weakened/strengthened by 5% against Japanese Yen, with all other variables held constant, the after tax profit for the year would have been RMB11.4 million lower/higher (2011: RMB12 million).

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

As at 30 June 2012, the Group had 1,370 employees. During the reporting period, total remuneration paid to employees of the Group was approximately RMB62,808,500. The Group adopted a wage system in accordance with post ranks. An employee's income was also pegged with his own length of service, education, skills as well as the economic benefits to the Company.

## **(IX) Risk factors analysis**

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 the second half of 2012, the upgrading and renovation 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.

## **(X) Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2012.

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

As at 30 June 2012, pursuant to the "Sewage Water Processing Agreement", "Sewage Water Processing Interim Service Agreement" and "Construction in Progress Fee Agreement" entered into between the Group and Tianjin Sewage Company, the total receivables and long-term receivables of the Group from Tianjin Sewage Company amounted to RMB1,282,940,000, representing approximately 19.90% of the total market capital of the Group as at 30 June 2012.

During the reporting period, Tianjin Sewage Company repaid a total of approximately RMB178,490,000 of the outstanding sewage water treatment fees to the Group.

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

Other than the charge provided by the Group's subsidiary, Baoying Capital Water Company Limited of its land use rights and property ownership rights as the security of a loan of RMB10 million, the Group did not create other charges as at 30 June 2012.

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

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

## VI. SIGNIFICANT MATTERS

### (I) Corporate governance of the Company

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

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

During the reporting period, the Company made amendments to the “Details for the works of the Remuneration and Assessment Committee under the Board”, the “Details for the works of the Nomination Committee under the Board” and the “Details for the works of the Audit Committee under the Board”, as well as the “Articles of Association” in accordance with the actual situation, which further enhanced the Company’s governance level.

As at the end of the reporting period, the Group had further enhanced its efforts to establish various systems and procedures for the Company and its subsidiaries, which resulted in the establishment of a sound internal control system. To thoroughly apply the “Corporate Internal Control Package Guidelines” within the Group, the Company formulated the 2012 internal control work plan which had been considered and approved by the Board and strictly implemented in the first half of 2012. Also, the Company published the Establishment and Management System of Internal Control and the Management System of Assessment of Internal Control, which provided a basis on the establishment and assessment of the internal control of the Company.

In the second half of the year, the focus of internal control work in the Group is to continue to improve the internal control system of the Company and its subsidiaries, and to carry out the self-assessment of the design and operation of internal control mechanisms of the Company in accordance with the plan. In addition, with the audit on internal control by external auditor, the Group will finalize and rectify the problems found during the self-assessment and by the external auditor to ensure the effectiveness of internal control and further improve the establishment level of the Group’s internal control system.



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

In the 2011 Annual General Meeting, the 2011 profit appropriation plan was considered and approved. The Company made a payment of RMB0.04 (including tax) in cash per share to holders of A shares and RMB0.04 (equivalent to HK\$0.04919) (including tax) per share to holders of H shares. The Company published an announcement relating to dividend payment to A shares shareholders in the PRC on 28 June 2012. The shareholding registration date was 3 July 2012. The Company published an announcement relating to dividend distribution to H shares shareholders and an announcement relating to dividend payment to H shares shareholders in Hong Kong on 25 April 2012 and 23 May 2012 respectively. Distribution of the dividends to the holders of A shares and H shares has been completed on 10 July 2012.

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

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

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

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

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

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

## **(VI) Assets transaction**

### **1. Acquisition of assets**

- (1) During the reporting period, the Company had no acquisition of assets.
- (2) Other acquisition of assets

For details, please see “Other assets swap” below.

### **2. Disposal of assets**

- (1) During the reporting period, the Company had no disposal of assets.
- (2) Other disposal of assets

For details, please see “Other assets swap” below.

### 3. Assets swap

- (1) During the reporting period, the Company had no assets swap.
- (2) Other assets swap

On 13 July 2012, the relocation of Tianjin Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant was considered and approved at the 2012 first extraordinary general meeting of the Company.

According to the overall urban planning of Tianjin City, the People's Government of Tianjin City decided to implement the relocation of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant owned respectively by the Company and Tianjin Water Recycling Company Limited ("**Water Recycling Company**"), a wholly-owned subsidiary of the Company. The People's Government of Tianjin City designated and authorized Tianjin City Construction and Communication Committee (天津市城鄉建設和交通委員會) (the "**TCCC**") to oversee the relocation of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant.

Tianjin City Land Consolidation Center (天津市土地整理中心) has entrusted Tianjin Haihe Construction Development and Investment Company Limited (天津市海河建設發展投資有限公司) ("**Tianjin Haihe**") to fix and collect the lands of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Recycled Water Plant. Tianjin Haihe is a wholly-owned subsidiary of Tianjin City Infrastructure Construction and Investment Group Company Limited which is the ultimate controller of the Company, and hence a connect person of the Company.

Concerning the relocation of Jizhuangzi Sewage Water Treatment Plant and Recycled Water Plant, TCCC and Tianjin Haihe and the Company and Water Recycling Company have signed Jizhuangzi Sewage Water Treatment Plant Relocation Agreement and Jizhuangzi Water Recycling Plant Relocation Agreement (the "**Relocation Agreements**") and Jizhuangzi Sewage Water Treatment Plant Land Consolidation Reserve Project Compensation Agreement and Jizhuangzi Water Recycling Plant Land Consolidation Reserve Project Compensation Agreement (the "**Compensation Agreements**"), respectively, to specify liabilities and obligations of the parties.

According to the Relocation Agreements and the Compensation Agreements, the relocation compensation for the Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant is based on the principle of “project for project”, pursuant to which a new sewage water treatment plant and a new water recycling plant shall be constructed to replace the Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Recycled Water Plant. The Company and Water Recycling Company will continue to own the operation rights of the new sewage water treatment plant and new water recycling plant. The new sewage water treatment plant and new water recycling plant will be constructed according to the construction scale, content, standard and the estimated budget based on the preliminary designs approved by the competent authorities of Tianjin Government in the total amount of approximately RMB2,065,590,100 and RMB260,350,700 respectively, all inclusive. The land consolidation and compensation fees for Jizhuangzi Sewage Water Treatment Plant will be RMB2,065,590,100, while the land consolidation and compensation fees for Jizhuangzi Water Recycling Plant will be RMB260,350,700.

The Relocation Agreements and the Compensation Agreements were announced upon consideration and approval by the Board of the Company on 24 May 2012, and were passed and took effect at the extraordinary general meeting of the Company held on 13 July 2012.

According to the Listing Rules of the HKSE, the relocation of Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant and the related Relocation Agreements and Compensation Agreements should be disclosed as price sensitive information.

According to the listing rules of the SSE, the Company is required to put forward the relocation of Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant and the related Relocation Agreements and Compensation Agreements to the general meeting of the Company for consideration and approval. However, in light of the nature and pricing principles of this project, SSE has granted the Company and Water Recycling Company a waiver of provision of asset evaluation reports in respect of Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant as well as a waiver of review and disclosure according to the review and disclosure procedures for a connected transaction.

For details of the above matters, please refer to the Company’s announcements dated 24 May 2012 and 13 July 2012.

## (VII) Major connected transactions

### 1. Major connected transactions of the Company during the reporting period

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

### 2. Other connected transactions

- (1) Properties tenancy agreements between the Company and Tianjin City Infrastructure Construction and Investment Group Company Limited (“**Tianjin Infrastructure Construction**”) and its subsidiaries

In order to obtain steady return of rental income in respect of its owned premises, on 22 March 2012, the Company entered into properties tenancy agreements with Tianjin Infrastructure Construction and Tianjin Environmental Construction and Investment Company Limited (“**Tianjin Environmental Investment**”) respectively. Tianjin Infrastructure Construction is the ultimate controller of the Company. Tianjin Environmental Investment is a wholly-owned subsidiary of Tianjin Infrastructure Construction. Therefore, Tianjin Infrastructure Construction and Tianjin Environmental Investment are 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 are as follows:

- ① The tenancy agreement between the Company and Tianjin Infrastructure Construction

Its term is from 1 April 2012 to 31 March 2015. The lettable area includes certain area from the 9th floor to 10th floor of TCEP Building, and the total rent is RMB2,863,906.20.

- ② The tenancy agreement between the Company and Tianjin Environmental Investment

Its term is from 1 April 2012 to 31 March 2013. The lettable area includes certain area of the 4th floor of TCEP Building, and the total rent is RMB138,258.

For details of the above matters, please refer to the Company’s announcement dated 22 March 2012.

- (2) Relocation of the Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant

Please refer to the above “Other asset acquisition and disposal and mergers” for details.

- (3) The Cold Supply Agreement between Tianjin Jiayuanxing Innovative Energy Technology Company Limited (“**Jiayuanxing**”, a wholly-owned subsidiary of the Company) and its related party

The centralised energy station project in Tianjin Cultural Centre invested and constructed by Jiayuanxing was ready for supplying cold. On 26 July 2012, Jiayuanxing and Tianjin Lecheng Properties Company Limited (“**TLP**”) entered into a cold supply agreement. TLP is a wholly-owned subsidiary of Tianjin Municipal Investment Company Limited, the controlling shareholder of the Company. As such, TLP is regarded as a connected person of the Company. The transaction contemplated under the above cold supply agreement constitutes a connected transaction of the Company under the Listing Rules. A summary of the principal terms of the above cold supply agreement is as follows:

The term of cold supply is no more than 122 days from the date of the above agreement. The unit price for provision of cold supply services is RMB65 per m<sup>2</sup>. The cold supply service area is 363,042 m<sup>2</sup>, and the total service fees for the cold supply service is RMB23,597,730.

For details of the above matters, please refer to the Company’s announcement dated 26 July 2012.

- (4) The provision of service by the Company to Tianjin Infrastructure Construction in respect of the operation of Zhangguizhuang Sewage Water Treatment Plant and Water Recycling Plant (the “**Sewage Water Treatment Plant and Water Recycling Plant**”)

On 2 August 2012, the Company and Tianjin Infrastructure Construction entered into the entrusted operation agreement in respect of the operation of Zhangguizhuang Sewage Water Treatment Plant and Water Recycling Plant (the “**Operation Agreement**”), pursuant to which the Company provides services to Tianjin Infrastructure Construction in respect of the operation of the Sewage Water Treatment Plant and Water Recycling Plant.

Pursuant to the Operation Agreement, the Company was determined to provide one-year operation services for Tianjin Infrastructure Construction from the effective date of the Operation Agreement. Subject to the service standards satisfying the requirements set out in the Operation Agreement, the operation service fees is RMB4,473,000 per month and RMB53,680,000 in total for one year.

For details of the above matters, please refer to the Company’s announcement dated 2 August 2012.

## (VIII) Major contracts and their implementation

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

#### (1) Custody

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

#### (2) Subcontracting

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

#### (3) Leasing

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

### 2. Guarantee

Unit: 0'000      Currency: RMB

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

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

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

Total amount of guarantee provided to the subsidiaries of the Company during the reporting period	10,479
Total amount of outstanding guarantee provided to the subsidiaries as at the end of the reporting period (B)	80,443

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

Total amount of guarantee (A+B)	80,443
Percentage of the total amount of guarantee to the net assets of the Company (%)	22.18
Of which:	
Amount of guarantee provided to the shareholders, actual controller and other related parties (C)	0
Amount of guarantee provided directly or indirectly to the borrowers with gearing ratio of over 70% (D)	0
Total amount of guarantee exceeds 50% of net assets (E)	0
Total amount of the above three guarantees (C+D+E)	0

**3. Entrusted financial management and entrusted loans**

(1) Entrusted financial management

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

(2) Entrusted loans

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

**4. Other major contracts**

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

**(IX) Implementation of commitments**

During the reporting period or until the reporting period, no commitments were made by the Company, controlling shareholders or actual controllers.

**(X) Appointment and removal of the accountants**

Does the Company change its accountants?	No
Name of the PRC accountants	<b>Present Appointment</b> PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
Auditing services rendered by the PRC accountants	18 years
Name of the Hong Kong accountants	PricewaterhouseCoopers
Auditing services rendered by the Hong Kong accountants	18 years

During the reporting period, the Group 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 RMB5 million were paid to the two auditors for auditing services rendered in 2011. As at the end of the reporting period of 2011, the above two accountants have rendered auditing services for the Group for 18 years. During the past three years, the Group did not change its auditors.

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

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

**(XII) Explanation of other major events**

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



### (XIII) Information Disclosure Index

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
Announcement in relation to the resolution passed at the 26th meeting of the fifth Board	“Shanghai Securities News” page B16	17 January 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement in relation to the resolutions passed at the 27th meeting of the fifth Board and proposed amendment to the Articles of Association of the Company	“Shanghai Securities News” page B35	22 March 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement in relation to the resolutions passed at the 10th meeting of the fifth Supervisory Committee		22 March 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Report of the Independent Directors of the Company for 2011		22 March 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Report on assessment of Internal Control 2011		22 March 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
Notice of 2011 Annual General Meeting		22 March 2012	SSE: www.sse.com.cn; HKSE:www.hkex.com.hk; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Continuing Connected Transactions		22 March 2012	SSE: www.sse.com.cn; HKSE:www.hkex.com.hk; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement of final results for the year ended 31 December 2011	“Shanghai Securities News” page B35	22 March 2012	SSE: www.sse.com.cn; HKSE:www.hkex.com.hk; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Social Responsibility Report 2011		22 March 2012	SSE: www.sse.com.cn; HKSE:www.hkex.com.hk; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Implementation rules for the Audit Committee under the Board		30 March 2012	SSE: www.sse.com.cn; HKSE:www.hkex.com.hk; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Implementation rules for the Nomination Committee under the Board		30 March 2012	SSE: www.sse.com.cn; HKSE:www.hkex.com.hk; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Implementation rules for the Remuneration and Assessment Committee under the Board		30 March 2012	SSE: www.sse.com.cn; HKSE:www.hkex.com.hk; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Annual Report 2011		16 April 2012	SSE: www.sse.com.cn; HKSE:www.hkex.com.hk; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
Announcement in relation to the resolutions passed at the 28th meeting of the fifth Board	“Shanghai Securities News” page B25	25 April 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
First Quarterly Report 2012	“Shanghai Securities News” page B25	25 April 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement in relation to the provision of guarantee for loans of Anguo Capital Water Company Limited	“Shanghai Securities News” page B25	25 April 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement in respect of dividend distribution		25 April 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement in relation to the provision of guarantee for loans of Tianjin Jinning Capital Environmental Water Company Limited	“Shanghai Securities News” page B25	25 April 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Articles of Association (2012 Revision)		11 May 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement on the resolutions passed at the 2011 Annual General Meeting	“Shanghai Securities News” page 21	11 May 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>

<b>Subject</b>	<b>Name and page of newspaper</b>	<b>Date of publication</b>	<b>Website and path of publication</b>
Announcement in respect of dividend payment		23 May 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement on the relocation of the Company's Tianjin Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant	"Shanghai Securities News" page B25	24 May 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Notice of 2012 First Extraordinary General Meeting	"Shanghai Securities News" page B25	24 May 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>
Announcement on the implementation of 2011 profit distribution for A Shares	"Shanghai Securities News" page B25	27 June 2012	SSE: <a href="http://www.sse.com.cn">www.sse.com.cn</a> ; HKSE: <a href="http://www.hkex.com.hk">www.hkex.com.hk</a> ; IFN Financial Press Ltd.: <a href="http://www.ifn.com.hk/ir/tjcep/">http://www.ifn.com.hk/ir/tjcep/</a>

## VII. FINANCIAL ACCOUNTING REPORT (UNAUDITED)

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

#### CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2012

(All amounts in Rmb thousand unless otherwise stated)

		As at	
	Note	30 June 2012	31 December 2011
		Unaudited	Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	3,272,743	3,264,574
Investment property		114,119	115,955
Intangible assets	7	2,758,662	2,803,037
Land use rights		445,902	451,784
Investment in an associate	8	41,253	40,669
Available-for-sale financial assets		4,000	4,000
Trade receivables due after one year	9	68,794	68,794
Long-term receivables	10	338,039	338,446
Other non-current assets		9,014	8,634
		<u>7,052,526</u>	<u>7,095,893</u>
<b>Current assets</b>			
Inventories		88,569	80,569
Trade receivables	9	1,382,039	1,096,583
Other current assets		14,751	7,831
Other receivables		16,353	17,049
Prepayments		107,941	95,706
Cash and cash equivalents		984,851	691,693
		<u>2,594,504</u>	<u>1,989,431</u>
<b>Total assets</b>		<u><u>9,647,030</u></u>	<u><u>9,085,324</u></u>

	Note	As at	
		30 June 2012 Unaudited	31 December 2011 Audited
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	11	1,427,228	1,427,228
Other reserves		708,492	708,492
Retained earnings		1,490,484	1,432,617
– Proposed final dividend		—	57,089
– Undistributed		1,490,484	1,375,528
		3,626,204	3,568,337
<b>Non-controlling interests</b>		150,075	147,372
<b>Total equity</b>		3,776,279	3,715,709
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	12	3,706,601	3,051,136
Deferred revenue		394,177	369,928
Deferred income tax liabilities		54,151	48,479
		4,154,929	3,469,543
<b>Current liabilities</b>			
Trade payables	13	44,976	18,481
Advances from customers	13	525,124	423,387
Wages payables		6,564	8,227
Income tax payable		10,673	7,671
Other taxes payable		3,018	603
Dividend payable		59,050	1,461
Other payables	13	291,845	412,095
Borrowings	12	774,572	1,028,147
		1,715,822	1,900,072
<b>Total liabilities</b>		5,870,751	5,369,615
<b>Total equity and liabilities</b>		9,647,030	9,085,324
<b>Net current assests</b>		878,682	89,359
<b>Total assets less current liabilities</b>		7,931,208	7,185,252
	<b>Zhang Wenhui</b>	<b>Lin Wenbo</b>	
	<i>Director</i>	<i>Director</i>	

The notes on page 41 to 62 form an integral part of this condensed consolidated interim financial information.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

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

	Note	Unaudited	
		Six months ended 30 June	
		2012	2011
Revenue	6(a)	735,532	725,235
Business tax		(4,700)	(3,608)
Cost of sales		(411,983)	(413,176)
<b>Gross profit</b>		<b>318,849</b>	<b>308,451</b>
Other income - net	6(a)	10,436	4,237
Administrative expenses		(55,214)	(50,172)
<b>Operating profit</b>	14	<b>274,071</b>	<b>262,516</b>
Finance income		16,223	11,384
Finance costs		(128,514)	(87,713)
Finance costs - net	15	(112,291)	(76,329)
Share of profits /(loss) of an associate		584	(489)
<b>Profit before income tax</b>		<b>162,364</b>	<b>185,698</b>
Income tax expense	16	(44,205)	(45,987)
<b>Profit for the period</b>		<b>118,159</b>	<b>139,711</b>
Other comprehensive income for the period, net of tax		—	—
<b>Total comprehensive income for the period</b>		<b>118,159</b>	<b>139,711</b>
<b>Profit /Total comprehensive income attributable to:</b>			
– Owners of the parent		114,956	137,674
– Non-controlling interests		3,203	2,037
		<b>118,159</b>	<b>139,711</b>
<b>Earnings per share for profit attributable to the owners of the parent (in Rmb per share)</b>			
– basic		Rmb0.08	Rmb0.10
– diluted		Rmb0.08	Rmb0.10
<b>Interim dividends</b>	17	—	—

The notes on page 41 to 62 form an integral part of this condensed consolidated interim financial information.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

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

	Note	Unaudited			Non-controlling interests	Total	
		Equity holders of the Company					
		Share capital	Other Reserves	Retained Earnings	Sub-total		
<b>Balance at 1 January 2012</b>		1,427,228	708,492	1,432,617	3,568,337	147,372	3,715,709
<b>Comprehensive income</b>							
– Profit for the period		—	—	114,956	114,956	3,203	118,159
<b>Total comprehensive income</b>		—	—	114,956	114,956	3,203	118,159
<b>Transactions with owners</b>							
– Dividends distributed	17	—	—	(57,089)	(57,089)	(500)	(57,589)
<b>Total transactions with owners</b>		—	—	(57,089)	(57,089)	(500)	(57,589)
<b>Balance at 30 June 2012</b>		1,427,228	708,492	1,490,484	3,626,204	150,075	3,776,279
<b>Balance at 1 January 2011</b>		1,427,228	685,343	1,338,002	3,450,573	125,596	3,576,169
<b>Comprehensive income</b>							
– Profit for the period		—	—	137,674	137,674	2,037	139,711
<b>Total comprehensive income</b>		—	—	137,674	137,674	2,037	139,711
<b>Transactions with owners</b>							
– Dividends distributed	17	—	—	(156,995)	(156,995)	—	(156,995)
<b>Total transactions with owners</b>		—	—	(156,995)	(156,995)	—	(156,995)
<b>Balance at 30 June 2011</b>		1,427,228	685,343	1,318,681	3,431,252	127,633	3,558,885

The notes on page 41 to 62 form an integral part of this condensed consolidated interim financial information.



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Cash generated from operation	229,771	389,246
PRC income tax paid	(27,700)	(39,216)
Interest received	10,469	5,667
	<u>212,540</u>	<u>355,697</u>
<b>Net cash flows from operating activities</b>		
<b>Cash flows from investing activities</b>		
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(246,175)	(208,088)
Net cash received from disposal of fixed assets	53	658
Dividend received	500	200
Other cash received relating to investing activities	24,715	—
Cash paid to acquire equity investment	—	(2,436)
	<u>(220,907)</u>	<u>(209,666)</u>
<b>Net cash flows from investing activities</b>		
<b>Cash flows from financing activities</b>		
Payments of interest expenses and distribution of dividends of profits	(100,775)	(71,189)
Repayments of bank borrowing	(724,842)	(272,613)
Proceeds of bank borrowing	1,126,242	161,200
Cash received relating to other financing activities	—	7,280
	<u>300,625</u>	<u>(175,322)</u>
<b>Net cash flows from financing activities</b>		
<b>Net increase/(decrease) in cash</b>	292,258	(29,291)
Add: Cash and bank balances at beginning of period	688,993	539,430
	<u>981,251</u>	<u>510,139</u>
<b>Cash and cash equivalents at end of period</b>		

The notes on page 41 to 62 form an integral part of this condensed consolidated interim financial information.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in Rmb thousand unless otherwise stated)

### 1 Company profile and principal activities

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

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, recycled water and heat and cooling as described below:

#### (a) Processing of sewage water

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

Plant Location	Agreement date	Customer
Dong Jiao, Tianjin	10 October 2000	Tianjin Sewage Company (“TSC”)
Ji Zhuang Zi, Tianjin	10 October 2000	TSC
Xian Yang Lu, Tianjin	10 October 2000	TSC
Bei Cang, Tianjin	10 October 2000	TSC
Gui Yang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Bao Ying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chi Bi, Hebei	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	12 November 2006	Hangzhou Sewage Company
Jing Hai, Tianjin	12 September 2007	Tianyu Science Technology Park Administration Committee of Tianjin New Technology Industry Area
Wen Deng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi An, Shanxi	18 March 2008	Xi An Municipal Infrastructure Construction Investment General Company
An Guo, Hebei	14 October 2008	An Guo Municipal Government
Xian Ning, Hubei	16 October 2008	Xianning Construction Committee
Ying Dong, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
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.

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 predetermined sewage processing fee from the completion date of construction to the completion date of inspection of the Ji Zhuang Zi, Xian Yang Lu and Bei Cang plants. After the inspection of these three plants is completed, processing fee will be collected from TSC using the same principle as for Dong Jiao plant as described above.

*All other sewage water processing plants:*

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

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

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

**(b) Construction and management of sewage water facility**

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

**(c) Supply of tap water**

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

**(d) Recycled water and pipeline connection**

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

**(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.

This condensed consolidated interim financial information was approved for issue on 23 August 2012.

This condensed consolidated financial information has not been audited.

**2 Basis of preparation**

These condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with HKFRSs.

### **3 Accounting policies**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- HKFRS 9 ‘Financial instruments’
- HKFRS 10 ‘Consolidated financial statements’
- HKFRS 12 ‘Disclosures of interests in other entities’
- HKFRS 13 ‘Fair value measurement’
- HKAS 19 ‘Employee benefits’ (Amendment)

### **4 Estimates**

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

In preparing these condensed consolidated interim financial information, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

## 5 Financial risk management

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

The condensed interim consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

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

### (a) Market risk:

#### (i) Foreign currency risk:

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

At 30 June 2012, if RMB had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the period would have been Rmb3.7 million (2011: Rmb4 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated portion of long-term payables. Similarly, if RMB had weakened/strengthened by 5% against the JPY with all other variables held constant, post-tax profit for the period would have been Rmb11.4 million (2011: 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 payables.

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

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

	Fixed	Floating	Non-interest Bearing	Total
<b>At 30 June 2012</b>				
Assets				
Cash and bank balances	3,600	981,251	—	984,851
Long-term receivables	338,039	—	—	338,039
Liabilities				
Current borrowings	—	743,671	302	743,973
Non current borrowings	—	2,622,381	10,613	2,632,994
Long-term payables due within 1 year	23,652	6,947	—	30,599
Long-term payables	284,419	98,288	—	382,707
Debentures payable	690,900	—	—	690,900
<b>At 31 December 2011</b>				
Assets				
Cash and bank balances	2,700	688,993	—	691,693
Long-term receivables	338,446	—	—	338,446
Liabilities				
Current borrowings	—	997,265	416	997,681
Non current borrowings	—	1,964,130	10,613	1,974,743
Long-term payables due within 1 year	23,750	6,716	—	30,466
Long-term payables	287,602	98,941	—	386,543
Debentures payable	689,850	—	—	689,850

At 30 June 2012, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, profit for the year would have been lower/higher by Rmb14.2 million (2011: Rmb26 million).

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

**(b) Credit risk:**

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

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

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

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

(c) **Liquidity risk:**

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

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
<b>At 30 June 2012</b>					
Cash and bank balances	984,851	—	—	—	984,851
Trade receivables	1,382,039	—	—	—	1,382,039
Long-term receivables	13,908	85,952	60,710	375,949	536,519
Long-term bank borrowings	(760,435)	(1,395,011)	(1,040,338)	(411,537)	(3,607,321)
Long-term payables	(32,419)	(32,738)	(100,696)	(620,234)	(786,087)
Other non-current liabilities	(24,002)	(23,259)	(65,079)	(30,901)	(143,241)
Trade and other payables	(336,821)	—	—	—	(336,821)
Short-term borrowings	(158,673)	—	—	—	(158,673)
Debentures payable	(46,480)	(46,480)	(839,440)	—	(932,400)
<b>At 31 December 2011</b>					
Cash and bank balances	691,693	—	—	—	691,693
Trade 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)
Debentures payable	(46,480)	(46,480)	(839,440)	—	(932,400)



**(d) Capital risk management**

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

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

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

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

	<b>Unaudited</b>	
	<b>For the six months ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2012</b>	<b>2011</b>
Total borrowings	4,067,867	3,662,274
Less: Cash and cash equivalents	(981,251)	(688,993)
Net debt	<u>3,086,616</u>	<u>2,973,281</u>
Total equity	<u>3,776,279</u>	<u>3,715,709</u>
Total capital	<u>6,862,895</u>	<u>6,688,990</u>
Gearing ratio	<u>45%</u>	<u>44%</u>

There is no significant change in gearing ratio of the Group for the six months ended 30 June 2012.

**(e) Fair value estimation**

Long-term borrowings, long-term payables, 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.

## 6 Revenue and segment information

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

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

	Unaudited	
	For the six months ended	
	30 June 2012	30 June 2011
Revenue from principal operation (Note 6(b))	735,532	725,235
Other income - net	10,436	4,237
	<u>745,968</u>	<u>729,472</u>

### (b) Operating segment analysis

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

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

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

(i) For the period ended 30 June 2012

	Sewage water processing services			Recycle	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants	water and pipeline connection			
Segment revenue	396,489	77,696	129,137	55,211	21,546	65,889	745,968
Segment expense	(304,421)	(63,488)	(117,558)	(42,900)	(19,591)	(36,230)	(584,188)
Results before share of profits of an associate	92,068	14,208	11,579	12,311	1,955	29,659	161,780
Share of profits of an associate							584
Profit before income tax							162,364
Income tax expense							(44,205)
Profit for the period							118,159
Segment assets	5,225,860	765,236	1,570,914	750,111	280,048	1,013,608	9,605,777
Investment in an associate	—	—	—	—	—	41,253	41,253
Total assets	5,225,860	765,236	1,570,914	750,111	280,048	1,054,861	9,647,030
Total liabilities	3,746,212	445,582	577,167	698,501	87,693	315,596	5,870,751
Other information							
– Interest income	6,091	326	706	2,665	20	6,415	16,223
– Interest expenses	(80,194)	(13,518)	(26,471)	(1,509)	(4,352)	(895)	(126,939)
– Depreciation	(58,063)	—	(1,783)	(11,241)	—	(2,518)	(73,605)
– Amortisation	(5,817)	(18,124)	(31,386)	(253)	(4,496)	(6,670)	(66,746)
– Capital expenditures	66,914	2,895	6,720	8,044	820	13,277	98,670

(ii) For the period ended 30 June 2011

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

## 7 Property, plant and equipment and intangible assets

	<b>Property, plant and equipment</b>	<b>Intangible assets</b>
<b>Six months ended 30 June 2012</b>		
<b>Opening net book amount as at 1 January 2012</b>	3,264,574	2,803,037
Additions	82,181	16,489
Disposals	(2,243)	—
Depreciation and amortisation	(71,769)	(60,864)
<b>Closing net book amount as at 30 June 2012</b>	<u>3,272,743</u>	<u>2,758,662</u>
<b>Six months ended 30 June 2011</b>		
<b>Opening net book amount 1 January 2011</b>	3,230,110	2,427,782
Additions	76,287	64,229
Disposals	(14,126)	—
Depreciation and amortisation	(69,916)	(51,768)
<b>Closing net book amount 30 June 2011</b>	<u>3,222,355</u>	<u>2,440,243</u>

Certain of the concession rights with net book value of Rmb236 million (31 December 2011: Rmb242 million) have been secured against loan facilities.

## 8 Investment in an associate

	<b>Unaudited For the six months ended 30 June 2012</b>
Beginning of the period	40,669
Share of loss	584
End of the period	<u>41,253</u>

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

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

Details of the trade receivables are as follows:

	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
Due from TSC for:		
– Water processing services	1,214,143	998,903
– Construction of plants	68,794	68,794
	<u>1,282,937</u>	<u>1,067,697</u>
Toll road fee	36,115	—
Due from others – current	131,781	97,680
	<u>1,450,833</u>	<u>1,165,377</u>
Less: Non-current portion	(68,794)	(68,794)
	<u><u>1,382,039</u></u>	<u><u>1,096,583</u></u>

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

	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
Within one year	965,695	865,014
One to two years	416,344	231,419
Over two years	68,794	68,944
	<u>1,450,833</u>	<u>1,165,377</u>

## 10 Long-term receivables

	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
Receivables from toll road concession	<u>338,039</u>	<u>338,446</u>

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

## 11 Share capital

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

	“A” Circulating shares	“H” Circulating shares	Total
At 31 December 2011 – Audited	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>
At 30 June 2012 – Unaudited	<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.

## 12 Borrowings

	Note	Unaudited 30 June 2012	Audited 31 December 2011
Non-current liabilities:			
Long-term bank borrowings	(a),(b)	3,096,782	2,690,760
Less: Current portion	(a),(b)	<u>(572,125)</u>	<u>(825,720)</u>
		2,524,657	1,865,040
Debentures payable		690,900	689,850
Long-term payables	(c)	382,707	386,543
Other non-current liabilities		<u>108,337</u>	<u>109,703</u>
		<u>3,706,601</u>	<u>3,051,136</u>
Current liabilities:			
Current portion of long-term bank borrowings	(a),(b)	572,125	825,720
Current portion of long-term payables	(c)	30,599	30,466
Short-term bank borrowings	(b)	152,000	152,000
Other current liabilities		<u>19,848</u>	<u>19,961</u>
		<u>774,572</u>	<u>1,028,147</u>

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

Movement of bank borrowings is analyzed as follows:

	<b>Unaudited</b>
<b>Six months ended 30 June 2011</b>	
Opening amount 1 January 2011	2,639,030
New borrowings	161,200
Repayments of borrowings	<u>(271,250)</u>
Closing amount as at 30 June 2011	<u>2,528,980</u>
<b>Six months ended 30 June 2012</b>	
Opening amount as at 1 January 2012	2,690,760
New borrowings	1,126,242
Repayments of borrowings	<u>(720,220)</u>
Closing amount as at 30 June 2012	<u><u>3,096,782</u></u>

These borrowings mature as follows:

	<b>Less than 6 months</b>	<b>6-12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>At 30 June 2012</b>						
Long-term bank borrowings	<u>131,500</u>	<u>440,625</u>	<u>1,264,355</u>	<u>870,852</u>	<u>389,450</u>	<u>3,096,782</u>
<b>At 31 December 2011</b>						
Long-term bank borrowings	<u>271,250</u>	<u>554,470</u>	<u>752,180</u>	<u>733,260</u>	<u>379,600</u>	<u>2,690,760</u>



(b) Summary of terms of bank borrowings:

	Unaudited 30 June 2012	Audited 31 December 2011
Long-term bank borrowings:		
Pledge	151,000	198,000
Guarantee	1,101,432	1,137,360
Unsecured	1,844,350	1,355,400
	<u>3,096,782</u>	<u>2,690,760</u>
Short-term bank borrowings:		
Guarantee	16,000	16,000
Unsecured	136,000	136,000
	<u>152,000</u>	<u>152,000</u>

(c) Long-term payables and current portion of long-term payables

	Unaudited 30 June 2012		Audited 31 December 2011	
	Payable	Unrecognized financial charges	Payable	Unrecognized financial charges
Payable to TSC for assets acquisition	<u>786,087</u>	<u>(372,781)</u>	<u>802,193</u>	<u>(385,184)</u>

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

	Maturity date	Original balance	Effective interest rate	Ending balance	Due within 1 year
TSC	20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>382,707</u>	<u>30,599</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 RMB 691 million. The balance will be settled in Renminbi 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 agreed and fixed effective interest rate of 5.94%.

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

	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
JPY	618,969	631,576
US dollar	167,118	170,617
	<u>786,087</u>	<u>802,193</u>

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

### 13 Trade payables, Advances and Other payables

	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
Trade payables (note (a))	44,976	18,481
Advances (note (b))	525,124	423,387
Other payables (note (c))	291,845	412,095
	<u>861,945</u>	<u>853,963</u>

(a) As at 30 June 2012, the majority of trade payables are aged within one year.

(b) Advances from customers comprise:

	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
For recycled water pipeline connection	509,882	407,679
For heating service	—	6,881
Received from project of Han Gu	4,761	4,521
Received from landfill project	5,335	—
Received from project of Yingli Energy	1,796	—
Received from deodorization project	2,000	—
Other advances	1,350	4,306
	<u>525,124</u>	<u>423,387</u>

(c) Other payables comprise:

	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>
Construction costs payable	211,692	224,627
Payable for purchase of fixed assets and concession rights of plants	46,513	111,179
Long-term debenture interests payables	30,987	7,747
Others	2,653	68,542
	<u>291,845</u>	<u>412,095</u>

The carrying value of trade and other payables approximates their fair value due to their short-term maturities.

#### 14 Operating profit

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

	<b>Unaudited</b>	
	<b>For the six months ended</b>	
	<b>30 June 2012</b>	<b>30 June 2011</b>
Crediting:		
Rental of investment properties	<u>(6,330)</u>	<u>(5,217)</u>
Charging:		
Depreciation and amortisation expenses	140,351	128,826
Staff costs	80,536	72,637
Raw materials and consumables used	20,848	19,773
Repair and maintenance expenses	28,025	21,192
Loss of disposal of property, plant and equipment	<u>2,190</u>	<u>13,468</u>

## 15 Finance costs-net

	Unaudited	
	For the six months ended	
	30 June 2012	30 June 2011
Interest expenses of borrowings	138,009	96,528
Less: Capitalised interest	<u>(11,070)</u>	<u>(9,313)</u>
	126,939	87,215
Less: Interest income	(16,223)	(11,384)
– long-term receivables	(5,754)	(5,717)
– bank deposits	<u>(10,469)</u>	<u>(5,667)</u>
Others	<u>1,575</u>	<u>498</u>
	<u>112,291</u>	<u>76,329</u>

## 16 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% as at 30 June 2012 (2011: Nil). PRC income tax is calculated at the statutory rate of 25% (2011: 25%).

Tax charge comprises:

	Unaudited	
	For the six months ended	
	30 June 2012	30 June 2011
Current income tax	38,533	41,867
Deferred income tax	<u>5,672</u>	<u>4,120</u>
	<u>44,205</u>	<u>45,987</u>

## 17 Interim dividends

No interim dividend was proposed by the Board of Directors of the Company for the six months ended 30 June 2012 (2011: Nil).

## 18 Commitments and contingent liabilities

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

	Contracted but not provided for		Authorised but not contracted for	
	Unaudited 30 June 2012 <i>Rmb' million</i>	Audited 31 December 2011 <i>Rmb' million</i>	Unaudited 30 June 2012 <i>Rmb' million</i>	Audited 31 December 2011 <i>Rmb' million</i>
Sewage water processing plants in:				
– Ji Zhuang Zi (upgrade project)	10	21	4	15
– Xian Yang Lu (upgrade project)	8	9	7	31
– Bei Cang (upgrade project)	1	10	24	25
– Dong Jiao (upgrade project)	21	18	14	63
– Ning He Project	17	16	—	9
– Baoying Project	16	16	—	—
– Hangzhou Project	3	4	5	5
Water recycling plants in:				
– Ji Zhuang Zi (expansion project)	—	—	16	16
	<u>76</u>	<u>94</u>	<u>70</u>	<u>164</u>

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

## 19 Related party transactions

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

(i) Income:

Related parties	Nature of transaction	Unaudited	
		For the six months ended	
		30 June 2012	30 June 2011
Tianjin Zi Ya Recycled economy industry Investment development Ltd.	Construction revenue from sewage water processing plant	1,958	26,069
Tianjin Zi Ya Recycled economy industry Investment development Ltd.	Income from serving as construction agency	—	970
TICIG	Rental income from TCEP building	239	1,912
Tianjin Environment Construction Investment Company Limited	Rental income from TCEP building	908	364
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building	—	344
Tianjin Lecheng Properties Limited	Income from supply of heat	10,110	—
Tianjin Environment Construction Investment Company Limited	Income from supply of heat	261	—
Tianjin Subway Group Limited company	Income from supply of heat	1,897	—
		<u>1,897</u>	<u>—</u>

(ii) Key management compensation for the six months ended 30 June 2012 is summarized as follows:

	Unaudited	
	For the six months ended	
	30 June 2012	30 June 2011
Salaries and other short-term employee benefits	4,787	3,419
Other long-term benefits	653	425
	<u>5,440</u>	<u>3,844</u>

(iii) Receivables from and payables to related parties:

	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>
Tianjin City Resource Operation Co., Ltd.	801	801
TICIG	239	—
Tianjin Environment Construction Investment Company Co., Ltd.	471	—
Tianjin Lecheng Properties Limited	—	404
Tianjin Subway Group Co., Ltd.	—	76
	<u>1,511</u>	<u>1,281</u>

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

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

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

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

### Balance Sheet

As at 30 June 2012

(All amounts in RMB thousand unless otherwise stated)

	Notes	Group		Company	
		Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and bank balances	(1)	984,851	691,693	559,534	257,969
Trade receivables	(2)	1,382,039	1,096,583	1,268,044	1,010,492
Prepayments	(3)	107,941	95,706	8,431	3,458
Other receivables	(4)	16,353	17,049	119,234	121,653
Inventories	(5)	88,569	80,569	9,727	4,218
Dividends receivable		—	—	16,750	—
Other current assets		14,751	7,831	154,500	157,331
<b>Total current assets</b>		<b>2,594,504</b>	<b>1,989,431</b>	<b>2,136,220</b>	<b>1,555,121</b>
<b>NON-CURRENT ASSETS</b>					
Long-term receivables	(6)	406,833	407,240	406,833	407,240
Long-term equity investments	(7)	45,253	44,669	1,285,755	1,285,755
Investment properties	(8)	114,119	115,955	90,075	91,659
Fixed assets	(9)	2,322,358	2,383,709	2,093,638	2,152,292
Construction in progress	(9)	950,385	880,865	871,729	806,613
Intangible assets	(10)	3,204,564	3,254,821	437,356	443,073
Other non-current assets		9,014	8,634	34,809	35,045
<b>Total non-current assets</b>		<b>7,052,526</b>	<b>7,095,893</b>	<b>5,220,195</b>	<b>5,221,677</b>
<b>TOTAL ASSETS</b>		<b>9,647,030</b>	<b>9,085,324</b>	<b>7,356,415</b>	<b>6,776,798</b>



	Notes	Group		Company	
		Unaudited	Audited	Unaudited	Audited
		30 June 2012	31 December 2011	30 June 2012	31 December 2011
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Short-term borrowings	(12)	152,000	152,000	136,000	136,000
Trade payables	(11)	44,976	18,481	26,247	3,157
Advances	(11)	525,124	423,387	12,092	8,331
Wages payable		6,564	8,227	4,128	5,790
Taxes payable	(11)	13,691	8,274	9,074	2,400
Dividend payable	(16)(c)	59,050	1,461	58,550	1,461
Other payables	(11)	291,845	412,095	318,227	330,812
Long-term borrowings due within one year	(12)	602,724	856,186	488,599	653,466
Other current liabilities	(12)	19,848	19,961	16,364	16,364
<b>Total current liabilities</b>		<u>1,715,822</u>	<u>1,900,072</u>	<u>1,069,281</u>	<u>1,157,781</u>
<b>NON-CURRENT LIABILITIES</b>					
Long-term borrowings	(12)	2,524,657	1,865,040	1,386,350	782,400
Debentures payable		690,900	689,850	690,900	689,850
Deferred revenue	(13)	394,177	369,928	203,757	204,221
Deferred income tax liabilities	(14)	54,151	48,479	20,843	19,966
Long-term payables	(12)	382,707	386,543	382,707	386,543
Other non-current liabilities	(12)	108,337	109,703	81,817	81,817
<b>Total non-current liabilities</b>		<u>4,154,929</u>	<u>3,469,543</u>	<u>2,766,374</u>	<u>2,164,797</u>
<b>TOTAL LIABILITIES</b>		<u>5,870,751</u>	<u>5,369,615</u>	<u>3,835,655</u>	<u>3,322,578</u>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	(15)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	(16)(a)	382,311	382,311	380,788	380,788
General reserves	(16)(b)	326,181	326,181	326,181	326,181
Undistributed profits		1,490,484	1,432,617	1,386,563	1,320,023

	Notes	Group		Company	
		Unaudited	Audited	Unaudited	Audited
		30 June 2012	31 December 2011	30 June 2012	31 December 2011
<b>Equity attributable to owners of the parent</b>		3,626,204	3,568,337	3,520,760	3,454,220
<b>Minority Interests</b>	(17)	150,075	147,372	—	—
<b>Total shareholders' equity</b>		<u>3,776,279</u>	<u>3,715,709</u>	<u>3,520,760</u>	<u>3,454,220</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>9,647,030</u>	<u>9,085,324</u>	<u>7,356,415</u>	<u>6,776,798</u>

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

**Zhang Wenhui**  
*Company Representative*

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

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

## Income Statement

For the six months ended 30 June 2012

(All amounts in RMB thousand unless otherwise stated)

	Notes	Group		Company	
		Unaudited Six months ended 30 June		Unaudited Six months ended 30 June	
	6	2012	2011	2012	2011
<b>Income from operations</b>	(18)	765,100	750,479	447,971	466,452
Less: Cost for operations	(18)	(434,391)	(425,281)	(212,899)	(223,528)
Business tax and surcharges	(19)	(4,700)	(3,608)	(2,242)	(2,155)
Administrative expenses	(20)	(55,214)	(50,172)	(32,043)	(31,968)
Financial expenses - net	(21)	(112,291)	(76,329)	(67,717)	(36,077)
Add: Investment income	(7)	1,084	(289)	26,750	2,089
Including: Share of profit of an associate		584	(489)	—	—
<b>Operation profit</b>		159,588	194,800	159,820	174,813
Add: Non-operating income	(22)	5,030	4,422	1,061	446
Less: Non-operating expenses	(23)	(2,254)	(13,524)	(2,146)	(12,877)
Including: Loss on disposal of non-current assets		(2,190)	(13,468)	(2,146)	(12,877)
<b>Total profit</b>		162,364	185,698	158,735	162,382
Less: Income tax	(24)	(44,205)	(45,987)	(35,106)	(40,074)
<b>Net profit</b>		118,159	139,711	123,629	122,308
Attributable to owners of the parent		114,956	137,674	123,629	122,308
Minority interests		3,203	2,037	—	—
<b>Earnings per share</b> <b>(in Rmb Yuan)</b>	(25)				
– Basic		0.08	0.10		
– Diluted		0.08	0.10		

	Notes	<b>Group Unaudited Six months ended 30 June</b>		<b>Group Unaudited Six months ended 30 June</b>	
	6	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Other comprehensive income</b>		—	—	—	—
<b>Total comprehensive income</b>		118,159	139,711	123,629	122,308
Attributable to owners of the parent		114,956	137,674	123,629	122,308
Minority interests		3,203	2,037	—	—

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

**Zhang Wenhui**  
*Company Representative*

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

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

## Cash Flow Statement

For the six months ended 30 June 2012

(All amounts in RMB thousand unless otherwise stated)

	Group Unaudited Six months ended 30 June		Company Unaudited Six months ended 30 June	
	2012	2011	2012	2011
<b>1. Cash flows from operating activities</b>				
Cash received from sales of goods and rendering of services	579,904	668,853	196,344	362,883
Tax refunds received	2,361	—	—	—
Cash received relating to other operating activities	43,056	99,720	56,087	160,613
<b>Sub-total of cash inflows</b>	<b>625,321</b>	<b>768,573</b>	<b>252,431</b>	<b>523,496</b>
Cash paid for goods and services	(221,956)	(208,189)	(91,957)	(85,399)
Cash paid to and on behalf of employees	(80,882)	(76,396)	(40,328)	(44,034)
Payments of taxes and levies	(43,952)	(56,013)	(27,354)	(45,879)
Cash payments relating to other operating activities	(65,991)	(72,278)	(52,703)	(116,316)
<b>Sub-total of cash outflows</b>	<b>(412,781)</b>	<b>(412,876)</b>	<b>(212,342)</b>	<b>(291,628)</b>
<b>Net cash flows from operating activities</b>	<b>212,540</b>	<b>355,697</b>	<b>40,089</b>	<b>231,868</b>
<b>2. Cash flows from investing activities</b>				
Cash received from returns on investments	500	200	500	200
Net cash received from disposal of fixed assets	53	658	51	148
Cash received relating to other operating activities	24,715	—	—	—
<b>Sub-total of cash inflows</b>	<b>25,268</b>	<b>858</b>	<b>551</b>	<b>348</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(246,175)	(208,088)	(118,158)	(84,722)
Cash paid to acquire equity investments	—	(2,436)	—	(51,156)
<b>Sub-total of cash outflows</b>	<b>(246,175)</b>	<b>(210,524)</b>	<b>(118,158)</b>	<b>(135,878)</b>
<b>Net cash flows from investing activities</b>	<b>(220,907)</b>	<b>(209,666)</b>	<b>(117,607)</b>	<b>(135,530)</b>

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>Six months</b>		<b>Six months</b>	
	<b>ended 30 June</b>		<b>ended 30 June</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>3. Cash flows from financing activities</b>				
Cash received from borrowings	1,126,242	161,200	1,011,450	118,300
Cash received from investment	—	7,280	—	—
<b>Sub-total of cash inflows</b>	<u>1,126,242</u>	<u>168,480</u>	<u>1,011,450</u>	<u>118,300</u>
Repayments of amounts borrowed	(724,842)	(272,613)	(572,500)	(200,000)
Payments for distribution of dividends or profits or payments for interest expenses	(100,775)	(71,189)	(59,867)	(32,548)
<b>Sub-total of cash outflows</b>	<u>(825,617)</u>	<u>(343,802)</u>	<u>(632,367)</u>	<u>(232,548)</u>
<b>Net cash flows from financing activities</b>	<u>300,625</u>	<u>(175,322)</u>	<u>379,083</u>	<u>(114,248)</u>
<b>4. Effect of foreign exchange rate changes on cash</b>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>5. Net increase/(decrease) in cash</b>	292,258	(29,291)	301,565	(17,910)
Add: Cash and bank balances at beginning of year	<u>688,993</u>	<u>539,430</u>	<u>257,969</u>	<u>161,861</u>
<b>6. Cash and bank balances at end of year (Note 6(26)(b))</b>	<u>981,251</u>	<u>510,139</u>	<u>559,534</u>	<u>143,951</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*

## Consolidated statement of changes in equity

For the six months ended 30 June 2012

(All amounts in RMB thousand unless otherwise stated)

	Attributable to owners of the parent				Minority interests	Total shareholders' equity
	Share capital	Capital surplus	General reserve	Undistributed profits		
Balance at 1 January 2011	1,427,228	383,338	302,005	1,338,002	125,596	3,576,169
<b>Changes in 2011</b>						
Net profit	—	—	—	275,786	4,094	279,880
Investment of shareholders						
– Investment from minority interests	—	—	—	—	19,091	19,091
– Purchase of minority interests (Note 6(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)
<b>Balance at 31 December 2011</b>	<u>1,427,228</u>	<u>382,311</u>	<u>326,181</u>	<u>1,432,617</u>	<u>147,372</u>	<u>3,715,709</u>
<b>Changes for six months ended 30 June 2012</b>						
Net profit	—	—	—	114,956	3,203	118,159
Profit appropriation						
– Dividend appropriation to shareholders	—	—	—	(57,089)	(500)	(57,589)
<b>Balance at 30 June 2012</b>	<u>1,427,228</u>	<u>382,311</u>	<u>326,181</u>	<u>1,490,484</u>	<u>150,075</u>	<u>3,776,279</u>

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

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## Company statement of changes in equity

For the six months ended 30 June 2012

(All amounts in RMB thousand unless otherwise stated)

	Share capital	Capital surplus	General reserve	Undistributed profits	Total shareholders' equity
<b>Balance at 1 January 2011</b>	1,427,228	380,788	302,005	1,259,436	3,369,457
<b>Changes in 2011</b>					
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)
<b>Balance at 31 December 2011</b>	1,427,228	380,788	326,181	1,320,023	3,454,220
<b>Changes for six months ended 30 June 2012</b>					
Net profit	—	—	—	123,629	123,629
Profit appropriation					
– Dividend appropriation to shareholders	—	—	—	(57,089)	(57,089)
<b>Balance at 30 June 2012</b>	<u>1,427,228</u>	<u>380,788</u>	<u>326,181</u>	<u>1,386,563</u>	<u>3,520,760</u>

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

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## Notes to the Financial Statements

### For the six months ended 30 June 2012

(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)).

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 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, labour force, and other significant changes of government policy.

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

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

**(b) Construction and management of sewage water facility**

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

**(c) Supply of tap water**

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

**(d) Recycled water and pipeline connection**

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

**(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 23 August 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 six months ended 30 June 2012 truly and completely present the financial position as of 30 June 2012 and the operating results, cash flows and other information for the six months ended 30 June 2012 of the Group and the Company in compliance with the Accounting Standards for Business Enterprises.

**4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

**(1) Accounting period**

The accounting year starts on 1 January and ends on 31 December. These financial statements are prepared for the six-month period from 1 January to 30 June 2012.

**(2) Recording currency**

The recording currency is Renminbi ("Rmb").

### **(3) Preparation of consolidated financial statements**

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

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

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

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

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 comprise cash in hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **(5) Foreign currency translation**

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

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

## (6) Financial instruments

### (a) Financial assets

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

#### (i) Recognition and measurement

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

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

#### (ii) Impairment of financial assets

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

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

#### (iii) Derecognition of financial assets

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

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

(b) Financial liabilities

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

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

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

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

**(7) Receivables**

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

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

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

## **(8) Inventories**

Inventories include raw materials, finished goods, low cost consumables and 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 is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and systematically allocated production overhead based on the normal production capacity. Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

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

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

## **(9) Long-term equity investments**

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

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

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

**(a) Recognition 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.

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

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

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.

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



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

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

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

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

**(d) Impairment of long-term equity investments**

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

**(10) Investment properties**

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

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

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

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

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

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

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

#### **(11) Fixed assets**

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

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

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

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

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

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

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

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

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

When the recoverable amount of a fixed asset is lower than its carrying value, the carrying value shall be reduced to its recoverable amount (Note 4(15)).

## **(12) Construction in progress**

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

## **(13) Borrowing costs**

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

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

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

#### **(14) Intangible assets**

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

##### **(a) Land use rights**

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

##### **(b) Concession rights**

As described in Note 1(a) 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 set out performance standards, mechanisms for adjusting prices. The concession services arrangement is within the scope of Accounting Standards interpretation No.2(CAS Int-No.2), and the Group recognise the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (licence) to charge users of the public service and shall recognize a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum traffic volume from the grantor. Therefore intangible assets - concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortized on a straight-line basis over the terms of operation ranging from 25 to 30 years.

**(c) 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)).

**(15) Impairment of long-term assets**

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

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

**(16) Employee benefits**

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

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 recognised, 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 recognised as a liability in the accounting period in which an employee has rendered service, and as costs of assets or expenses to whichever the employee service is attributable.

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

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

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

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

Deferred tax assets and liabilities are offset when:

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

## **(18) Revenue recognition**

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

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type 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 recognised when services are rendered.

### **(b) Construction contract**

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

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

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

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

### **(d) Operating lease revenue**

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

### **(e) Interest income**

Interest income is recognised using the effective interest method.

### **(f) Dividend income**

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

**(19) Dividend distribution**

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

**(20) Government grants**

Government grants represent monetary assets granted from government bodies for free, including financial subsidies and refund of taxes, etc.

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

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

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grant is recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grant is a compensation for related expenses or losses already incurred by the Group, the grant is recognised immediately in profit or loss for the current period.

**(21) Segment information**

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.



## **(22) Critical accounting estimate and judgments**

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

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

### **(i) Impairment for receivables**

The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 30 June 2012 are not impaired.

### **(ii) Income Tax**

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

## 5 TAXATION

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

<b>Tax by category</b>	<b>Basis of Tax</b>	<b>Tax rate</b>
Enterprise income tax	Taxable income	12.5% - 25%
Value Added Tax (VAT)	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the effective tax rate less deductible VAT input of current period)	6% - 13%
Business tax	Gross service income	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:

<b>Name of subsidiaries</b>	<b>Enterprise income tax rate from January to June in 2012</b>	<b>Preferential tax policy</b>
Chi Bi 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.
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.

## 6 NOTES TO THE FINANCIAL STATEMENTS

### (1) CASH AND BANK BALANCES

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Cash on hand and in bank	984,851	691,693	559,534	257,969
Including:				
Special funds for construction in progress (note (a))	75,235	48,259	75,092	43,442
Restricted bank deposits due within one year (note (b))	3,600	2,700	—	—

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

(b) The bank deposits represented deposits for project bids due within one year of Rmb 3,600 thousand (2011: Rmb 2,700 thousand).

### (2) TRADE RECEIVABLES

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Trade receivables	1,382,039	1,096,583	1,268,044	1,010,492
Less: Provision for bad debts	—	—	—	—
	1,382,039	1,096,583	1,268,044	1,010,492

(a) Aging of trade receivables is as follows:

Aging	Group			
	Unaudited		Audited	
	Amount	% of total balance	Amount	% of total balance
Within one year	965,695	70%	865,014	79%
One to two years	416,344	30%	231,419	21%
Over two years	—	—	150	—
Total	<u>1,382,039</u>	<u>100%</u>	<u>1,096,583</u>	<u>100%</u>

Aging	Company			
	Unaudited		Audited	
	Amount	% of total balance	Amount	% of total balance
Within one year	851,700	67%	779,073	77%
One to two years	416,344	33%	231,419	23%
Total	<u>1,268,044</u>	<u>100%</u>	<u>1,010,492</u>	<u>100%</u>

(b) Accounts receivable are analysed by categories as follows:

Category	Group							
	Unaudited 30 June 2012				Audited 31 December 2011			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
With amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	1,250,258	90%	—	—	998,903	91%	—	—
General credit group	<u>131,781</u>	<u>10%</u>	<u>—</u>	<u>—</u>	<u>97,680</u>	<u>9%</u>	<u>—</u>	<u>—</u>
Total	<u>1,382,039</u>	<u>100%</u>	<u>—</u>	<u>—</u>	<u>1,096,583</u>	<u>100%</u>	<u>—</u>	<u>—</u>

Category	Company							
	Unaudited 30 June 2012				Audited 31 December 2011			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	Ratio	Amount	% of total balance	Amount	Ratio
With amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	1,250,258	99%	—	—	998,903	99%	—	—
General credit group	17,786	1%	—	—	11,589	1%	—	—
Total	<u>1,268,044</u>	<u>100%</u>	<u>—</u>	<u>—</u>	<u>1,010,492</u>	<u>100%</u>	<u>—</u>	<u>—</u>

- (c) As at 30 June 2012, accounts receivable with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis are analysed as follows:

Trade receivables	Group and Company			
	Ending balance	Provision for bad debts	Ratio	Reason
TSC	1,214,143	—	—	Since TSC is the Chinese government subordinate enterprise which has good creditability history, management believes that the balance is not impaired.
Tianjin Municipal Highway Administration Bureau	36,115	—	—	The balance does not exceed the credit period.
Total	<u>1,250,258</u>	<u>—</u>	<u>—</u>	

(d) Aging of trade receivables of general credit group is as follows:

Aging	Group			
	Unaudited 30 June 2012		Audited 31 December 2011	
	Amount	% of total balance	Amount	% of total balance
	Within one year	131,781	100%	97,680
Total	<u>131,781</u>	<u>100%</u>	<u>97,680</u>	<u>100%</u>

Aging	Company			
	Unaudited 30 June 2012		Audited 31 December 2011	
	Amount	% of total balance	Amount	% of total balance
	Within one year	17,786	100%	11,589
Total	<u>17,786</u>	<u>100%</u>	<u>11,589</u>	<u>100%</u>

(e) As at 30 June 2012, there were no trade receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2011: Nil).

(f) As at 30 June 2012, the trade receivables from the top five debtors is analysed as below:

Entity Name	Relationship with the Group	Amount	Aging	% of total balance
TSC	customer	797,799	within 1 year	58%
		416,344	1 to 2 years	30%
Tianjin Municipal Highway Administration Bureau	agent	36,115	within 1 year	3%
Qujing City Water General Company	customer	31,722	within 1 year	2%
Chibi Construction Bureau	customer	17,573	within 1 year	1%
Hangzhou Sewage Company	customer	14,192	within 1 year	1%
		<u>1,313,745</u>		<u>95%</u>

(g) As at 30 June 2012, the trade receivables from related parties is analysed as below:

Entity Name	Relationship with the Group	Amount	% of total balance
Tianjin City Infrastructure Construction and Investment Group Company Limited	Ultimate parent company	239	0.02%
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate parent company	801	0.06%
Tianjin Environment Construction Investment Company Limited	Controlled by the same ultimate parent company	471	0.03%
Total		<u>1,511</u>	<u>0.11%</u>

### (3) PREPAYMENTS

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

Aging	Group			
	Unaudited 30 June 2012		Audited 31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within one year	74,251	68.79%	79,204	82.76%
One to two years	22,776	21.10%	13,928	14.55%
Over two years	10,914	10.11%	2,574	2.69%
	<u>107,941</u>	<u>100%</u>	<u>95,706</u>	<u>100%</u>

Aging	Company			
	Unaudited 30 June 2012		Audited 31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within one year	7,569	89.78%	1,785	51.62%
One to two years	760	9.01%	1,565	45.26%
Over two years	102	1.21%	108	3.12%
	<u>8,431</u>	<u>100%</u>	<u>3,458</u>	<u>100%</u>

As at 30 June 2012, the prepayments aged over one year were mainly for the second stage plant construction projects of Baoying Capital Water Co., Ltd. and recycled water pipeline connection service for which the projects have not been completed and hence balances remain outstanding.

(b) As at 30 June 2012, there were no prepayments to any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2011: Nil).

(c) As at 30 June 2012, the prepayments to the top five debtors are analysed as below:

	<b>Relationship with the Group</b>	<b>Amount</b>	<b>% of total balance</b>	<b>Prepayment time</b>	<b>Reason for not settled</b>
Baoying Water Authority Bureau	Concession right grantor	21,966 3,900	20% 4%	2011 2012	Concession right not transferred to the Group
Tianjin Pipeline Construction Group Co., Ltd.	Construction contractor	13,511 974	13% 1%	2011 2012	Project in progress
Beijing Geruituo Power Equipment Co., Ltd.	Equipment supplier	2,898	3%	2012	Equipment under inspection
Tianjin Jianzhi Municipal Construction Co., Ltd.	Construction contractor	3,854	4%	2011	Project in progress
Tianjin Qinglong Construction and Installation Engineering Co., Ltd.	Construction contractor	3,800	4%	2012	Project in progress
		50,903	49%		

(d) As at 30 June 2012, there were no prepayments to related parties (31 December 2011: Nil).

#### (4) OTHER RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
Other receivables	16,353	17,049	119,234	121,653
Less: Provision for bad debts	—	—	—	—
	16,353	17,049	119,234	121,653



(a) Aging of trade receivables is as follows:

<b>Aging</b>	<b>Group</b>			
	<b>Unaudited</b>		<b>Audited</b>	
	<b>30 June 2012</b>		<b>31 December 2011</b>	
	<b>Amount</b>	<b>% of total balance</b>	<b>Amount</b>	<b>% of total balance</b>
Within one year	4,285	26%	3,000	18%
One to two years	865	5%	3,132	18%
Two to three years	2,011	12%	3,933	23%
Over three years	9,192	57%	6,984	41%
<b>Total</b>	<b>16,353</b>	<b>100%</b>	<b>17,049</b>	<b>100%</b>

<b>Aging</b>	<b>Company</b>			
	<b>Unaudited</b>		<b>Audited</b>	
	<b>30 June 2012</b>		<b>31 December 2011</b>	
	<b>Amount</b>	<b>% of total balance</b>	<b>Amount</b>	<b>% of total balance</b>
Within one year	16,466	14%	18,033	15%
One to two years	59,664	50%	60,656	50%
Two to three years	36,846	31%	37,517	31%
Over three years	6,258	5%	5,447	4%
<b>Total</b>	<b>119,234</b>	<b>100%</b>	<b>121,653</b>	<b>100%</b>

(b) As at 30 June 2012, there were no receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2011: Nil).

(c) As at 30 June 2012, the other receivables from the top five debtors is analysed as below:

Entity Name	Relationship with the Group	Group		% of total balance
		Amount	Aging	
Guiyang Construction Investment Holding Co., Ltd.	Customer	1,150	Over 3 years	7%
Tianjin Construction Team Communication Service Centre	Regulator	1,000	2 to 3 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%
Tianjin city safety management and supervision station	Regulator	462	1 to 2 years	3%
		3,769		23%
Entity Name	Relationship with the Group	Company		% of total balance
		Amount	Aging	
Xi'an Capital Water Co., Ltd.	Subsidiary	45,000	1 to 2 years	38%
Tianjin Water Recycling Co., Ltd.	Subsidiary	14,660	1 to 2 years	12%
Fuyang Capital Water Co., Ltd.	Subsidiary	14,010	Within 1 year	12%
Wuhan Tianchuang Environmental Protection Co.,Ltd	Subsidiary	14,000	2 to 3 years	12%
Chibi Capital Water Co., Ltd.	Subsidiary	13,000	2 to 3 years	11%
		100,670		85%

(d) As at 30 June 2012, there were no other receivables from related parties. (31 December 2011: Nil).

## (5) INVENTORIES

(a) Inventories are summarised by categories as follows:

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Raw materials	11,190	10,960	3,786	4,193
Finished goods	3,682	3,682	—	—
Spare parts and low cost consumables	284	434	—	25
Work in progress	76,413	68,493	5,941	—
	<u>91,569</u>	<u>83,569</u>	<u>9,727</u>	<u>4,218</u>
Less: Provision for decline in the value of inventories (note (b))	<u>(3,000)</u>	<u>(3,000)</u>	<u>—</u>	<u>—</u>
	<u>88,569</u>	<u>80,569</u>	<u>9,727</u>	<u>4,218</u>

(b) Provision for decline in the value of inventories is provided for part of finished goods of Tianjin Capital New Materials Co., Ltd., and there is no provision during the reporting period.

## (6) LONG-TERM RECEIVABLES

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Receivables from toll road concession (note (a))	338,039	338,446	338,039	338,446
Receivables from TSC	<u>68,794</u>	<u>68,794</u>	<u>68,794</u>	<u>68,794</u>
	<u>406,833</u>	<u>407,240</u>	<u>406,833</u>	<u>407,240</u>

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

(7) LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Investment in subsidiaries (note (a))	—	—	1,308,255	1,308,255
Less: Impairment provision for long-term investment (note (c))	—	—	(26,500)	(26,500)
	—	—	1,281,755	1,281,755
Investment in an associate (note (b))	41,253	40,669	—	—
Other long-term equity investments	4,000	4,000	4,000	4,000
	<u>45,253</u>	<u>44,669</u>	<u>1,285,755</u>	<u>1,285,755</u>

(a) Investments in subsidiaries

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

All subsidiaries are limited liability companies.

	Investment cost	31 December 2011	Carrying Value		Interest held / Voting shares %
			30 June 2012	Addition	
Xi'an Capital Water Co., Ltd.	270,000	270,000	—	270,000	100
Hangzhou Tianchuang Water Co., Ltd	180,212	180,212	—	180,212	70
Qijing Capital Water Co., Ltd.	154,917	154,917	—	154,917	87
Tianjin Water Recycling Co., Ltd.	100,436	100,436	—	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.	69,202	69,202	—	69,202	100

	Investment cost	31 December 2011	Carrying Value Addition	30 June 2012	Interest held / Voting shares %
Anguo Capital Water Co., Ltd.	41,000	41,000	—	41,000	100
Baoying Capital Water Co., Ltd.	37,100	37,100	—	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 Technology Development Co., Ltd.	5,000	5,000	—	5,000	100
Tianjin Zichuang Project Investment Co., Ltd.	23,400	23,400	—	23,400	100
Tianjin Jinning Capital Water Co., Ltd.	15,000	15,000	—	15,000	100
Tianjin Capital Water Co., Ltd.	5,000	5,000	—	5,000	100
Tianjin Jiayuanxingchuang New Energy Technology Co.,Ltd	60,000	60,000	—	60,000	100
		<u>1,308,255</u>	<u>—</u>	<u>1,308,255</u>	

- (i) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.
- (ii) From January to June in 2012, the cash dividend declared by the subsidiaries was Rmb 26,750 thousand, of which Rmb 26,250 thousand was attributable to owners of the parent and Rmb 500 thousand is attributable to minority shareholders.

(b) Investment in an associate

	Registered capital	Interest & voting shares held	30 June 2012		Six months ended 30 June 2012	
			Total assets	Total liabilities	Revenue	Loss
Tianjin international Machinery Co., Ltd.	120,000	27.5%	614,306	441,155	986,390	584

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

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

	Investment cost	31 December 2011	Share of losses in associated company	30 June 2012
Tianjin international Machinery Co., Ltd.	33,000	40,669	584	41,253

(c) Full provision has been made for the investment in Tianjin Capital New Materials Co., Ltd. of approximately Rmb26.5 million as at 30 June 2012 (31 December 2011: Rmb26.5 million).

**(8) INVESTMENT PROPERTIES**

Buildings	Group	Company
Cost		
At 31 December 2011 and 30 June 2012	137,374	110,648
Accumulated depreciation		
At 31 December 2011	(21,419)	(18,989)
Charge for the period	(1,836)	(1,584)
At 30 June 2012	(23,255)	(20,573)
Net book value		
At 30 June 2012	114,119	90,075
At 31 December 2011	115,955	91,659

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 30 June 2012 based on the Directors' assessment was approximately Rmb224 million (2011: Rmb224 million) against cost of Rmb167 million, with no significant impairment risk.

**(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS****(a) Group**

	<b>Buildings &amp; structure (note (i))</b>	<b>Machinery &amp; equipment</b>	<b>Motor vehicles &amp; others</b>	<b>Total</b>
<b>Cost</b>				
At 1 January 2011	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)
At 31 December 2011	<u>1,592,323</u>	<u>1,681,433</u>	<u>172,971</u>	<u>3,446,727</u>
Transfer from construction in progress	—	1,217	75	1,292
Addition	2,323	5,997	3,049	11,369
Disposal	—	(2,249)	(5,763)	(8,012)
At 30 June 2012	<u>1,594,646</u>	<u>1,686,398</u>	<u>170,332</u>	<u>3,451,376</u>
<b>Accumulated depreciation</b>				
At 1 January 2011	(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
At 31 December 2011	<u>(591,649)</u>	<u>(381,290)</u>	<u>(74,079)</u>	<u>(1,047,018)</u>
Charge for the period	(27,884)	(37,185)	(6,700)	(71,769)
Disposal	—	2,249	3,520	5,769
At 30 June 2012	<u>(619,533)</u>	<u>(416,226)</u>	<u>(77,259)</u>	<u>(1,113,018)</u>
<b>Impairment</b>				
At 31 December 2011 and 30 June 2012	<u>(11,000)</u>	<u>(4,068)</u>	<u>(932)</u>	<u>(16,000)</u>
<b>Net book value</b>				
At 30 June 2012	<u>964,113</u>	<u>1,266,104</u>	<u>92,141</u>	<u>2,322,358</u>
At 31 December 2011	<u>989,674</u>	<u>1,296,075</u>	<u>97,960</u>	<u>2,383,709</u>

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) For the six months ended 31 June 2012, the Group's depreciation expense of Rmb54million (From January to June in 2011: Rmb54million) has been included in cost of operations and Rmb18million (From January to June in 2011: Rmb16million) in administrative expenses.
- (iii) As at 30 June 2012, the certificate of title to the building and land use rights included in property, plant and equipment, land use rights and investment properties with carrying amount of Rmb 291million (cost of Rmb 325million) (31 December 2011: carrying amount of Rmb295million and cost of Rmb 325million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the Directors believe that the titles will be received in due course without additional significant cost to the Group, if any.



## (b) Company

	<b>Buildings &amp; structure</b>	<b>Machinery &amp; equipment</b>	<b>Motor vehicles &amp; others</b>	<b>Total</b>
Cost				
At 1 January 2011	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	<u>1,418,286</u>	<u>1,569,921</u>	<u>133,794</u>	<u>3,122,001</u>
Transfer from construction in progress	—	—	37	37
Addition	—	3,501	245	3,746
Disposal	—	(2,197)	(4,983)	(7,180)
At 30 June 2012	<u>1,418,286</u>	<u>1,571,225</u>	<u>129,093</u>	<u>3,118,604</u>
Accumulated depreciation				
At 1 January 2011	(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	<u>(564,528)</u>	<u>(337,701)</u>	<u>(67,480)</u>	<u>(969,709)</u>
Charge for the period	(22,806)	(31,519)	(5,915)	(60,240)
Disposal	—	2,140	2,843	4,983
At 30 June 2012	<u>(587,334)</u>	<u>(367,080)</u>	<u>(70,552)</u>	<u>(1,024,966)</u>
Net book value				
At 30 June 2012	<u>830,952</u>	<u>1,204,145</u>	<u>58,541</u>	<u>2,093,638</u>
At 31 December 2011	<u>853,758</u>	<u>1,232,220</u>	<u>66,314</u>	<u>2,152,292</u>

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

	Budget	31 December 2011	Addition	Transfer to fixed assets	30 June 2012	Sources of funds	Ratio of incurred costs to budget costs (%)
Water recycling plants:							
– Bei Chen water recycling plants	97,000	57,395	2,085	—	59,480	Self-raised fund	61%
Sewage water processing plants:							
– Dong Jiao (upgrade project)	368,620	292,010	37,256	(23)	329,243	Self-raised fund	89%
– XianYang Lu (upgrade project)	200,400	165,607	8,314	(12)	173,909	Self-raised fund	87%
– Bei Cang (upgrade project)	158,950	131,140	8,614	(2)	139,752	Self-raised fund	88%
– Ji Zhuang Zi (upgrade project)	189,040	156,075	8,780	—	164,855	Self-raised fund	87%
Others		4,386	104	—	4,490	Self-raised fund	
Total –Company		<u>806,613</u>	<u>65,153</u>	<u>(37)</u>	<u>871,729</u>		
Water recycling plants:							
– Ji Zhuang Zi expansion project	87,573	71,885	5,579	—	77,464	Self-raised fund	88%
Others		2,367	80	(1,255)	1,192	Self-raised fund	
Total –Group		<u>880,865</u>	<u>70,812</u>	<u>(1,292)</u>	<u>950,385</u>		
Including: Capitalised borrowing costs		<u>31,711</u>	<u>11,070</u>	<u>—</u>	<u>42,781</u>		

Borrowing costs have been capitalized for the six months ended 30 June 2012 at an average interest rate of 6.15% per annum (From January to June in 2011: 5.30%).

## (10) INTANGIBLE ASSETS

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Concession rights (note (a))	2,750,903	2,795,150	—	—
Land use rights (note (b))	445,902	451,784	429,597	435,186
Technical know-how and computer software (note (c))	7,759	7,887	7,759	7,887
	<u>3,204,564</u>	<u>3,254,821</u>	<u>437,356</u>	<u>443,073</u>

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

	Group
Cost	
At 31 December 2011	3,218,156
Addition	<u>16,389</u>
At 30 June 2012	<u>3,234,545</u>
Accumulated amortisation	
At 31 December 2011	(423,006)
Charge for the period	<u>(60,636)</u>
At 30 June 2012	<u>(483,642)</u>
Net book value	
At 30 June 2012	<u>2,750,903</u>
At 31 December 2011	<u>2,795,150</u>

(i) As at 30 June 2012, certain of concession rights with net book value of Rmb236 million (Cost: Rmb302 million) (31 December 2011: net book value: Rmb242 million; cost: Rmb302 million) have been secured against long-term borrowings of Rmb141 million (31 December 2011: Rmb148million) (Note 6(12)(a)(i)).

(ii) The remaining amortization period of concession rights ranges from 17 to 30 years.

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

	<b>Group</b>	<b>Company</b>
Cost		
At 31 December 2011 and 30 June 2012	<u>593,529</u>	<u>567,266</u>
Accumulated amortisation		
At 31 December 2011	(141,745)	(132,080)
Charge for the period	<u>(5,882)</u>	<u>(5,589)</u>
At 30 June 2012	<u>(147,627)</u>	<u>(137,669)</u>
Net book value		
At 30 June 2012	<u>445,902</u>	<u>429,597</u>
At 31 December 2011	<u>451,784</u>	<u>435,186</u>

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

	<b>Group and Company</b>
Cost	
At 31 December 2011	8,307
Addition	<u>100</u>
At 30 June 2012	<u>8,407</u>
Accumulated amortisation	
At 31 December 2011	(420)
Charge for the period	<u>(228)</u>
At 30 June 2012	<u>(648)</u>
Net book value	
At 30 June 2012	<u>7,759</u>
At 31 December 2011	<u>7,887</u>

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

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
Trade payables (note (a))	44,976	18,481	26,247	3,157
Advances (note (b))	525,124	423,387	12,092	8,331
Other payables (note (c))	291,845	412,095	318,227	330,812
Taxes payable (note (d))	13,691	8,274	9,074	2,400
	<u>875,636</u>	<u>862,237</u>	<u>365,640</u>	<u>344,700</u>

(a) As at 30 June 2012, there were no trade payables to any of the shareholders of the Company who hold 5% or more of voting shares, or related parties (31 December 2011: Nil).

(b) Advances comprise:

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
For recycled water pipeline connection	509,882	407,679	—	—
For heating service	—	6,881	—	—
Received from project of Han Gu	4,761	4,521	4,761	4,521
Received from landfill project	5,335	—	5,335	—
Received from project of Yingli Energy	1,796	—	1,796	—
Received from deodorization project	2,000	—	—	—
Other advances	1,350	4,306	200	3,810
	<u>525,124</u>	<u>423,387</u>	<u>12,092</u>	<u>8,331</u>

As at 30 June 2012, there were no advances from any of the shareholders of the Company who hold 5% or more of voting shares, or related parties (31 December 2011: Nil).

(c) Other payables comprise:

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Construction costs payable	211,692	224,627	114,586	101,302
Payable for purchase of fixed assets and concession rights of plants	46,513	111,179	9,493	20,607
Long-term debenture interests payables (Note 6(12)(d))	30,987	7,747	30,987	7,747
Others	2,653	68,542	163,161	201,156
	<u>291,845</u>	<u>412,095</u>	<u>318,227</u>	<u>330,812</u>

(i) As at 30 June 2012, there were no other payables to any of the shareholders of the Company who hold 5% or more of voting shares, or related parties (31 December 2011: Nil).

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

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Income tax payable	10,673	7,671	7,312	—
Business tax payable	2,456	3,189	1,712	1,356
Value-added tax payable	252	(3,883)	—	—
Others	310	1,297	50	1,044
	<u>13,691</u>	<u>8,274</u>	<u>9,074</u>	<u>2,400</u>

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

	Note	Group		Company	
		Unaudited	Audited	Unaudited	Audited
		30 June 2012	31 December 2011	30 June 2012	31 December 2011
Non-current liabilities:					
Long-term bank borrowings	(a)	3,096,782	2,690,760	1,844,350	1,405,400
Less: Current portion	(a)	(572,125)	(825,720)	(458,000)	(623,000)
		<u>2,524,657</u>	<u>1,865,040</u>	<u>1,386,350</u>	<u>782,400</u>
Debentures payable	(c)	690,900	689,850	690,900	689,850
Long-term payables	(d)	382,707	386,543	382,707	386,543
Other non-current liabilities	(e)	108,337	109,703	81,817	81,817
		<u>3,706,601</u>	<u>3,051,136</u>	<u>2,541,774</u>	<u>1,940,610</u>
Current liabilities:					
Current portion of long-term bank borrowings	(a)	572,125	825,720	458,000	623,000
Current portion of long-term payables	(d)	30,599	30,466	30,599	30,466
Short-term borrowings	(b)	152,000	152,000	136,000	136,000
Other current liabilities	(e)	19,848	19,961	16,364	16,364
		<u>774,572</u>	<u>1,028,147</u>	<u>640,963</u>	<u>805,830</u>

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

Long-term bank borrowings are summarised by banks as follows:

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Borrowings from:				
China Construction Bank Industrial and Commercial Bank of China	680,100	910,900	235,850	372,400
State Development Bank	504,692	446,900	20,000	—
Shanghai Bank	421,500	348,500	258,000	173,000
Agricultural Bank of China	319,000	320,000	319,000	320,000
Shenzhen Development Bank	434,990	235,460	350,000	150,000
China Merchants Bank	200,000	200,000	200,000	200,000
China Everbright Bank	148,500	70,000	148,500	70,000
Industrial Bank	98,000	50,000	98,000	50,000
Bank of China	35,000	40,000	35,000	40,000
China CITIC Bank	30,000	35,000	—	—
Shanghai Pudong Development Bank	30,000	30,000	30,000	30,000
China Bohai Bank	—	4,000	—	—
Tianjin Agriculture and Commerce Bank	50,000	—	50,000	—
Rural Credit Cooperative Union	100,000	—	100,000	—
China Minsheng Bank	25,000	—	—	—
	20,000	—	—	—
	<u>3,096,782</u>	<u>2,690,760</u>	<u>1,844,350</u>	<u>1,405,400</u>



Summary of terms of long-term bank borrowings:

	Note	Group		Company	
		Unaudited	Audited	Unaudited	Audited
		30 June 2012	31 December 2011	30 June 2012	31 December 2011
Pledge	(i)	151,000	198,000	—	50,000
Guarantee	(ii)	1,101,432	1,137,360	—	—
Unsecured		1,844,350	1,355,400	1,844,350	1,355,400
		<u>3,096,782</u>	<u>2,690,760</u>	<u>1,844,350</u>	<u>1,405,400</u>

- (i) As at 30 June 2012, bank borrowings of Rmb151 million (31 December 2011: Rmb198 million) include Rmb141 million (31 December 2011: Rmb148 million) secured by the right to receive tap water and sewage processing fees (Note 6(10)(a)). The remaining Rmb10 million is secured by the land use right and property of Baoying Capital Water Co., Ltd..
- (ii) As at 30 June 2012, bank borrowings of Rmb804 million (31 December 2011: Rmb755 million) and Rmb297 million (31 December 2011: Rmb378 million) are secured by the guarantee of the Company and TICIG respectively.
- (iii) As at 30 June 2012, the weighted average interest rate of long-term bank borrowings is 6.70% annually (31 December 2011: 6.44%).
- (iv) These borrowings mature as follows:

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	30 June 2012	31 December 2011	30 June 2012	31 December 2011
Within one year	572,125	825,720	458,000	623,000
In the second year	1,264,355	752,180	1,053,500	608,000
In the third to fifth year	870,852	733,260	281,000	163,400
After the fifth year	389,450	379,600	51,850	11,000
	<u>3,096,782</u>	<u>2,690,760</u>	<u>1,844,350</u>	<u>1,405,400</u>

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

	Grant date	Expiry date	Currency	Rate (%)	Group	
					Unaudited 30 June 2012	Audited 31 December 2011
Shanghai Bank	2010-06-30	2013-06-29	RMB	5.99%	300,000	—
Shenzhen Development Bank	2012-04-28	2013-04-27	RMB	7.32%	40,000	—
Industrial Bank	2010-12-30	2012-12-29	RMB	6.65%	35,000	40,000
Industrial and Commercial Bank of China	2006-11-23	2012-11-22	RMB	6.35%	29,000	29,000
State Development Bank	2009-10-12	2013-05-15	RMB	7.05%	20,000	—
					<u>424,000</u>	<u>69,000</u>

**(b) Short-term borrowings**

	Note	Group		Company	
		Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Borrowings from:					
Shanghai Pudong Development Bank	(i)	52,000	52,000	36,000	36,000
China Minsheng Bank	(i)	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
		<u>152,000</u>	<u>152,000</u>	<u>136,000</u>	<u>136,000</u>

(i) The weighted average interest rate of short-term bank borrowings for the six months ended 30 June 2012 is 6.73% (2011: 6.85%).

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

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Guaranteed	16,000	16,000	—	—
Unsecured	136,000	136,000	136,000	136,000
	<u>152,000</u>	<u>152,000</u>	<u>136,000</u>	<u>136,000</u>

Includes Rmb 16 million (31 December 2011: Rmb 16 million) secured by the guarantee of the Company's holding company.

(c) Debentures payable

	31 December 2011	Repayment/ Issuance	Amortisation	30 June 2012
Debentures payable				
– par value	700,000	—	—	700,000
– transaction cost	(10,150)	—	1,050	(9,100)
	<u>689,850</u>	<u>—</u>	<u>1,050</u>	<u>690,900</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.

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

	Group and Company			
	Unaudited 30 June 2012		Audited 31 December 2011	
	unrecognized Payable amount	finance charge	unrecognized Payable amount	finance charge
Payables for assets acquisition	<u>786,087</u>	<u>(372,781)</u>	<u>802,193</u>	<u>(385,184)</u>

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

	<b>Duration</b>	<b>Original Balance</b>	<b>Effective Interest rate</b>	<b>Ending Balance</b>	<b>Due within one year</b>
TSC	to 20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>382,707</u>	<u>30,599</u>

Balance of the long-term payable to TSC is the consideration payable in respect of the acquisition of sewage processing assets from TSC as at 30 June 2012, 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 Rmb 691 million. The balance will be settled in Renminbi 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 agreed and fixed effective interest rate of 5.94%.

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

	<b>Group and Company</b>	
	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
JPY	618,969	631,576
US dollar	<u>167,118</u>	<u>170,617</u>
	<u>786,087</u>	<u>802,193</u>

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

(e) Other liabilities

	Group		Company	
	Unaudited 30 June 2012	Audited 31 December 2011	Unaudited 30 June 2012	Audited 31 December 2011
Non-current liabilities:				
– Government loan for sewage water processing plants construction (note(i))	81,817	81,817	81,817	81,817
– Government loan for water recycling plants construction (note(ii))	15,907	17,273	—	—
– Others	10,613	10,613	—	—
	<u>108,337</u>	<u>109,703</u>	<u>81,817</u>	<u>81,817</u>
Current liabilities:				
– 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	303	416	—	—
	<u>19,848</u>	<u>19,961</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 loan is repayable in equal installments over eleven years from 2007. The current portion of the long-term loan is Rmb16 million at the end of year 2012 (2011: Rmb16 million). 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 loan is repayable in equal installments over eleven years from 2007. The current portion of the long-term loan is Rmb3 million at the end of year 2012 (2011: Rmb3 million). The interest will be based on the one-year deposit plus 0.3% premium.

### (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:

	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2012</b>	<b>2011</b>
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	25,144	25,762
– Bei Chen	21,000	21,000
Others	11,813	11,659
Total-Company	<u>203,757</u>	<u>204,221</u>
Heating supply service project:	108,871	84,156
Water recycling plants :		
– Ji Zhuang Zi (sewage reuse project)	43,371	43,371
– Ji Zhuang Zi (expansion project)	21,000	21,000
– Xian Yang Lu (upgrade project)	15,585	15,585
Others	1,593	1,595
Total-Group	<u><u>394,177</u></u>	<u><u>369,928</u></u>

#### (14) DEFERRED INCOME TAX LIABILITIES

	Unaudited		Audited	
	30 June 2012		31 December 2011	
	Deferred	Taxable	Deferred	Taxable
	income tax	temporary	income tax	temporary
	liabilities	differences	liabilities	differences
Depreciation of fixed assets	<u>54,151</u>	<u>216,604</u>	<u>48,479</u>	<u>193,916</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.

	A shares	H shares	Total
At 31 December 2011 and 30 June 2012	<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.

#### (16) RESERVES AND DIVIDEND

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

A dividend in respect of year ended 31 December 2011 of Rmb0.4 (gross tax) every 10 shares, total shares of 1,427 million shares on 3 July 2012, amounting to a total dividend of Rmb57 million, was approved at the Annual General Meeting on 11 May 2012 (2011: Rmb1.1 (gross tax) every 10 shares, amounting to a total dividend of Rmb157 million).

## (17) MINORITY INTERESTS

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

<b>Subsidiaries</b>	<b>Group</b>	
	<b>Unaudited 30 June 2012</b>	<b>Audited 31 December 2011</b>
Hangzhou Tianchuang Capital Water Co., Ltd.	95,896	92,144
Qijing Capital Water Co., Ltd.	26,611	26,490
Baoying Capital Water Co., Ltd.	17,277	17,503
Guizhou Capital Water Co., Ltd.	6,773	7,244
Wuhan Tianchuang Environmental Protection Co.,Ltd	2,225	2,389
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	1,293	1,602
	<u>150,075</u>	<u>147,372</u>

## (18) INCOME FROM AND COST FOR OPERATIONS

	<b>Group Unaudited</b>			
	<b>For the six months ended</b>			
	<b>30 June 2012</b>		<b>30 June 2011</b>	
	<b>Income from operations</b>	<b>Cost of operations</b>	<b>Income from operations</b>	<b>Cost of operations</b>
Income from principal operations	735,532	411,983	725,235	413,176
Other operating income	29,568	22,408	25,244	12,105
	<u>765,100</u>	<u>434,391</u>	<u>750,479</u>	<u>425,281</u>

	<b>Company Unaudited</b>			
	<b>For the six months ended</b>			
	<b>30 June 2012</b>		<b>30 June 2011</b>	
	<b>Income from operations</b>	<b>Cost of operations</b>	<b>Income from operations</b>	<b>Cost of operations</b>
Income from principal operations	430,002	203,279	453,513	218,693
Other operating income	17,969	9,620	12,939	4,835
	<u>447,971</u>	<u>212,899</u>	<u>466,452</u>	<u>223,528</u>



**(a) Income from and cost of principal operations**

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

	<b>Group Unaudited</b>			
	<b>For the six months ended</b>			
	<b>30 June 2012</b>		<b>30 June 2011</b>	
	<b>Income from operations</b>	<b>Cost of operations</b>	<b>Income from operations</b>	<b>Cost of operations</b>
Processing of sewage water and construction of related facility	603,322	333,075	635,163	369,748
Water recycling and connection project	55,211	38,129	33,856	24,905
Tap water supplying	21,546	13,643	19,836	13,056
Heat supplying	20,928	22,987	—	—
Others	34,525	4,149	36,380	5,467
	<u>735,532</u>	<u>411,983</u>	<u>725,235</u>	<u>413,176</u>

**(b) Income from and cost of other operating**

	<b>Group Unaudited</b>			
	<b>For the six months ended</b>			
	<b>30 June 2012</b>		<b>30 June 2011</b>	
	<b>Income from operations</b>	<b>Cost of operations</b>	<b>Income from operations</b>	<b>Cost of operations</b>
Technical service	24,209	19,463	18,312	7,470
Rental of investment properties	5,078	2,837	5,217	2,465
Others	281	108	1,715	2,170
	<u>29,568</u>	<u>22,408</u>	<u>25,244</u>	<u>12,105</u>

**(c) Revenue from the five largest customers of the Group**

Revenue from the five largest customers of the Group with an amount of Rmb 556million for the six months ended 30 June 2012 (for the six months ended 30 June 2011: Rmb 559million) accounts for 72% (for the six months ended 30 June 2011: 75%) of the total revenue of the Group, as analysed below:

	<b>Revenue</b>	<b>% of total balance</b>
TSC	393,730	51
Hangzhou Sewage Company	77,494	10
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd.	37,354	5
Tianjin Municipal and Highway Management Bureau	33,513	4
Fuyang Construction Committee	13,860	2
	<u>555,951</u>	<u>72</u>

**(19) BUSINESS TAX AND SURCHARGES**

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>
Business tax	4,045	3,093	1,984	1,908
City construction and maintenance fee	369	280	139	134
Education fee surcharge and others	286	235	119	113
	<u>4,700</u>	<u>3,608</u>	<u>2,242</u>	<u>2,155</u>

## (20) Administrative expenses

The detail of administrative expenses is as below:

	Group Unaudited		Company Unaudited	
	For the six months ended 30 June 2012	For the six months ended 30 June 2011	For the six months ended 30 June 2012	For the six months ended 30 June 2011
Employee wages	28,908	24,686	19,207	17,825
Travelling, meeting and entertainment expenses	6,104	5,056	1,750	1,640
Taxes	3,744	4,006	1,408	2,442
Auditors' remuneration	3,257	3,910	2,851	3,161
Depreciation	2,492	3,726	1,508	1,646
Repair and maintenance expenses	2,448	1,520	1,523	1,127
Expenses of Board of Directors	1,244	2,350	1,244	2,350
Others	7,017	4,918	2,552	1,777
	<u>55,214</u>	<u>50,172</u>	<u>32,043</u>	<u>31,968</u>

## (21) FINANCIAL EXPENSES – NET

	Group Unaudited		Company Unaudited	
	For the six months ended 30 June 2012	For the six months ended 30 June 2011	For the six months ended 30 June 2012	For the six months ended 30 June 2011
Interest expenses of borrowings	138,009	96,528	90,747	52,781
Less: Capitalised interest	<u>(11,070)</u>	<u>(9,313)</u>	<u>(10,554)</u>	<u>(8,111)</u>
Net interest expenses	126,939	87,215	80,193	44,670
Less: Interest income	(16,223)	(11,384)	(13,551)	(8,620)
– long-term receivables	(5,754)	(5,717)	(5,754)	(5,717)
– bank deposits	(10,469)	(5,667)	(7,797)	(2,903)
Others	<u>1,575</u>	<u>498</u>	<u>1,075</u>	<u>27</u>
	<u>112,291</u>	<u>76,329</u>	<u>67,717</u>	<u>36,077</u>

**(22) NON-OPERATING INCOME**

	<b>Unaudited</b>		<b>Amount recognized in non-recurring profit or loss for the six months ended 30 June 2012</b>
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	
Gain on disposal of fixed assets	1,350	136	1,350
Government grants	2,613	3,209	2,613
Others	1,067	1,077	1,067
	<u>5,030</u>	<u>4,422</u>	<u>5,030</u>

**(23) NON-OPERATING EXPENSES**

	<b>Unaudited</b>		<b>Amount recognized in non-recurring profit or loss for the six months ended 30 June 2012</b>
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	
Loss on disposal of fixed assets (note (a))	2,190	13,468	2,190
Others	64	56	64
	<u>2,254</u>	<u>13,524</u>	<u>2,254</u>

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

	<b>Unaudited</b>	
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>
Net book value of the disposed assets (note 9(a))	2,243	18,039
Proceeds from disposal of assets	<u>(53)</u>	<u>(4,571)</u>
Loss on disposal of fixed assets	<u>2,190</u>	<u>13,468</u>

## (24) INCOME TAX

	<b>Group Unaudited</b>		<b>Company Unaudited</b>	
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>
Current income tax	38,533	41,867	34,229	38,823
Deferred income tax	5,672	4,120	877	1,251
	<u>44,205</u>	<u>45,987</u>	<u>35,106</u>	<u>40,074</u>

## (25) EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb115 million (For the six months ended 30 June 2011: Rmb138 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2011: 1,427 million shares).

As there was no related matter impacted the number of shares issued, diluted earnings per share are calculated using the same bases as described above for calculating basic earnings per share.

	<b>Group Unaudited</b>	
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>
Profit attributable to owners of the parent	<u>114,956</u>	<u>137,674</u>
Weighted average number of ordinary shares in issue (million shares)	<u>1,427</u>	<u>1,427</u>
Basic earnings per share (Rmb Yuan)	<u>0.08</u>	<u>0.10</u>

**(26) NOTES TO THE CASH FLOW STATEMENTS AND SUPPLEMENTARY INFORMATION****(a) Reconciliation of net profit to cash flows from operating activities**

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>For the</b>	<b>For the</b>	<b>For the</b>	<b>For the</b>
	<b>six months</b>	<b>six months</b>	<b>six months</b>	<b>six months</b>
	<b>ended 30</b>	<b>ended 30</b>	<b>ended 30</b>	<b>ended 30</b>
	<b>June 2012</b>	<b>June 2011</b>	<b>June 2012</b>	<b>June 2011</b>
Net profit	118,159	139,711	123,629	122,308
Adjustments for:				
Depreciation of fixed assets and investment properties	73,605	71,753	61,824	61,736
Amortisation of intangible assets	66,746	57,073	5,817	5,207
Losses on disposal of fixed assets	2,190	13,468	2,146	12,877
Financial expenses-net	126,939	87,215	80,193	44,670
Investment (income)/losses	(1,084)	289	(26,750)	(2,089)
Amortisation of deferred revenue	(619)	1,077	(619)	420
Increase in deferred tax liabilities	5,672	4,120	877	1,251
(Increase)/decrease in inventories	(8,000)	(26,210)	(5,509)	11
Increase in operating receivables	(224,185)	(156,945)	(219,304)	(33,197)
Increase in operating payables	53,117	164,146	17,785	18,674
Net cash flows from operating activities	<u>212,540</u>	<u>355,697</u>	<u>40,089</u>	<u>231,868</u>
Net changes in cash and bank balances				
Cash at end of year	981,251	510,139	559,534	143,951
Less: cash at beginning of year	<u>688,993</u>	<u>539,430</u>	<u>257,969</u>	<u>161,861</u>
Net increase/(decrease) in cash and bank balances	<u>292,258</u>	<u>(29,291)</u>	<u>301,565</u>	<u>(17,910)</u>

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

	<b>Group</b>		<b>Company</b>	
	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>For the</b>	<b>For the</b>	<b>For the</b>	<b>For the</b>
	<b>six months</b>	<b>six months</b>	<b>six months</b>	<b>six months</b>
	<b>ended 30</b>	<b>ended 30</b>	<b>ended 30</b>	<b>ended 30</b>
	<b>June 2012</b>	<b>June 2011</b>	<b>June 2012</b>	<b>June 2011</b>
Cash and bank balances	984,851	511,039	559,534	143,951
Less: Restricted bank deposit	<u>(3,600)</u>	<u>(900)</u>	<u>—</u>	<u>—</u>
Cash and bank balances shown in the cash flow statements	<u>981,251</u>	<u>510,139</u>	<u>559,534</u>	<u>143,951</u>

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

	<b>Group Unaudited</b>		<b>Company Unaudited</b>		
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	
	Interest income from bank deposits	10,469	5,667	7,797	2,903
	Release of deposit on project bids	1,030	600	1,030	550
Subsidies received	2,335	5,321	2,085	2,321	
Maintenance fee received	—	29,495	—	—	
Others	29,222	58,637	45,175	154,839	
	<u>43,056</u>	<u>99,720</u>	<u>56,087</u>	<u>160,613</u>	

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

	<b>Group Unaudited</b>		<b>Company Unaudited</b>		
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	
	Travelling, meeting and entertainment expenses	6,104	5,056	1,750	1,640
	Consulting service fee	3,257	3,910	2,851	3,161
Expenses of board of directors	1,244	2,350	1,244	2,350	
Others	55,386	60,962	46,858	109,165	
	<u>65,991</u>	<u>72,278</u>	<u>52,703</u>	<u>116,316</u>	

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

	<b>Group Unaudited</b>		<b>Company Unaudited</b>		
	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>	
	Construction costs of heat supply project	24,715	—	—	—
		<u>24,715</u>	<u>—</u>	<u>—</u>	<u>—</u>

## 7 SEGMENT REPORTING

The reportable segments of the Group are the business units that provide different products or service, or operate in the different areas. Different businesses or areas require different technologies and marketing strategies, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their 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. Sewage processing and facility construction services are further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants).

(a) Segment information as at and for the year ended 30 June 2012 is as follows:

	Sewage processing and facility construction services			Recycled water and	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants	pipeline connection			
Income from third parties (Note 6(18))	396,489	77,696	129,137	55,211	21,546	85,021	765,100
Interest income (Note 6(21))	6,091	326	706	2,665	20	6,415	16,223
Interest expenses (Note 6(21))	(80,194)	(13,518)	(26,471)	(1,509)	(4,352)	(895)	(126,939)
Investment profit from associate (Note 6(7)(b))	—	—	—	—	—	584	584
Depreciation & Amortisation	(63,880)	(18,124)	(33,169)	(11,494)	(4,496)	(9,188)	(140,351)
Total profit	92,068	14,208	11,579	12,311	1,955	30,243	162,364
Income tax expense	(22,994)	(1,703)	(3,731)	(2,958)	(104)	(12,715)	(44,205)
Net profit	69,074	8,862	7,619	9,358	1,860	21,386	118,159
Segment assets	5,225,860	765,236	1,570,914	750,111	280,048	1,054,861	9,647,030
Segment liabilities	3,746,212	445,582	577,167	698,501	87,693	315,596	5,870,751
Investment in associate	—	—	—	—	—	45,253	45,253
Non-current assets addition other than related to long-term investment	66,914	2,895	6,720	8,044	820	13,277	98,670



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

## 8 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(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 (ating pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from TSC on 9 November 2010 (note 6(12)(d)).

At 30 June 2012, if RMB had weakened/strengthened by 5 % against the US dollar with all other variables held constant, post-tax profit for the period would have been Rmb3.7 million (2011: Rmb4 million) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated portion of long-term payables. Similarly, if RMB had weakened/strengthened by 5 % against the JPY with all other variables held constant, post-tax profit for the period would have been Rmb11.4 million (2011: 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 payables.

The Group has significant borrowings and long-term payables. 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 30 June 2012							
Assets							
Cash and bank balances	3,600	981,251	—	984,851	—	559,534	559,534
Long-term receivables	<u>338,039</u>	<u>—</u>	<u>—</u>	<u>338,039</u>	<u>338,039</u>	<u>—</u>	<u>338,039</u>
Liabilities							
Current borrowings	—	743,671	302	743,973	—	610,364	610,364
Non-current borrowings	—	2,622,381	10,613	2,632,994	—	1,468,167	1,468,167
Long-term payables due within 1 year	23,652	6,947	—	30,599	23,652	6,947	30,599
Long-term payables	284,419	98,288	—	382,707	284,419	98,288	382,707
Debentures payable	<u>690,900</u>	<u>—</u>	<u>—</u>	<u>690,900</u>	<u>690,900</u>	<u>—</u>	<u>690,900</u>
At 31 December 2011							
Assets							
Cash and bank balances	2,700	688,993	—	691,693	—	257,969	257,969
Long-term receivables	<u>338,446</u>	<u>—</u>	<u>—</u>	<u>338,446</u>	<u>338,446</u>	<u>—</u>	<u>338,446</u>
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
Debentures payable	<u>689,850</u>	<u>—</u>	<u>—</u>	<u>689,850</u>	<u>689,850</u>	<u>—</u>	<u>689,850</u>

At 30 June 2012, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, profit for the period would have been lower/higher by Rmb14.2 million (2011: Rmb26 million).

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

(b) Credit risk:

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

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

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

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

(c) Liquidity risk:

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

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 30 June 2012					
Cash and bank balances	984,851	—	—	—	984,851
Trade and other receivables	1,382,039	—	—	—	1,382,039
Long-term receivables	13,908	85,952	60,710	375,949	536,519
Long-term bank borrowings	(760,435)	(1,395,011)	(1,040,338)	(411,537)	(3,607,321)
Long-term payables	(32,419)	(32,738)	(100,696)	(620,234)	(786,087)
Other non-current liabilities	(24,002)	(23,259)	(65,079)	(30,901)	(143,241)
Trade and other payables	(336,821)	—	—	—	(336,821)
Short-term borrowings	(158,673)	—	—	—	(158,673)
Debentures payable	(46,480)	(46,480)	(839,440)	—	(932,400)
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)
Debentures payable	(46,480)	(46,480)	(839,440)	—	(932,400)

(d) Capital risk management

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

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

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

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

	<b>30 June 2012</b>	<b>31 December 2011</b>
Total borrowings	4,067,867	3,662,274
Less: Cash and cash equivalents	<u>(981,251)</u>	<u>(688,993)</u>
Net debt	3,086,616	2,973,281
Total equity	<u>3,776,279</u>	<u>3,715,709</u>
Total capital	<u><u>6,862,895</u></u>	<u><u>6,688,990</u></u>
Gearing ratio	<u><u>45%</u></u>	<u><u>44%</u></u>

There is no significant change in gearing ratio of the Group for the six months ended 30 June 2012.

(e) Fair value estimation

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

## 9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

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

Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Tianjin Municipal Investment Company Limited ("TMICL")	Tianjin, the PRC	Development, construction and management of municipal infrastructures	Controlling shareholder of the Company	Limited company	Xiong Guang Yu
Tianjin Infrastructure Construction Investment Group Co., Ltd. ("TICIG")	Tianjin, the PRC	Investment and construction of urban environmental infrastructure, market establishment and development services, lease of private properties, lease of infrastructures, and development and operation of public facilities projects	Ultimate holding company	Limited company	Ma Bai Yu
Qu Jing Capital Water Co., Ltd.	Qujing, the PRC	Sewage processing, tap water supply	Subsidiary of the Company	Limited company	Zhao Yi
Gui Zhou Capital Water Co., Ltd.	Guizhou, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Fu Yang Capital Water Co., Ltd.	Fuyang, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Bao Ying Capital Water Co., Ltd.	Baoying, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Chi Bi Capital Water Co., Ltd.	Chibi, the PRC	Sewage processing	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 Fu Sheng
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

Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
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 Company	Sewage processing	Subsidiary of the Company	Limited company	Zhao Yi
Tianjin Kaiying Technology Development Co., Ltd.	Tianjin, the PRC	Environmental engineering, protection and technical consultation	Subsidiary of the Company	Limited company	Zhang Wen Hui
Anguo Capital Water Co., Ltd.	Anguo, the PRC	Sewage and tap water	Subsidiary of the Company	Limited company	Li Yu Qing
Wuhan Tianchuang Environmental Protection Co., Ltd.	Wuhan, the PRC	Sewage and tap water processing	Subsidiary of the Company	Limited company	Zhao Yi
Tianjin Capital New Materials Co., Ltd.	Tianjin, the PRC	Production and sales of new types of construction	Subsidiary of the Company	Limited company	Fu Ya Na
Tianjin Capital Water Co., Ltd.	Tianjin, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Yang Guang
Tianjin Zichuang Project Investment Co., Ltd.	Tianjin, the PRC	Construction project investment	Subsidiary of the Company	Limited company	Lin Wen Bo
Tianjin Jinning Capital Water Co., Ltd.	Tianjin, the PRC	Sewage processing	Subsidiary of the Company	Limited company	Li Yu Qing
Tianjin Jiayuanxinchuang New 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

Name of related party	Registration address	Principal activities	Relationship with the Company	Type of enterprise	Legal representative
Environmental Digital Management System (Hongkong) Co., Ltd.	Hongkong, the PRC	Software development, environment monitoring and consultancy & maintenance service	Indirect subsidiary of the Company	Limited company	Sun Xiao Bing
Hanshan Capital Water Co., Ltd.	Chaohu, the PRC	Sewage processing	Indirect subsidiary of the Company	Limited company	Zhou Jing Dong

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

	31 December 2011	Additions	30 June 2012
TMICL	1,820,000	—	1,820,000
TICIG	67,700,000	—	67,700,000
Qu Jing Capital Water Co., Ltd.	178,983	—	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.	69,000	—	69,000
Bao Ying Capital Water Co., Ltd.	53,000	—	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 Technology Development Co., Ltd.	5,000	—	5,000
Anguo Capital Water Co., Ltd.	41,000	—	41,000
Wuhan Tianchuang Environmental Protection Co., Ltd.	103,240	—	103,240
Tianjin Capital Water Co., Ltd.	5,000	—	5,000
Tianjin Zichuang Project Investment Co., Ltd.	23,400	—	23,400
Tianjin Jinning Capital Water Co., Ltd.	15,000	—	15,000
Tianjin Jiayuanxingchuang Co., Ltd.	60,000	—	60,000
Hanshan Capital Water Co., Ltd.	9,000	—	9,000



	<b>31 December</b>		<b>31 June</b>
	<b>2011</b>	<b>Additions</b>	<b>2012</b>
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	7,840	—	7,840
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Environmental Digital Management System (HongKong) Co., Ltd.	2,040	—	2,040

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

	<b>31 December 2011</b>		<b>Reduction for the period</b>		<b>30 June 2012</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
TMICL	736,500	51.60	—	—	736,500	51.60

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

<b>Name of related party</b>	<b>Relationship with the Group</b>
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 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 period:

(i) Income

Name of related party	Nature of transaction	Unaudited For the six months ended 30 June 2012	Unaudited For the six months ended 30 June 2011
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd. water processing plant	Construction revenue from sewage	1,958	26,069
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects	—	970
TICIG	Rental income from TCEP building	239	1,912
Tianjin Environment Construction Investment Company Co., Ltd.	Rental income from TCEP building	908	364
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building	—	344
Tianjin Lecheng Properties Co., Ltd.	Income from supply of heat	10,110	—
Tianjin Environment Construction Investment Company Co., Ltd.	Income from supply of heat	261	—
Tianjin subway Group Co., Ltd.	Income from supply of heat	<u>1,897</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

	<b>Unaudited For the six months ended 30 June 2012</b>	<b>Unaudited For the six months ended 30 June 2011</b>
Key management compensation	<u>5,440</u>	<u>3,844</u>

(f) Receivables from and payables to related parties

<b>Name of related party</b>	<b>30 June 2012</b>	<b>31 December 2011</b>
Tianjin City Resource Operation Co., Ltd.	801	801
TICIG	239	—
Tianjin Environment Construction Investment Company Co., Ltd.	471	—
Tianjin Lecheng Properties Limited	—	404
Tianjin Subway Group Co., Ltd.	<u>—</u>	<u>76</u>

(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 period, the Group’s significant transactions with these state controlled entities include processing of sewage water and construction and management of related facility, processing of tap water, recycled water and supply of heat. As at period end, majority of the Group’s cash and bank balances and borrowings are with state controlled banks and listed banks.

## 10 COMMITMENTS

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

	Contracted but not provided for		Authorised but not contracted for	
	31 June 2012	31 December 2011	31 June 2012	31 December 2011
	<i>Rmb' million</i>	<i>Rmb' million</i>	<i>Rmb' million</i>	<i>Rmb' million</i>
Sewage water processing plants in:				
– Ji Zhuang Zi (upgrade project)	10	21	4	15
– Xian Yang Lu (upgrade project)	8	9	7	31
– Bei Cang (upgrade project)	1	10	24	25
– Dong Jiao (upgrade project)	21	18	14	63
– Ninghe project	17	16	—	9
– Baoying project	16	16	—	—
– Hangzhou project	3	4	5	5
Water recycling plants in:				
– Ji Zhuang Zi (expansion project)	—	—	16	16
	<u>76</u>	<u>94</u>	<u>70</u>	<u>164</u>

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

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

## IX. AUDIT COMMITTEE

On 31 July 2001, the Board approved the establishment of the Audit Committee to review and supervise the Company's financial reporting procedure and internal controls. The Audit Committee comprises the independent non-executive Directors, Mr. Xie Rong, Mr. Di Xiaofeng and Ms. Lee Kit Ying, Karen. The Audit Committee, together with the management of the Group, have reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Group the internal controls and financial reporting matters including the review of the unaudited interim results and the Interim Report. The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2012.

## **X. CORPORATE GOVERNANCE CODE**

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

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

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

## **XII. DOCUMENTS AVAILABLE FOR INSPECTION**

1. Financial statements signed and sealed by the legal representative, officer in charge of the accounting work and officer in charge of the accounting department of the Company.
2. Original copies of the documents and announcements of the Company which were publicly disclosed on newspapers designated by the CSRC during the reporting period.
3. Interim Report 2012 published in Hong Kong.

**Tianjin Capital Environmental Protection Group Company Limited**  
**Zhang Wenhui**  
*Chairman*

23 August 2012