



Annual Report 2012



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

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1. Important

- (1) The board of directors (the “**Board**”), supervisory committee (the “**Supervisory Committee**”), directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) confirm that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of its contents.
- (2) PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have issued standard unqualified audit reports of the Company.
- (3) Mr. Zhang Wenhui, the Company’s chairman, and Ms. Shi Zhenjuan, the officer in charge of the accounting work and the officer in charge of the accounting department (the chief accountant), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2012 annual report.
- (4) The proposal on profit appropriation or transfer of capital reserve fund to share capital for the reporting period as reviewed by the Board: As audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers, the net profit attributable to the Company in 2012 amounted to RMB268.98 million. After deduction of the statutory common reserve of RMB24.72 million drawn in accordance with the relevant requirements of the Company Law of the People’s Republic of China (the “**PRC**”) and the Articles of Association of the Company, adding the retained profit of RMB1,432.62 million at the beginning of the year, and less the distribution in 2012 of the 2011 cash dividend of RMB57.09 million, the actual profit distributable to the shareholders for the year amounted to RMB1,619.79 million. According to the profit appropriation policy in 2012, a cash dividend of RMB0.60 (gorss tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB85.6338 million, representing 31.84% of the available-for-distribution profit attributable to the Company realized in 2012. No transfer from the capital reserve fund to share capital was made for 2012. The appropriation proposal shall be submitted to the 2012 annual general meeting of the Company for consideration and shall be implemented after approval.
- (5) The forward-looking statements in this report, such as the future development plans and strategy, shall not constitute the Company’s actual commitment to investors.
- (6) Did the controlling shareholder of the Company and its related parties misappropriate the Company’s funds?
No.
- (7) Did the Company provide external guarantees in violation of any specified decision-making procedures?
No.



2. Definitions and Significant Risks Warning

(1) DEFINITIONS

In this report, unless the context requires otherwise, the following terms shall have the following meanings:

“Group”	Tianjin Capital Environmental Protection Group Company Limited and its subsidiaries
“Subsidiaries”	Subsidiaries of Tianjin Capital Environmental Protection Group Company Limited
“Company”	Tianjin Capital Environmental Protection Group Company Limited
“Tianjin Investment Group”	Tianjin City Infrastructure Construction and Investment Group Company Limited
“TMICL”	Tianjin Municipal Investment Company Limited
“Bohai Chemical”	Tianjin Bohai Chemical Industry (Group) Company Limited
“Water Recycling Company”	Tianjin Water Recycling Company Limited
“TCCC”	Tianjin City Construction and Communication Committee
“Tianjin Haihe”	Tianjin Haihe Construction Development and Investment Company Limited
“TECI”	Tianjin City Environment Construction and Investment Company Limited
“Jiayuanxing”	Tianjin Jiayuanxing Innovative Energy Technology Company Limited
“TLP”	Tianjin Lecheng Properties Company Limited
“TMG”	Tianjin City Metro Group Company Limited
“TSC”	Tianjin Sewage Company

(2) SIGNIFICANT RISKS WARNING

The Company has disclosed in detail in this report the associated risks that may exist. Please refer to the Board’s discussion and analysis on the Company’s future development in Section 5 “Directors’ Report” about the potential risks that the Company may face.

3. Company Profile

(1) INFORMATION OF THE COMPANY

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

(2) CONTACT PERSON AND METHOD

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

(3) COMPANY PROFILE

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



3. Company Profile

(4) PLACES WHERE THE COMPANY'S INFORMATION IS DISCLOSED AND AVAILABLE FOR INSPECTION

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

(5) PROFILE OF THE SHARES OF THE COMPANY

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

(6) CHANGES IN THE COMPANY'S REGISTRATION DURING THE REPORTING PERIOD

1、Basic information

No changes in the Company's registration during the reporting period.

2、Relevant inquiry index of the Company's first registration

For details of the Company's first registration, please refer to the "Company Profile" in the 2011 annual report of the Company.

3、Changes in the principal businesses of the Company since its listing

Bohai Chemical, the Company's predecessor, produced several chemical products with salt as raw material, including soda ash, caustic soda and polyvinyl chloride, as its principal businesses. On 20 December 2000, the Company finished an asset restructuring, without retaining any of its original business, assets or personnel. The Company's principal businesses were changed to the investment, construction and operation of sewage water treatment facility and licensed operation of urban toll roads. Since then, the Company continued to develop. With the increase in the number of Subsidiaries, the Company gradually expanded its businesses by adding tap water and recycled water business, as well as cooling and heating services. On 28 December 2010, adjustments to the Company's business scope were approved at the extraordinary general meeting of the Company as follows: investment, construction, design, management, operation, technical consultation and auxiliary services of treatment facilities for sewage water, tap water and other types of water; design, construction, management, building and operation management of municipal infrastructure facilities; license operation, technical consultation and auxiliary services for the Southeastern Half Ring Urban Road of the Middle Ring of Tianjin City; development and operation of environmental protection technology and products; leasing of self-own properties, etc.

Currently, the principal businesses of the Company are the operation, construction, design and technical consultation of sewage water treatment plants, production and sales of recycled water and pipe network connection, production and sales of tap water, provision of cooling and heating services with new energy, license operation of toll roads, etc.

4、Changes in the controlling shareholders since listing of the Company

The Company's predecessor was Bohai Chemical, with its controlling shareholder being Tianjin Bohai Chemical Industry Group Corporation. On 20 December 2000, after the Company completing its assets restructuring, the controlling shareholder became TMICL.



3. Company Profile

(7) OTHER RELEVANT INFORMATION

Certified public accountants engaged by the Company (The PRC)	Name	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
	Office Address	11/F, PricewaterhouseCoopers Center, 202 Hu Bin Road, Shanghai, the PRC
	Name of Signing Accountant	Li Jun Cao Lu
Certified public accountants engaged by the Company (Hong Kong)	Name	PricewaterhouseCoopers
	Office Address	22/F, Prince's Building, Central, Hong Kong
	Name of Signing Accountant	Chan Kwong Tak

4. Accounting Data and Financial Indicator Highlights

(1) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS AT THE END OF THE REPORTING PERIOD

1. Major accounting data

Unit: 0'000 Currency: RMB

Major accounting data	2012	2011	Increase/decrease for the period as compared to the same period	
			last year (%)	2010
Operating income	163,732.00	156,249.00	4.79	146,776.80
Net profit attributable to the shareholders of the Company	26,898.10	27,578.60	-2.47	27,116.00
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	25,318.20	27,822.60	-9.00	30,105.50
Net cash flow from operating activities	50,779.10	83,417.30	-39.12	45,330.30

	End of 2012	End of 2011	Increase/decrease for the end of the period as compared to the end of the same period	
			last year (%)	End of 2010
Net assets attributable to the shareholders of the Company	378,022.90	356,833.70	5.94	345,057.30
Total assets	1,030,699.40	908,532.40	13.45	842,556.30



4. Accounting Data and Financial Indicator Highlights

(1) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS AT THE END OF THE REPORTING PERIOD (Continued)

2. Major financial data

Currency: RMB

Major financial indicators	2012	2011	Increase/decrease	2010
			for the period as compared to the same period last year (%)	
Basic earnings per share (RMB/share)	0.19	0.19	—	0.19
Diluted earnings per share (RMB/share)	0.19	0.19	—	0.19
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.18	0.19	-5.26	0.21
Weighted average return on net assets ratio (%)	7.33	7.73	Decreased by 0.4 percentage point	7.86
Weighted average return on net assets ratio after deduction of extraordinary items (%)	6.91	7.80	Decreased by 0.89 percentage point	8.72

(2) DIFFERENCES IN ACCOUNTING DATA UNDER THE DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

There are no differences in the accounting data under the domestic and overseas accounting standards.

(3) EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

Unit: 0'000 Currency: RMB

Extraordinary items	Amount in 2012	Amount in 2011	Amount in 2010
Profit/loss from disposal of non-current assets	316.00	-1,366.10	-4,755.30
Other non-operating income and expenses except for the above items	1,797.30	1,040.70	769.30
Effect on minority interests	-5.10	—	—
Income tax effect	-528.30	81.40	996.50
Total	<u>1,579.90</u>	<u>-244.00</u>	<u>-2,989.50</u>

(4) PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS

Results

Unit: 0'000 Currency: RMB

	For the year ended 31st December				
	2012	2011	2010	2009	2008
Turnover	<u>154,117</u>	<u>149,315</u>	<u>139,482</u>	<u>122,647</u>	<u>113,510</u>
Profit before taxation	<u>37,280</u>	<u>37,603</u>	<u>36,683</u>	<u>33,772</u>	<u>31,024</u>
Taxation	<u>(9,825)</u>	<u>(9,615)</u>	<u>(9,167)</u>	<u>(9,132)</u>	<u>(7,675)</u>
Profit after taxation	27,455	27,988	27,516	24,640	23,349
Minority interests	<u>(557)</u>	<u>(409)</u>	<u>(400)</u>	<u>(342)</u>	<u>(242)</u>
Profit attributable to the shareholders of the Company	<u>26,898</u>	<u>27,579</u>	<u>27,116</u>	<u>24,298</u>	<u>23,107</u>
Dividend	<u>8,563</u>	<u>5,709</u>	<u>15,700</u>	<u>11,418</u>	<u>5,709</u>

Note: The results for each of the five years ended 31 December 2012 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.



4. Accounting Data and Financial Indicator Highlights

(4) PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Assets and Liabilities

Unit: 0'000 Currency: RMB

	As at 31st December				
	2012	2011	2010	2009	2008
Fixed assets	429,068	383,231	381,261	284,170	270,436
Intangible assets	275,369	280,304	242,778	236,770	188,426
Associated company	3,463	4,067	4,158	4,014	3,988
Available-for-sale financial assets	400	400	400	400	400
Long-term receivables	33,763	33,845	33,629	33,135	33,125
Trade receivables due after one year	6,879	6,879	6,879	24,179	69,776
Other non-current assets	851	863	746	323	4,725
Net current (liabilities)/assets	<u>69,578</u>	<u>8,936</u>	<u>3,960</u>	<u>1,562</u>	<u>13,756</u>
	819,371	718,525	673,811	584,553	586,434
Minority interests	15,244	14,737	12,560	12,192	11,850
Long-term liabilities	<u>426,104</u>	<u>346,954</u>	<u>316,194</u>	<u>243,002</u>	<u>262,014</u>
Net assets	<u><u>378,023</u></u>	<u><u>356,834</u></u>	<u><u>345,057</u></u>	<u><u>329,359</u></u>	<u><u>310,770</u></u>

I. DISCUSSION AND ANALYSIS ON THE OPERATIONS OF THE COMPANY DURING THE REPORTING PERIOD BY THE BOARD

(I) Consolidated discussion and analysis on the operation management of the Company during the reporting period

During the reporting period, the Group's principal business was still mainly on investments and operations of sewage water treatment projects. While engaging in the production and sales of recycled water, connection of pipelines network, tap water supply, new energy cooling and heating supply services, road toll business, we actively expand the businesses of operation services, technical services, consultation services, design services and construction services for sewage water treatment projects.

The Construction Plan of Nationwide Urban Sewage Water Treatment and Recycled Water Utilization Facilities under the "Twelfth Five-Year Plan" and related policy documents released at the end of 2011 in the PRC promoted investments in the sewage water treatment industry to a certain extent, and intensified the competition among sewage water treatment enterprises. This also provided vast room for the utilization of recycled water resources and the development and utilization of new energy.

In 2012, the Group continued to make steady progress following the strategic guideline of "thinking prudently to enhance internal capabilities". Under the leadership of the Board, the Company's management closely adhered to the strategic plan of the Group for the "Twelfth Five-Year Plan" period, followed the operational plan of the Group in 2012, continued to apply the operation philosophy of "technology as the guide, operation as core" to increase operational efficiency, and aimed at maximizing the value created for the shareholders by increasing the working standards of operational management continuously to build up further the core competitiveness of the Company. In particular:

1. During the reporting period, the Group seriously streamlined the industrial chain of the sewage water treatment industry and prudently handled the development of water investment operational projects with great demand in investments and long payback period for investments. There was no newly invested operational projects. Active efforts were exerted to expand the market in entrusted operation of sewage water plants, resulting in a significant increase in revenue from entrusted operation services. Active promotion of sewage water treatment plant full-process deodorization technology, a patented technology of the Company, for market application was carried out. As at the end of the reporting period, this technology was applied in more than 10 sewage water treatment plants in Tianjin, Inner Mongolia, etc. with a total capacity of 1,835,000 cubic meters per day. Good response was received from players in the industry, which laid a firm foundation for future expansion of the market in future.



5. Directors' Report

2. During the reporting period, while assuring the service quality of water license operation, the Group endeavored to maintain license operation agreements and strived to carry out adjustments to service fees and prices to facilitate the return of expected investment gains from the projects, and progress was made in a number of projects. The Group had been active in achieving progress in sewage water treatment license operation projects in the Tianjin region and the collection of account receivables, and stage progress was achieved. The government authority had reported this matter to the municipal government for approval.
3. During the reporting period, the Group continued to increase efforts in technological research and development and made application for the establishment of the Tianjin Sewage and Waste Water Biochemical Treatment Technology Centre, to build a transfer platform for research results on production technology and a research and development system for enterprises in the sewage and waste water treatment sectors. During the reporting period, based on the demand for technology innovation in “upgrading and renovation of sewage water treatment plants” and “energy saving and emission reduction by enterprises” as well as the objectives of stabilizing the operation of sewage water plants, treatment of sewage sludge through volume reduction, stabilization, detoxification and resource reclamation, the Group had made progress in a number of research and development projects, including the integrated technology for highly efficient sewage water treatment and sludge concentration, optimization of the technical process and technology for deodorization of the entire process in sewage water plants, sludge fragmentation technology, compound medical agents and microbiological agents for water treatment, and a number of patents for invention and utility models had been applied for and granted for registration, providing the technological reserves required for sustainable development of the Company.
4. During the reporting period, the Group signed the relocation agreements for the Jizhuangzi sewage water treatment plant and recycled water plant with the authority of the Tianjin Municipal Government on the basis of “Exchanging Project for Project”, and signed the compensation agreements with the authorized unit for land reform, and received compensation for the construction of the relocated sewage water treatment plant and recycled water plant. Before commercial operation of the new plants, the Jizhuangzi sewage water treatment plant and recycled water plant would continue to operate.
5. During the reporting period, the Group had further strengthened the strategic positions of the water resources recycling and utilization business and the new energy utilization business by continuous nurturing of the recycled water sales business and significant expansion of the pipelines network connection services. The project of new energy cooling and heating supply services provided cooling supply services to users for the first time and the project was operating well with gradually maturing technology and management, which assures further development of the market.

6. During the reporting period, with the aim of increasing the operational efficiency, the Group further strengthened management, endeavored to reduce management fees and imposed reasonable control on production costs, and through establishing a comprehensive incentive mechanism centering on appraisals against targets and job performance, adjusting the form of labour organizations, increasing staff training and enhancing productivity, the pressure of persistent rising costs of human resources was reduced.
7. During the reporting period, the Group further enhanced internal control management and gradually established a risk-oriented internal control management system to ensure the healthy and continuous development of the Company effectively.

(II) Discussion and Analysis on the Results of Operations during the Reporting Period

(1) Analysis on the overall results of operations during the reporting period

In 2012, the Group recorded an operating income of RMB1,637.32 million, representing an increase of RMB74.83 million or 4.79% as compared to 2011. The increase in operating income was mainly attributable to an increase in income generated from the Company's business in sewage water treatment service, recycled water business and the business of cooling and heating supply services. Meanwhile, there was a significant decrease in the sewage water treatment construction business.

While there was an increase in the operating income, the operating costs also increased by RMB77.147 million or 9% as compared to 2011, which was mainly due to the increase in the charges of energy, raw materials, sludge treatment, depreciation and labour costs as compared to last year.

In line with the increase in operating income, business tax and surcharge increased by RMB2.647 million or 29.97% as compared to the corresponding period of last year.

Finance costs increased by RMB15.91 million or 8.1% as compared to 2011. Effects of exchange rate fluctuations in Japanese Yen and US Dollars during the reporting period were included. Exchange gains increased by RMB31 million and amortized unrecognized finance costs upon acquisition of foreign invested assets increased by RMB6 million as compared to last year. If these two items were excluded, finance costs increased by RMB40.91 million or 20.83% as compared to 2011, which was due to the increase in the principal amount of loans during the reporting period, a general increase in interest rates on loans and capitalized interest due to consolidation. The interest expenses were increased as compared to 2011.

Investment gains decreased by RMB5.927 million as compared to 2011, which was mainly due to losses incurred by the invested unit.



5. Directors' Report

During 2012, the Group's government grants realized and income from disposal of assets of the Subsidiary, Tianjin Capital New Materials Company Limited, increased. Together with the decrease in loss from disposal of assets, the non-operating profit and loss increased by RMB18.239 million as compared to 2011.

In conclusion, the Group recorded a net profit (attributable to the shareholders of the Company) of RMB268.981 million during the reporting period, representing a slight decrease of RMB6.805 million or 2.47% as compared to 2011.

(2) Analysis of income from the principal businesses

a. *Sewage water processing business*

As at the end of the reporting period, the sewage water processing capacity of the Group was 3.782 million cubic metres per day, which was in line with 2011, and the sources for generating revenue from sewage water treatment include: (1) the sewage water treatment service fees charged by the four sewage water treatment plants in the central urban area of Tianjin pursuant to the "Sewage Water Processing Agreement" and the "Sewage Water Processing Interim Service Agreement"; (2) the sewage water treatment services provided by the Subsidiaries under the Group in accordance with the licensed operation agreements on sewage water treatment and the agreements on sewage water treatment services signed between the local governments and those Subsidiaries; (3) entrusted operation by which the Group charged operating service fees by rendering operating services in relation to sewage water treatment. The Group had processed a total of 1,040.88 million cubic metres of sewage water during the reporting period through the above ways, representing an increase of 6.3% as compared to 2011. Income realized amounted to RMB1,269.91 million, representing an increase of 6.44% as compared to 2011. This was mainly attributed to an increase in the volume of water processed by individual sewage water treatment plant. Sewage water treatment plants in Hanshan, Fuyang and Xicheng, Qujing were in operation throughout the year. The volume of water processed by entrusted operation projects increased significantly as compared to 2011.

During the reporting period, the Group's four sewage water treatment plants in the central urban area of Tianjin processed a total of 407.00 million cubic metres of sewage water for the whole year and realized a sewage water treatment service income of RMB785.51 million. Both the volume of water processed and income increased by 2.35% as compared to 2011.

During the reporting period, the Subsidiaries of the Group processed a total of 508.06 million cubic metres of sewage water, representing an increase of 5.2% as compared to 2011. Income from sewage water processing services of RMB426.99 million was realized, representing an increase of 7.57% as compared to 2011.

During the reporting period, the Group's entrusted operation projects processed a total of 125.82 million cubic metres of sewage water, representing an increase of 27.3% as compared to 2011, and realized an income of RMB57.41 million, representing an increase of 100.17% as compared to 2011.

b. Sewage water treatment plants construction business (including income from deodorization engineering application business)

During the reporting period, income from sewage water treatment plant construction of the Company was RMB29.10 million, representing a decrease of 72.54% as compared to 2011. This was mainly attributed to no new sewage water treatment plant construction projects during the reporting period and the existing projects were close to completion. During the reporting period, the Company continued to propel the marketing of the sewage water treatment plant all-process deodorization patented technology and realized a total income of RMB4.7496 million, which was basically in line with 2011.

c. Recycled water business

During the reporting period, the recycled water production and sales business was affected by unfavourable factors such as decreased power generation indicators of thermal power plants, delayed water supply time for Yangliuqing Power Plant and decreased usage of green water due to abundant rainfall. Accordingly, the production and sales of recycled water decreased as compared to 2011 and water sales of 12.8655 million cubic metres was realized. However, because of an increase in prices of recycled water during the reporting period, an income of RMB32.3785 million was realized, representing an increase of 20.41% as compared to 2011.

During the reporting period, the Company vigorously developed the recycled water pipeline connection business and realized a total income of RMB101.1165 million, representing an increase of 29.29% as compared to 2011.

d. Tap water business

During the reporting period, the Company's tap water business recorded an on-grid water volume of 42.9423 million cubic metres, representing an increase of 9.5% as compared to 2011, which was mainly attributable to an increase in the agreed on-grid water volume of Anguo Tap Water Plant, and realized an income of RMB44.11 million, representing an increase of 10% as compared to 2011.



5. Directors' Report

e. Provision of cooling and heating supply service business

During the reporting period, the Tianjin Cultural Centre centralized energy station project invested, constructed and operated by the Company was in stable operation, and provided cooling and heating supply services to users on a sustained and stable basis. Total realized income from cooling and heating supply service fees for the full year were RMB51.9760 million, representing an increase of 1,773.68% as compared to 2011. This was mainly attributed to the short service term in 2011 as the project started to provide heating supply services at the end of 2011, but provided complete-cycle cooling and heating supply services in 2012.

f. Toll collection business

For the toll collection business, the Group has recognized income from the road business based on the amount received according to the "Subcontracting Toll Collection Agreement" according to the spirit of the Jin Zheng Ban (2010) No.51 Document "Opinions on the Implementation of Oil Prices and Tax Expenses Reforms and the Cancellation of Toll Collection on Government Indebted Tier 2 Roads" dated 19 May 2010, and continued to maintain a stable income level. During the reporting period, the Company recorded an income of RMB67.03 million from the toll collection business, which was in line with 2011.

(III) Analysis of principal operations

(1) Analysis of changes in relevant items in the income statement and cash flow statement

Unit: 0'000 Currency: RMB

Item	Amount for the		Percentage change (%)
	Amount for the current period	same period last year	
Income from operations	163,732.00	156,249.00	4.79
Costs for operations	95,118.80	87,404.10	8.83
Administrative expenses	10,511.80	10,430.10	0.78
Financial expenses	21,232.80	19,641.50	8.10
Net cash flows from operating activities	50,779.10	83,417.30	-39.13
Net cash flows from investing activities	13,565.40	-54,167.60	-125.04
Net cash flows from financing activities	-33,547.30	-14,293.40	134.70
Research and development expenses	589.83	709.68	-16.89

(2) Income

1) Analysis of factors driving changes in business income

For details, please refer to "Analysis of income from the principal businesses" above.

2) Analysis of factors affecting the Company's product income mainly through physical sales

Not applicable.

3) Analysis of orders

The Group is principally engaged in the sewage water processing business and signs licensed operation agreements or agreements on sewage water treatment services with the governments or government representatives of the places where the projects are located for a term of 20 to 30 years depending on different projects. The Group will charge sewage water treatment service fees and adjust the prices according to such agreements.

4) Analysis of the impacts of new products and new services

The Company's cooling and heating supply service business and sewage water processing deodorization engineering are key new businesses developed by the Company since 2011. As at the end of the reporting period, income from the aforesaid new businesses accounted for a very small percentage of the Company's income from operations.



5. Directors' Report

5) Information on major sales customers

Total income from operations from the Group's top five customers was RMB1,151 million, representing 70% of the Group's total income from operations. For details, please refer to the Group's financial statements.

(3) Costs

1) Costs analysis

Unit: 0'000 Currency: RMB

By industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount for the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)		Remark
(1) Sewage water	Labour	8,453.5	9.48	7,545.0	9.01		12.04	
	Energy consumption	17,657.5	19.80	16,570.7	19.8		6.56	
	Material consumption	4,479.79	5.02	4,204.5	5.02		6.55	
	Repair and Maintenance	7,638.22	8.57	6,878.7	8.22		11.04	
	Sludge disposal and plant environment costs	5,931.91	6.61	3,075.3	3.67		92.89	Note 1
	Depreciation and amortization	23,195.7	26.02	21,438.8	25.61		8.19	
	Remaining manufacturing costs	1,476.9	1.66	1,592.8	1.90		-7.28	
	(2) Sewage water plant construction	Engineering construction costs	2,636.8	2.96	10,626.7	12.70		-75.19

By industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount for the same period last year	Percentage change in the amount for the current period as compared to the same period last year (%)		Remark
					Percentage of total costs for the same period last year (%)	Percentage of total costs for the same period last year (%)	
(3) Tap water	Labour	805.4	0.90	722.0	0.86	11.55	
	Energy consumption	683.1	0.77	597.8	0.71	14.27	
	Material consumption	78.7	0.09	77.8	0.09	1.13	
	Repair and Maintenance	176.5	0.2	155.9	0.19	13.17	
	Depreciation and amortization	1,269.5	1.42	1,162.37	1.39	9.22	
	Remaining manufacturing costs	249.4	0.28	323.9	0.39	-23.02	
(4) Recycled water	Labour	806.9	0.91	622.7	0.74	29.59	Note 3
	Energy consumption	674.8	0.72	706.9	0.84	-4.54	
	Material consumption	565.5	0.63	439.7	0.53	28.61	
	Repair and Maintenance	1,148.0	1.29	901.7	1.08	27.31	
	Depreciation and amortization	2,121.3	2.38	1,426.7	1.70	48.69	
	Remaining manufacturing costs	226.5	0.25	218.2	0.26	3.88	



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By industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount for the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Remark	
(5)	Recycled water pipeline network connection	Engineering construction costs	4,042.8	4.53	2,820.5	3.37	31.06	Note 4
(6)	Energy supply	Labour	357.8	0.40	37.2	0.04	861.83	Note 5
		Energy consumption	1,361.4	1.53	—	—	—	
		Material consumption	13.6	0.02	—	—	—	
		Repair and Maintenance	105.4	0.12	—	—	—	
		Depreciation and amortization	1,329.7	1.49	159.3	0.19	734.73	
		Remaining manufacturing costs	325.1	0.36	10.1	0.01	3,122.67	
(7)	Toll collection	Collection management costs	712.0	0.80	712.0	0.85	—	
(8)	Others	Labour	314.5	0.35	260.0	0.31	20.98	
		Remaining manufacturing costs	319.5	0.36	412.7	0.49	-22.58	

Note:

1. There was a year-on-year increase because the unit price for sludge treatment in the sewage water treatment business increased.
2. Sewage water treatment plant construction business: The construction of the Hangu Yingcheng DBO project and the BT project of Tianjin Zichuang Engineering Investment Company Limited in the last year was basically completed, resulting in decrease in costs.
3. Recycled water business: The depreciation costs of the consolidation of the Jizhuangzi recycled water plant reconstruction and expansion project increased. The labour costs, material consumption and repair and maintenance expenses also increased year-on-year.
4. Recycled water pipeline connection business: Income for the year increased substantially and costs subsequently increased.
5. Energy supply business: Heating supply services were rendered starting from the end of 2011 and the service period was very short. There was a sharp increase in various costs as complete-cycle cooling and heating supply services were provided starting from the current year.

2) *Information on major suppliers*

In 2012, purchases from the top five suppliers amounted to RMB133 million, representing 23% of the total purchases for the year.

(4) Fees

For details of finance costs, and business tax and surcharges, please refer to the “Analysis on the Results of Operations” in the Directors' Report.

During the reporting period, administrative expenses were basically in line with the previous year.



5. Directors' Report

(5) Research and development expenses

1) Research and development expenses

Unit: 0'000 Currency: RMB

Expensed research and development expenses for the period	575.33
Capitalized research and development expenses for the period	14.5
Total research and development expenses	589.83
Total research and development expenses as a percentage of net assets (%)	0.16
Total research and development expenses as a percentage of income from operations (%)	0.36

2) Explanation

The Group initiated 22 technological programs, including “Study of the Overall Technological Upgrade and Optimization of the Whole-process Deodorization Technology in Urban Sewage Water Plants” and “Jinnan Sludge Treatment Plant Technology Type Selection Test and Technological Support”, to meet the technological innovation demand for “Upgrading and reconstruction work of the sewage water treatment plants” and “Energy saving and emission reduction by enterprises”. The programs and projects were implemented smoothly and met its expected requirements.

In 2012, the Group completed a total of 10 patent filings, including two invention patents and 8 utility patents. In 2012, the Group obtained a total of 10 patents, including one invention patent and 9 utility patents.

(6) Cash flow

Unit: 0'000 Currency: RMB

Items	2012	2011	Increase/decrease	Percentage change (%)	Details of changes
Net cash flow from operating activities	50,779.10	83,417.30	-32,638.20	-39.13	During the same period of the previous year, the Company recovered part of outstanding sewage water treatment fees, and construction and management fees carried forward from the previous year. Therefore, cash inflow from operating activities showed a peak value.
Net cash flow from investing activities	13,565.40	-54,167.60	67,733.00	-125.04	During the current period, the Company received the first land consolidation reserve compensation for the relocation and construction of the Jizhuangzi Sewage Water Plant and Recycled Water Plant of RMB750 million. Therefore, net cash inflow from investing activities increases substantially as compared to the previous period.
Cash flow from financing activities	-33,547.30	-14,293.40	-19,253.90	134.70	During the current period, the repayment amount was higher than the loan amount. Therefore, net cash outflow was higher than the previous period.
Net increase in cash and cash equivalents	30,797.20	14,956.30	15,840.90	105.91	This was mainly attributed to a year-on-year increase in net cash flow from investing activities.



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(7) Others

1) *Detailed explanation of material changes in the Company's profit composition or profit source*

There have been no material changes in the profit composition or profit source.

2) *Analysis and explanation of the progress in the implementation of various types of financing and major asset reorganization by the Company in the previous period*

Not applicable.

3) *Explanation of the progress in the development strategy and operation plan*

The Group organized production and operation activities in accordance with the development strategy and operation plan formulated by the Board in early 2012. With the efforts of all employees, as at the end of the reporting period, the development strategy and operation plan formulated at the beginning of the year were basically achieved. The targets on income, expenses and costs were basically achieved. The construction investment amounting to RMB71.90 million as set in the cooling and heating supply service project under the original operation plan used for developing the new energy cooling and heating service projects in the region of Jiefang South Road was terminated since the project investment unit was changed to government investment. The Group will subsequently further keep track of the status of this project.

1. ANALYSIS OF THE INDUSTRY, PRODUCTS OR REGIONAL OPERATIONS

(1) Principal businesses by industry and by products

Unit: 0'000 Currency: RMB

Principal Businesses by Industry								
By industry	Income from operations	Costs of operations	Gross profit margin (%)	Increase/decrease in income from operations as compared to last year		Increase/decrease in costs of operations as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)	Remark
				(%)	(%)			
Sewage water processing and sewage water treatment plant construction business	124,160.70	71,994.30	42.02	-2.64	-0.74		Decreased by 1.11 percentage points	
Recycled water pipeline connection and water supply business	13,349.50	9,468.10	29.08	27.02	36.46		Decreased by 4.91 percentage points	Note 1
Toll collection business	6,702.70	712.00	89.38	Unchanged	Unchanged		Unchanged	
Tap water supply business	4,411.50	2,856.40	35.25	10.35	17.01		Decreased by 3.68 percentage points	Note 2
Energy supply business	5,197.60	3,492.90	32.80	1,773.68	1,589.84		Increased by 7.31 percentage points	Note 3
Others	294.60	634.10	-115.24	-2.42	-5.74		Increased by 7.58 percentage points	Note 4



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- Note: (1) The gross profit margin of the recycled water pipeline connection and water supply business for the year decreased, mainly attributed to increased depreciation of the water supply business as a result of the consolidation of the Jizhuangzi recycled water reconstruction and expansion project, and increased labour costs, material consumption, and repair and maintenance expenses.
- (2) The gross profit margin of the tap water business decreased, mainly attributed to the growth of labour costs and electricity charges of Anguo Capital Water Company Limited.
- (3) Both income and costs of the energy supply business experienced significant changes as compared to the same period last year. This was because the project began to provide heating supply services at the end of 2011 with a very short service term and began to provide complete-cycle cooling and heating supply services in 2012.
- (4) This mainly includes design consultation and system integration service income.

(2) Principal businesses by geographical regions

Unit: 0'000 Currency: RMB

Region	Income from operations	Increase/decrease in income from operations as compared to last year (%)		Remark
Tianjin	107,307.10		1.13	
Qijing	6,960.00		0.79	
Guizhou	2,447.10		-0.56	
Fuyang	4,258.10		16.76	
Baoying	2,049.60		67.12	Note 1
Hangzhou	15,363.10		4.55	
Wendeng	2,481.60		4.33	
Xi'an	7,611.30		1.10	
Anguo	1,519.70		13.26	
Wuhan	4,036.60		37.42	Note 2
Hong Kong	82.40		-4.63	

Note:

- (1) With the operation of the phase II assets of the Subsidiary, Bao Ying Capital Water Company Limited, the daily processing capacity was increased from 30,000 cubic metres/day to 50,000 cubic metres/day, resulting in a significant increase in income.
- (2) Since all water volume of the branch in Xianning, Wuhan was recognized by the local competent authority, the income increased.

2、 ANALYSIS OF ASSETS AND LIABILITIES

(1) Analysis of assets and liabilities

Unit: 0'000 Currency: RMB

Items	Amount as at the end of the current period		Amount as at the end of the previous period		Percentage change in amount as at the end of the current period as compared to the end of the previous period (%)
	Amount as at the end of the current period	a percentage of total assets (%)	Amount as at the end of previous period	a percentage of total assets (%)	
Cash and bank balances	100,056.50	9.71	69,169.30	7.61	44.65
Trade receivables (including notes receivable)	157,274.30	15.26	109,658.30	12.07	43.42
Other receivables	1,058.90	0.10	1,704.90	0.19	-37.89
Other current assets	1,234.90	0.12	783.10	0.09	57.69
Fixed assets	328,125.90	31.84	238,370.90	26.24	37.65
Construction in progress	45,948.70	4.46	88,086.50	9.70	-47.84
Short-term borrowings	8,600.00	0.83	15,200.00	1.67	-43.42
Advances	60,137.10	5.83	42,338.70	4.66	42.04
Dividend payable	3,092.90	0.30	146.10	0.02	2,016.97
Taxes payable	2,670.60	0.26	827.40	0.09	222.77
Other non-current liabilities	84,015.80	8.15	10,970.30	1.21	665.85

Explanation of changes:

Cash and bank balances: During the year, the Company received the first land consolidation reserve compensation for the relocation and construction of the Jizhuangzi Sewage Water Plant and Recycled Water Plant.

Trade receivables (including notes receivable): The increase in trade receivables was mainly attributed to additional sewage water processing fees receivable by the Company during the year.



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Other receivables: The decrease in other receivables was mainly attributed to some amounts carried forward during the year.

Other current assets: Other current assets were mainly input tax of value-added tax to be deducted.

Fixed assets/construction in progress: During the period, the upgrade and reconstruction project in respect of the Company's four sewage water treatment plants was completed and consolidated, resulting in an increase in fixed asset items and a decrease in construction in progress.

Short-term borrowings: Part of the short-term borrowings due were repaid during the year.

Advances: These were mainly additional payment for facilities project received in advance by Water Recycling Company, a Subsidiary of the Company, during the year.

Dividend payable: This was mainly additional dividend for 2011 payable to TMICL during the year.

Taxes payable: These were mainly enterprise income tax payable at the end of the year.

Other non-current liabilities: These were mainly the first land consolidation reserve payment of RMB750 million for the relocation and construction of the Jizhuangzi Sewage Water Plant and Recycled Water Plant received during the year.

(2) Explanation of changes in assets measured at fair value and major asset measurement attributes

There have been no changes in assets measured at fair value and major asset measurement attributes.

3、ANALYSIS OF CORE COMPETITIVENESS

The Group's core competitiveness is mainly reflected in the following four aspects: first, the Group owns the most influential service brand in the sewage water processing industry and an established service network with nationwide coverage in the PRC; second, the Group owns leading technologies, diversified solutions and integrated service capability; third, the Group can effectively grasp the specific needs of the government and corporate customers, and adopt a variety of cooperation models to achieve win-win for all parties; fourth, the Group has the best operation and management practical experience in the water treatment industry and possesses sound capabilities of controlling risks and responding to emergencies. During the reporting period, the Group further stepped up its efforts in the research and development of proprietary technologies and techniques on the basis of maintaining the franchise of its projects, steadily enhancing its corporate core competitiveness.

4、 ANALYSIS OF THE INVESTMENT STATUS

(1) Overall analysis of external equity investments

There were no additional external equity investments during the year.

(2) Trust arrangement in respect of non-financial corporations and investment in derivatives

1) *Trust arrangement*

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

2) *Trust loan*

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

(3) Use of proceeds from fund-raising

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



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(4) Analysis of major Subsidiaries and companies in which the Company has invested

(A) Operations and results of the major Subsidiaries in which the Company has controlling interests

Unit: 0'000 Currency: RMB

Subsidiary	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Tianjin Water Recycling Company Limited	Tianjin	Production and sales of recycled water, development and construction of facilities for recycled water; manufacture, installation, commissioning and operation of equipment for recycled water.	10,000	Limited company	100%	96,185.60	13,431.00	2,373.70
Guizhou Capital Water Company Limited	Guiyang, Guizhou	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and solid waste processing facilities; research, development and promotion of environmental protection technology; consultancy services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	10,000	Limited company	95%	16,418.40	13,841.40	354.20
Tianjin Capital New Materials Company Limited	Tianjin	Manufacture and sales of construction materials, new compound material products and polymer material products; technical consultation on new piping materials.	3,750	Limited company	70.67%	310.50	17.70	445.90

Subsidiary	Principal place of business	Major product or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Baoying Capital Water Company Limited	Yangzhou, Jiangsu	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	5,300	Limited company	70%	12,789.60	6,169.00	334.60
Qijing Capital Water Company Limited	Qijing, Yunnan	Centralized water supply (limited to branch operation); development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	17,898	Limited company	86.55%	40,212.00	19,938.40	674.10



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Subsidiary	Principal place of business	Major product or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Fuyang Capital Water Company Limited	Fuyang, Anhui	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	6,900	Limited company	100%	18,675.20	9,849.50	1,050.20
Hangzhou Tianchuang Water Company Limited	Hangzhou, Zhejiang	Operation and maintenance for sewage water processing and recycled water utilization facilities, and ancillary services such as technology services and technology training.	25,745	Limited company	70%	76,070.60	31,822.40	1,107.40
Tianjin Capital Environmental Protection (Hong Kong) Company Limited	Hong Kong	Treatment and recycling and utilization of sewage water.	US\$ 7,840,000	Limited company	100%	5,464.80	5,494.10	-936.40

Subsidiary	Principal place of business	Major product or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Wendeng Capital Water Company Limited	Wendeng, Shandong	Development, construction, operation and management of sewage water treatment and its ancillary facilities, solid waste treatment facilities and water recycling facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	5,200	Limited company	100%	15,023.90	6,772.50	270.10
Tianjin Jing Hai Capital Water Company Limited	Jinghai, Tianjin	Development, construction, operation and management of sewage water treatment plant, urban sewage water treatment plant and tap water plants and their ancillary facilities, and solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities and environmental projects.	1,200	Limited company	100%	3,842.90	1,146.00	-51.20



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Subsidiary	Principal place of business	Major product or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Xian Capital Water Company Limited	Xi'an, Shaanxi	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and its ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; application of renewable energy and related equipment; installation services for sewage water treatment plant equipment; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	27,000	Limited company	100%	57,477.40	23,152.50	-1,159.80

Subsidiary	Principal place of business	Major product or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Tianjin Kaiying Technology Development Company Limited	Tianjin	Development, consultation, service and transfer of environmental protection technology and product, mechanical equipment and computer software technology; municipal projects and design; mechanical equipment leasing; installation and maintenance of sewage water treatment equipment; wholesale and retail of mechanical equipment (excluding cars), electronic products and computer software; the followings operated by business segment: water treatment equipment, sludge treatment equipment, aeration equipment, air purification equipment, manufacturing and processing of sewage water and sludge treatment reagent; sewage water treatment.	500	Limited company	100%	789.40	614.10	-41.40



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Subsidiary	Principal place of business	Major product or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Anguo Capital Water Company Limited	Anguo, Hebei	Urban water supply (water-drawing permit valid until September 2, 2013 and hygiene permit valid until April 11, 2015); sewage water treatment; sewage and water supply related technical consultation and related services.	4,100	Limited company	100%	9,046.60	4,201.20	146.40
Wuhan Tianchuang Environmental Protection Company Limited	Hubei, Wuhan	Investment and development, construction, operation, management and consultancy services of municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities and water recycling facilities; production, supply and sales of equipment and materials relating to water and environmental protection; research, development and promotion of environmental protection technology.	10,324	Limited company	100%	32,350.00	10,975.00	428.20

Subsidiary	Principal place of business	Major product or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Tianjin Capital Environmental Water Company Limited	Jinnan, Tianjin	Development, construction, operation and management of sewage water treatment, municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultancy services for water treatment facilities and environmental protection works.	500	Limited company	100%	459.90	459.90	2.60
Tianjin Zichuang Engineering Investment Company Limited	Jinghai, Tianjin	Investment in engineering projects.	2,340	Limited company	100%	8,000.10	2,238.80	-94.60
Tianjin Jinning Capital Environmental Water Company Limited	Ninghe, Tianjin	Sewage water treatment; development, construction of municipal sewage water treatment plants and its ancillary facilities; project consultancy services for water treatment facilities and environmental protection works.	1,500	Limited company	100%	4,534.60	1,608.60	134.60



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Subsidiary	Principal place of business	Major product or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net asset	Net profit
Tianjin Jiayuanxing Innovative Energy Technology Company Limited	Tianjin High-tech Zone	Development, consultation, service and transfer of energy saving, environmental protection and new energy technology; property management services.	6,000	Limited company	100%	38,585.00	6,926.40	825.20

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

Tianjin Beifang Rencaigang Company Limited

As at the end of the reporting period, the Group invested a total of RMB2,000,000 in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. Its principal activities comprise senior executive insurance services, senior executive personnel services (employment agent service, financial guarantee consultation service, personal creditworthiness assessment), enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. During the reporting period, the Group received bonus distribution in the total sum of RMB500,000 for the years 2010 and 2011 from this company.

Tianjin Baotong Light Mass Materials Company Limited

As at the end of the reporting period, the Group invested a total of RMB2,000,000 in Tianjin Baotong Light Mass Materials Company Limited, representing 4.9% of its registered capital. The principal activities of this company include production and sales of high resistance and light mass materials and its products. In 2010, it continued to commence its liquidation and deregistration procedures by the liquidation team authorized by the general meeting. In the second half of 2010, the liquidation team preliminarily completed the procedures in relation to the listing-for-sale of assets. The delisting price is approximately RMB21.36 million. Currently, the asset delivery is completed. As at the end of 2012, the transfer procedures were under processing.

(5) Projects made out of funds other than proceeds from fund-raising

Unit: 0'000 Currency: RMB

Project	Project amount	Project progress	Amount	Total actual	Project Income
			invested during the year	amount invested	
Dongjiao Upgrade and Reconstruction Project	40,937.00	Completed	7,616.60	33,705.62	As as the date hereof, the processing capacity and the service unit price of this project were not changed. The depreciation for asset consolidation and operating costs increased.
Jinnan Sewage Water Plant Project	206,559.01	19%	27,347.45	27,347.45	No income realized as this project has not yet completed.
Cultural Centre Energy Station Project	43,274.38	Completed	13,535.93	32,998.09	Since the end of 2011, income realized according to the relevant agreements.
Total	290,770.39	/	48,499.98	94,051.16	/



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5. CONDITIONS OF SPECIAL PURPOSE ENTITIES CONTROLLED BY THE COMPANY

Not applicable.

II. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT BY THE BOARD

1. *Landscape of competition and development trend of the industry*

The “construction of ecological civilization” mentioned in the five-in-one layout plan confirmed by the 18th CPC National Congress is destined to bring important development opportunities for the environmental protection industry. More specifically, market developments in the areas of sludge business, upgrading and reconstruction of sewage water treatment plants, utilization of recycled water, disposal of domestic garbage, ecological restoration industry and utilization of new clean energy will offer the Group's business enormous space for growth. Currently, in the domestic sector of sewage water treatment in the PRC, centralization in the overall market remains at low level with intensive market competition, therefore simply relying on cost competition will definitely reduce the profitability level of enterprises. However, if the high value-added sector in the industrial chain can be further extended continuously by leveraging on specialized technical process and technology, not only the market position can be strengthened, but also the profitability level of the enterprises can be enhanced. In addition, in the area of emerging business, further improvements in the related ancillary policies are still required to be finalized by government authorities in order to reduce the commercial risk faced by participating enterprises.

2. *Development strategies of the Company and development plan for 2013*

The Group will adhere to the vision of “returning clean water to the world, delivering fresh air to the earth” to pursue sustainable development in accordance with the strategic positioning provided in the water and environment integrated solution, in order to achieve the triple-winner situation among enterprise, society and staff.

In the aspect of business development, the Group will continue to be prudent on the investment and operation of sewage water treatment development projects, keep on increasing market development efforts to expand high value-added sectors such as operation service and technical service for sewage water treatment, as well as commence the production and sales business of water treatment chemical agents. The Group will continue to nurture the recycled water utilization market and establish the new energy utilization market. And new business areas such as industrial waste water treatment, sludge treatment, garbage treatment and ecological restoration will be actively explored.

In the aspect of technical research and development, the Group will continue to adhere to the technology guided development strategy by using the Tianjin Waste Water and Sewage Water Engineering Technical Centre as the platform to strengthen the academic research and technical research and development of the industry as a driving force for the research and development of proprietary technology and its commercial operation.

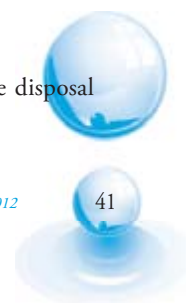
In the aspect of management, the Group will improve organizational structure and system flow process in accordance with the development needs of the business, strengthen budgetary control and cost control, improve optimized allocation and training of human resources, enhance the establishment of corporate culture and strengthen risk control management, in order to further increase corporate management efficiency and competitiveness.

3. *Operation plan and strategies for 2013*

A. **Operation plan:**

In 2013, the Group's sewage water treatment volume is expected to reach 897 million cubic meters and fixed asset investment in engineering projects is expected to reach RMB559 million including the Jinnan sewage water treatment plant and recycled water plant project, and some construction projects of Subsidiaries. The Group will continue to control the costs and quality of operation and construction strictly and ensure the operation and construction quality and construction progress. In 2013, the Company will implement the following operation plan:

- (1) Keep on driving the sewage water treatment licensed operation projects and collection of account receivables actively in the Tianjin area, strive to finalize the sewage water treatment licensed operation right and implement the collection plan of account receivables;
- (2) Keep on maintaining the performance of existing licensed operation project agreements, implement price adjustment of sewage water treatment projects as planned in accordance with the agreements;
- (3) Implement the upgrading and reconstruction works for existing sewage water treatment licensed operation projects as planned according to the requirements of the agreements and the government;
- (4) Continue to expand the operation service market, technical service market and the application market of the full-process deodorization technology for sewage water treatment plants;
- (5) Continue to drive the transformation of technological achievements and prepare to commence production and sales business of flocculant elixir;
- (6) Develop new growth sources of revenue and profit, prepare to commence solid waste disposal business;



- (7) Negotiate and confirm the investment, compensation and price adjustment for cooling supply in new energy cooling and heating supply projects;
- (8) Complete the construction, commissioning and trial operation, removal and conversion work of the Jizhuangzi sewage water treatment plant and recycled water plant relocation and construction project with a view to realizing commercial operation of the new plants.

B. Income, fees and cost plans:

In 2013, subject to no material changes in the existing policy direction conformed by the Group, the operating environment and conditions of sewage water treatment service agreements, the range of changes in fee income from sewage water treatment service will not exceed 5% as compared to 2012.

Cost control target:

In 2013, as charges for all types of resources and energies are still hovering at high levels, the business cost of the Group is under relatively great upward pressure, subject to no material changes in the existing policy direction conformed by the Group and the operating environment, it is expected the Group's cost of sewage water treatment business will increase by not more than 10% in 2013 as compared to 2012. Also, it is expected the rise in cost will not have material effect on the overall operation of the Company.

C. Technological research and development investment plans:

In 2013, the Group will further increase its efforts in technological research and development. Technological research and development fees invested in technological research plans will not be less than RMB3.2042 million, which will continue to center on the core technical processes and technical breakthroughs in the areas of sewage water treatment, sludge treatment and transformation of resources and energies, etc. to create dynamic competitive advantages for the enterprise.

4. Demand for funds required by the Company for maintaining current business and completion of investment projects under construction

The Group's existing funding channels are basically able to satisfy the requirements of the Group's annual operation plan. In 2013, the Group plans to invest RMB1.185 billion in engineering projects, which are mainly the expenses for Jinnan sewage water treatment plant and recycled water plant and the upgrading and reconstruction expenditure for some of the sewage water treatment plants of the Company and Subsidiaries. In 2013, the amount for fixed asset purchase plan of the Group will be approximately RMB7.18 million.

In 2013, the Group will improve the debt structure by direct and indirect financing methods in accordance with the operation requirements, to increase the efficiency of funds and strive to lower finance costs. Capital cooperation in joint projects will be enhanced through timely introduction of strategic investors and financial investors. Funding requirements of relevant projects will be obtained through existing channels by the Group and financed by the compensation amount received for the Jizhuangzi relocation project.

5. *Facing possible risks*

- (1) Licensed operation risk: The service prices of four sewage water treatment plants of the Company in the Tianjin region are subject to certain risks of adjustment. Since the second half of 2005, pursuant to the requirements in the “Administrative Measures for Tianjin Municipal Public Utilities Licensed Operation” promulgated by Tianjin Municipal Government Order 2005 No.91, the Company made an application to the competent authority for the licensed operation right of the four sewage water treatment plants in Tianjin region. At the end of 2012, the competent authority had reported the application to the Tianjin Municipal Government for instruction and proposed that the Tianjin Municipal Government should consent to grant licensed operation right to the Company’s four sewage water treatment plants and proposed that the relevant department of the Tianjin Municipal Government should determine the price of sewage water treatment service. Currently, the price of services provided by the Company’s four sewage water treatment plants is RMB1.93/m³, which is facing possible risk of adjustment. The Group will conduct sufficient communication and negotiation with the relevant departments and strive to reach a price for sewage water treatment service in line with the market mechanism.
- (2) Foreign exchange risk: The Group’s operations and customers are located within the PRC and most of its operating assets and transactions are settled by RMB, and all the borrowings of the Group are denominated in RMB, therefore, the Group has no material foreign exchange risk. The only foreign exchange risk of the Group arises from long-term payable amounts. Long-term payables were incurred as a result of the purchase of the foreign bank loans assets from Tianjin Sewage Company by the Company denominated mainly in US dollars and Japanese Yen.

As at 31 December 2012, a 5% appreciation or depreciation of RMB against USD, with other factors being constant, would result in an increase or decrease of approximately RMB4 million in the net profit of the Group. As at 31 December 2012, a 5% appreciation or depreciation of RMB against Yen, with other factors being constant, would result in an increase/decrease of approximately RMB10 million in the net profit of the Group.



5. Directors' Report

- (3) Interest rate risk: The interest rate risk of the Group mainly came from cash and bank deposits, long-term receivables, borrowings and long-term payables. The Group has material borrowings and long-term payables. Borrowings and long-term payables at floating rates expose the Group to interest rate risk on cash flows, while borrowings and long-term payables at fixed rates expose the Group to interest rate risk on fair value. As at 31 December 2012, if the bank loan interest rate increases/decreases by 1%, with other factors being constant, the net profit for the year will decrease/increase by RMB28 million.

III. EXPLANATION BY THE BOARD ON “QUALIFIED AUDIT REPORT” PROVIDED BY ACCOUNTANTS

1. Explanation by the Board and Supervisory Committee on “Qualified Audit Report” provided by Accountants

Not applicable

2. Analysis and explanation by the Board on the reasons and effects of changes in accounting policies, accounting estimates or determination

Not applicable

3. Analysis and explanation by the Board on the reasons and effects of rectification of material errors of previous periods

Not applicable

IV. PROPOSAL ON THE PROFIT APPROPRIATION OR TRANSFER OF CAPITAL RESERVE FUND

1. Formulation, execution or adjustment of cash dividend policy

In order to further implement the spirit of the “Notice on further implementation of matter relating to cash dividends of listed companies” issued by the CSRC and “Notice on facilitating the implementation of cash dividends relating matters by listed companies within the jurisdiction” (Jin Zheng Jian Shang Shi [2012] No.62) issued by the Tianjin Securities Regulatory Commission, to establish a sustainable, clear and transparent cash dividend policy and a scientific decision making mechanism, as well as to improve the quality of information disclosure by the Company, the Company reviewed and passed the “Resolution on amendments to the Articles of Association of the Company” at the 36th meeting of the fifth Board on 31 October 2012. On 17 December 2012, the above resolution was reviewed and approved at the 2012 Second Extraordinary General Meeting convened by the Company.

Article 195 of the Articles of Association of the Company was amended as:

I. Basic principles for profit distribution of the Company:

- (1) The Company shall take full account of the return to investors. The Company shall, after making up for the losses of previous years and contributing to the statutory reserve and discretionary reserve, distribute dividend to the shareholders per annum in proportion to distributable profit realized for the year concerned attributable to the parent company, which shall be determined by resolutions at the general meetings.
- (2) The Company's profit distribution policy shall maintain continuously and stably, for the long term interest of the Company, in the interest of all shareholders as a whole, and for sustainable development of the Company.
- (3) The Company shall give priority to dividend distribution in cash.

II. Dividend distribution policies of the Company:

- (1) Dividend shall be distributed in the following manner: the Company may distribute dividends in cash, in shares or in a combination of both cash and shares. In general, the Company shall distribute dividend annually, but subject to conditions, interim profit distribution may be made by the Company.
- (2) Specific conditions for and proportions of cash dividend distribution of the Company: provided that the Company's profit and aggregate undistributed profit realized for the year are positive, and the accounting firm issues standard unqualified audit report on the Company's financial report for that year, and cash dividend distribution has no effect on the Company's sustained operations, the Company may distribute dividend in cash. Subject to the above conditions, the profit to be distributed in cash per annum will not be less than 20% of the distributable profit realized for that year attributable to the parent company, and the Company's aggregated profit distributed by way of cash for three consecutive years will not be less than 30% of the distributable profit attributable to the parent company realized within 3 years.
- (3) Conditions for distributing dividends in shares by the Company: where the Company's business is in a sound condition, and the Board considers that the stock price of the Company does not reflect its share capital size and distributing dividend in shares will be favorable to all the shareholders of the Company as a whole, provided that the above conditions for cash dividend distribution are fully satisfied, the Company may propose dividend distribution in shares.
- (4) In case any shareholder occupies the funds of the Company unlawfully, the Company will deduct cash dividends to be distributed to such shareholder for making up the amount occupied.

III. Procedures for consideration and approval of the Company's profit distribution plans:

- (1) The Company's profit distribution plan for each year shall be proposed by the Company's management after taking into account factors such as the Company's Articles of Association, production and operation position, cash flows and future business development plan, and shall be submitted to the Board and the supervisory committee for consideration. If the supervisory committee has no objection to the profit distribution plan, the Board shall thoroughly discuss its rationality, taking into account the opinions from the Independent Directors, and form a special proposal for the consideration by the shareholders at the general meeting. Opinions and requests from medium and small shareholders shall be fully heard through various channels (including but not limited to telephone, facsimile, e-mail and interactive platforms). When considering the profit distribution plan, the Company may make internet voting accessible to the shareholders or seek voting rights of the shareholders.
- (2) Where the Company has decided not to distribute cash dividends for the reason of failure to meet the conditions for cash dividend distribution as stated in II(2) above, the Board shall explain the specific reasons for not distributing cash dividends, and the exact purposes for the retained profits, and submit such to the general meeting for consideration after the Independent Directors express their opinions thereon, and disclose the same to the designated media of the Company. When considering such proposal, the Company may make internet voting accessible to the shareholders or seek voting rights of the shareholders.
- (3) In case of war, natural disasters and other force majeure, or changes to the Company's external operational environment resulting in material impact on its production and operation, or relatively significant changes to the Company's operational position, or new policies on profit distribution published by competent authorities, the Company may adjust its profit distribution policy. The Board shall thoroughly discuss the rationality of the adjustment to the profit distribution policy, and form a special proposal after the consideration by the Independent Directors and submit the same for the consideration by the shareholders at the general meeting. The supervisory committee shall issue its review opinions on the adjustment to the profit distribution policy. When the general meeting considers the changes to the profit distribution policy, the Company may make internet voting accessible to the shareholders or seek voting rights of the shareholders."

Reasonable returns for investors have been attached much importance by the Company since the completion of its restructuring in December 2000 and the cash dividend policy has been adhered to since 2001.

2. During the reporting period, there were positive profit and undistributed profit of the Company, but no proposal on distribution of cash dividends was made. The Company should disclose in detail the reasons and the uses and future use plans of the undistributed profits

Not applicable

3. Dividends distribution or transfer of capital reserve fund to share capital and dividends of the Company for the past three years:

Unit: 0'000 Currency: RMB

Year	Number of bonus shares per 10 shares (shares)	Amount of dividends distributed per 10 shares (inclusive of tax)	Number of shares transferred per 10 shares (shares)	Amount of cash dividends (inclusive of tax)	Net profit	
					attributable to shareholders of the Company in the consolidated financial statements for the bonus distribution year	Percentage of net profit attributable to the shareholders of the Company in the consolidated financial statements (%)
2012	0	0.60	0	8,563.37	26,898.1	31.84
2011	0	0.40	0	5,708.91	27,578.6	20.70
2010	0	1.10	0	15,699.51	27,116.0	57.90

V. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITIES

The social responsibility report has been disclosed by the Company. Please refer to the website of the SSE (<http://www.sse.com.cn>) on 29 March 2013 for contents in detail.



6. Important Issues

I. MATERIAL LITIGATION, ARBITRATION AND EVENTS OF GENERAL MEDIA INTEREST

During the year, the Company had no material litigation, arbitration or event of general media interest.

II. FUNDS OCCUPIED AND REPAYMENT PROGRESS DURING THE REPORTING PERIOD

Not applicable

III. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

During the year, there was no matter relating to bankruptcy and restructuring of the Company.

IV. TRANSACTIONS INVOLVING ASSETS AND CORPORATE MERGERS AND ACQUISITIONS

The Company's acquisition or disposal of assets and corporate mergers and acquisitions which were disclosed in its announcements, without changes to their subsequent implementation are as follows:

On 13 July 2012, it was resolved at the Company's 2012 first extraordinary general meeting to approve the relocation of Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant.

According to the general development plan of Tianjin, the Tianjin Municipal People's Government decided to relocate Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant owned by the Company and its wholly-owned Subsidiary, Water Recycling Company respectively. The Tianjin Municipal People's Government authorized TCCC to implement the relocation of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant.

Tianjin Land Construction Center entrusted Tianjin Haihe to handle the acquisition and reservation of the land on which Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant are located. Tianjin Haihe is a wholly-owned subsidiary of Tianjin Investment Group, the ultimate controller of the Company, and is a connected person of the Company.

In relation to the relocation of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant, TCCC and Tianjin Haihe respectively entered into the Jizhuangzi Sewage Water Treatment Plant Relocation Agreement and the Jizhuangzi Water Recycling Plant Relocation Agreement (collectively the "Relocation Agreements") and the Jizhuangzi Sewage Water Treatment Plant Land Consolidation Reserve Project Compensation Agreement and the Jizhuangzi Water Recycling Plant Land Consolidation Reserve Project Compensation Agreement (collectively the "Compensation Agreements") with the Company and Water Recycling Company, to specify the respective responsibilities and obligations of each party.

Pursuant to the Relocation Agreements and Compensation Agreements, the relocation compensation for Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant is based on the principle of “project for project”, which means a new sewage water treatment plant and a new water recycling plant will be constructed to replace Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling 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 compensation for the Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant shall be the preliminary construction budget for the new sewage water treatment plant and new water recycling plant as approved by the competent authorities of the Tianjin Municipal People’s Government in the total amount of approximately RMB2,065,590,100 and RMB260,350,700 respectively. The new sewage water treatment plant and water recycling plant shall be constructed by the Company and Water Recycling Company respectively according to the construction scale, specifications and standards as approved in the preliminary design.

The Relocation Agreements and Compensation Agreements were publicly announced by the Company upon approval by the Board on 24 May 2012 and became effective upon approval by the extraordinary general meeting held on 13 July 2012.

The Relocation Agreements and Compensation Agreements in relation to Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant were disclosed as price-sensitive information by the Company pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

According to the Shanghai Stock Exchange Share Listing Rules, the Company was required to seek approval from the shareholders for the Relocation Agreements and Compensation Agreements in relation to Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant at a general meeting of the Company. However, in view of the nature of the related projects and their pricing principles, the SSE granted waiver to the Company and Water Recycling Company from compliance of provision of the asset appraisal reports of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant and waiver from compliance with the auditing and disclosure requirements for connected transactions.

V. THE COMPANY’S SHARE INCENTIVE SCHEME AND ITS IMPLICATIONS

Not applicable

VI. MATERIAL CONNECTED TRANSACTIONS

Connected transactions in the ordinary course of business

(1) Transactions that were disclosed in the Company's announcements, without subsequent progress or changes to their implementation are as follows:

1. In order to obtain steady return of rental income in respect of its owned premises, on 22 March 2012, the Company entered into a tenancy agreement with TECI. TECI is a wholly-owned subsidiary of Tianjin Investment Group, the ultimate controller of the Company, and thus is a connected person of the Company. Pursuant to the Listing Rules, the transaction contemplated under the tenancy agreement constitutes a continuing connected transaction of the Company. The principal terms of the tenancy agreement are as follows:

The tenancy agreement shall have a term commencing from 1 April 2012 and ending on 31 March 2013 with a lettable area of certain area of 4th floor of TCEP Building for a total rent of RMB138,258.

2. The centralised energy stations in Tianjin Cultural Centre as invested and constructed by Jiayuanxing were ready to provide cold supply services, and Jiayuanxing entered into a cold supply agreement with TLP on 26 July 2012. TLP is a wholly-owned subsidiary of TMICL, the controlling shareholder of the Company, and is a connected person of the Company. Pursuant to the Listing Rules, the transaction under the agreement constitutes a connected transaction of the Company. The principal terms of the cold supply agreement are as follows:

The cold supply service period shall not be more than 122 days from the date of execution of the agreement. The unit price for provision of cold supply services shall be RMB65 per square metre and the service area of cold supply shall be 363,042 square metres. The total service fees for the cold supply services shall be RMB23,597,730.

3. The Company provides operation services to the Zhangguizhuang Sewage Water Treatment Plant and Zhangguizhuang Water Recycling Plant (collectively the "Plants") for Tianjin Investment Group.

On 2 August 2012, the Company entered into the Entrusted Operation Agreement in relation to Zhangguizhuang Sewage Water Treatment Plant and Water Recycling Plant (the "Operation Agreement"), pursuant to which the Company should provide operation services to the Plants for Tianjin Investment Group.

The Operation Agreement specifies that the Company should provide operation services for Tianjin Investment Group for a term of one year starting from the effective date of the agreement. The monthly service fees of the operation service shall be RMB4,473,000 provided that the services shall meet the service standards as specified under the Operation Agreement. The total annual service fees shall be approximately RMB53.68 million.

4. Since the end of 2011, Jiayuanxing has been providing heat and cold supply services to the customers in its service coverage areas. On 31 October 2012, Jiayuanxing and each of TMG and TLP entered into the Tianjin Non-resident and Non-residential Customers Heat Supply Agreements (the “Heat Supply Agreements”).

TMG is a wholly-owned subsidiary of Tianjin Investment Group, the ultimate controller of the Company while TLP is a wholly-owned subsidiary of TMICL, the controlling shareholder of the Company, and thus both are connected persons of the Company. The abovementioned transactions constitute connected transactions of the Company.

The principal terms of the Heat Supply Agreement entered into between Jiayuanxing and TMG are as follows:

The unit price for provision of heat supply services by Jiayuanxing to TMG shall be RMB36 per square metre, being the unit price stipulated by the relevant heat supply and utilisation regulations of Tianjin. The heat supply service area of the underground transportation hub of Tianjin Cultural Centre shall be 60,218 square metres and the fee for the heat supply service shall be RMB2,167,848.

The principal terms of the Heat Supply Agreement entered into between Jiayuanxing and TLP are as follows:

The unit price for provision of heat supply services by Jiayuanxing to TLP shall be RMB36 per square metre, being the unit price stipulated by the relevant heat supply and utilisation regulations of Tianjin. The heat supply service area of the commercial area of Tianjin Cultural Centre shall be 363,042 square metres and the fee for the heat supply service shall be RMB13,069,512.

- (2) **Transactions that were disclosed in the Company’s announcements with, subsequent progress or changes to their implementation are as follows:**

In order to obtain steady return of rental income in respect of its owned premises, on 22 March 2012, the Company entered into a tenancy agreement with Tianjin Investment Group, the ultimate controller of the Company. Pursuant to the Listing Rules, the transaction contemplated under the tenancy agreement constitutes a continuing connected transaction of the Company. The principal terms of the tenancy agreement are as follows:

The tenancy agreement shall have a term commencing from 1 April 2012 and ending on 31 March 2015 with a lettable area of certain area of 9th floor and 10th floor of TCEP Building for a total rent of RMB2,863,906.20.

On 1 July 2012, the tenancy agreement was terminated according to its terms upon amicable negotiation between the Company and Tianjin Investment Group, effective from 1 July 2012.



6. Important Issues

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

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

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

VII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Custody, subcontracting and leasing

No applicable.

2. Guarantees

Unit: 0'000 Currency: RMB

Guarantees provided to external parties by the Company (not including guarantees provided to Subsidiaries of the Company)

Total amount of guarantees provided during the reporting period (not including guarantees provided to Subsidiaries of the Company)	0
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Total amount of outstanding guarantees as at the end of the reporting period (A) (not including guarantees provided to Subsidiaries of the Company)	0
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Guarantees provided to Subsidiaries of the Company

Total amount of guarantees provided to Subsidiaries of the Company during the reporting period	30,500.00
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Total amount of outstanding guarantees provided to Subsidiaries of the Company as at the end of the reporting period (B)	96,264.00
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Total amount of guarantees provided by the Company (including guarantees provided to Subsidiaries of the Company)

Total amount of guarantees (A+B)	96,264.00
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Percentage of the total amount of guarantees to the net assets of the Company (%)	25.46
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Of which:

Amount of guarantees provided to shareholders, ultimate controller and their connected parties (C)	0
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Amount of guarantees provided directly or indirectly to borrowers with a gearing ratio of over 70% (D)	0
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Total amount of guarantees exceeding 50% of net assets (E)	0
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Total amount of the above three guarantees (C+D+E)	0
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3. Other material contracts

The Company did not have other material contracts during the year.

VIII. PERFORMANCE OF COMMITMENTS

Not applicable.

IX. APPOINTMENT AND REMOVAL OF ACCOUNTANTS

Change of accountants: No

	Present Appointment
Name of the PRC accountant	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company
Service years of the PRC accountant	18 years
Name of Hong Kong accountant	PricewaterhouseCoopers
Service years of the Hong Kong accountant	18 years

During the reporting period, the Company did not change its accountants. The PRC auditor of the Company is PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company. The Hong Kong auditor of the Company is PricewaterhouseCoopers. A total of approximately RMB4.2 million was paid to the two auditors for auditing services rendered in the previous year. As at the end of the previous reporting period, the above two accountants have rendered auditing services for the Company for 18 years.

Unit: 0'000 Currency: RMB

	Name	Fees
Accountants responsible for auditing of internal control	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company	80
Financial advisors	Nil	
Sponsors	Nil	

X. PUNISHMENTS TO AND RECTIFICATION OF THE LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH OVER 5% INTERESTS, ULTIMATE CONTROLLERS AND PURCHASERS

During the year, none of the Company and its Directors, Supervisors, senior management, shareholders with over 5% interests, ultimate controllers and purchasers was subject to any investigation, administrative punishments and criticisms by the CSRC or public reprimands by any stock exchanges.

XI. DETAILS OF OTHER IMPORTANT ISSUES

There were no other important issues of the Company during the reporting period.



7. Details of Changes in Shares and Shareholders

(1) CHANGES IN SHARE CAPITAL

1. Changes in shares

Unit: shares

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

2. Changes in restricted shares

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

(2) ISSUE AND LISTING OF SECURITIES

1. Issue of securities in the past three years as of the end of the reporting period

For the three years ended at the end of this reporting period, the Company has not conducted any issue and listing of securities.

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

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

3. Existing internal employee shares

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



7. Details of Changes in Shares and Shareholders

(3) DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

Number of shareholders and their shareholdings

Total number of shareholders during the reporting period 96,014, among which 106 are shareholders of H shares

Total number of shareholders as at 22 March 2013 112,688, among which 91 are shareholders of H shares

Name of shareholder	Nature of the shareholder	Shareholdings of the top ten shareholders			Number of restricted shares held	Number of shares pledged or frozen (shares)
		Percentage of shareholding (%)	Total number of shares held	Increase/decrease during the reporting period (shares)		
TMICL	State-owned legal person	51.60	736,499,791	0	0	Pledged 304,320,000
HKSCC Nominees Limited	Unknown	23.34	333,158,900	-444,000	0	Unknown
Zhou Jun	Unknown	0.42	5,975,000	-202,700	0	Unknown
Shenyang Railway Coal Group Co., Ltd.	Unknown	0.21	3,000,000	0	0	Unknown
HO MAN PING	Unknown	0.14	2,014,000	0	0	Unknown
Chongqing International Trust Co., Ltd.	Unknown	0.13	1,792,445	1,792,445	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	0.10	1,380,636	202,747	0	Unknown
Lu Jiamei	Unknown	0.08	1,191,800	1,191,800	0	Unknown
FUNG CHUN KIT	Unknown	0.08	1,130,000	0	0	Unknown
China Electronics Financial Co., Ltd	Unknown	0.07	1,050,000	-50,000	0	Unknown

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

Name of shareholder	Number of the non-restricted circulating shares held (shares)	Type of shares
TMICL	736,499,791	Ordinary RMB Shares
HKSCC Nominees Limited	333,158,900	H Shares
Zhou Jun	5,975,000	Ordinary RMB Shares
Shenyang Railway Coal Group Co., Ltd.	3,000,000	Ordinary RMB Shares
HO MAN PING	2,014,000	H Shares
Chongqing International Trust Co., Ltd.	1,792,445	Ordinary RMB 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))	1,380,636	Ordinary RMB Shares
Lu Jiamei	1,191,800	Ordinary RMB Shares
FUNG CHUN KIT	1,130,000	H Shares
China Electronics Financial Co., Ltd	1,050,000	Ordinary RMB Shares

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

Notes:

- (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.



7. Details of Changes in Shares and Shareholders

(4) INFORMATION OF THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER OF THE COMPANY

1. Description of the controlling shareholder

Name	TMICL
Legal representative	Xiong Guangyu
Date of incorporation	20 January 1998
Organization Code	70042249-0
Registered capital	RMB1,820,000,000
Principal operations	The investment, construction, operation and management of city infrastructure, road construction and auxiliary facilities with internal funds; development, operation and leasing of real estates; property management; leasing of facilities; import and export business of self-manufacturing and distribution of various commodities and technologies (except commodities and technologies restricted or prohibited by the State for trading); sales of hardware, chemical (except for dangerous goods), general merchandise and building materials (For the above business covering the industry license, operating with the license within the validity period; for specific projects and operations, in accordance with the State regulations)
Operating results	The audited operating income for 2011 was RMB1,719 million, and net profit was RMB132 million.
Financial position	The audited total assets for the year ended 31 December 2011 was RMB18.287 billion, and net assets was RMB5,613 million.
Cash flow and future development strategy	<p>As one of the enterprises which adhered to market-oriented operation within Tianjin Investment Group, TMICL followed an operating mode of a combination of equity investment and entity operation, with its investments covering industries including urban infrastructure, sewage water treatment, real estate development and sales of commercial housing, operation and management of property assets, engineering consulting and project entrusted construction.</p> <p>Looking forward, the company will continue to explore the positioning of the four core business segments of Tianjin Investment Group, continuously integrate and optimize the structure of the company's assets and equity, continuously improve the scale of investment in the principal business, expand the market share, create the image of quality brand and enhance the corporate reputation. The company will also provide funds, talented persons as well as all kinds of resources to its subsidiaries so that it may actively support to cultivate the operating strength and core competitiveness of specialized subsidiaries, ensuring the company's overall sustainable development as well as contributing to the enhancement of the profitability of Tianjin Investment Group.</p>
During the reporting period, the shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested	No

2、Description of the ultimate controller

Name	Tianjin Investment Group
Legal representative	Ma Baiyu
Date of incorporation	23 July 2004
Organization Code	76431625-9
Registered capital	RMB67,700,000,000
Principal operations	Investment in the development and reconstruction of seas and rivers, railways, city roads and bridges, underground pipe network, urban environmental infrastructure facilities by using its own funds; investment and planning; corporate management and consultation; market establishment and development services; leasing of self-owned housing; leasing of infrastructural facilities and the development and operation of public facilities projects; operating infrastructure franchise under the authorisation of the government and franchise transfer; production, development and operation of construction materials, decoration materials, mechanical and electrical products (excluding motor vehicles); construction investment consultation (in accordance with the State regulations for specific projects and operations).
Operating results	The audited operating income for 2011 was RMB8,824 million, and net profit was RMB1,590 million.
Financial position	The audited total assets for the year ended 31 December 2011 was RMB441.203 billion, and net assets was RMB128.783 billion.
Cash flow and future development strategy	<p>In future, Tianjin Investment Group will continuously develop and enrich the four core business segments of "the city's comprehensive development" in accordance with the requirements of "making good use of the city's resources, servicing Tianjin's development", comprehensively promote the infrastructure projects, including comprehensive development of the Haihe River Basin, construction of urban rail transit, urban expressway and urban road network construction, highway construction, integrated environmental management, sewage treatment upgrade and underground pipe network construction, ensuring to build Tianjin as an international port city, a northern economic center and an ecological city.</p> <p>Looking ahead, Tianjin Investment Group will, in accordance with the municipal government's requirements, continue to expedite the implementation of its infrastructure projects to commercial operation, improve the corporate profit model, raise the level of the construction and management of professional companies through the integration of corporate resources, and enhance the core competitiveness. In the meantime, Tianjin Investment Group will also strengthen the management of each subsidiary for the purpose of the complementary strengths of each subsidiary, building Tianjin Investment Group as a regional and even national leader in the field of infrastructure construction investment and making more contribution to the improvement of Tianjin's comprehensive carrying capacity and further enhancement of Tianjin's urban environment hardware.</p>
During the reporting period, the shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested	No



7. Details of Changes in Shares and Shareholders

(5) OTHER LEGAL PERSON SHAREHOLDERS HOLDING MORE THAN 10% OF THE SHARES

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

(6) SUBSTANTIAL SHAREHOLDERS INTERESTS

- (a) As at 31st December 2012, so far as is known to or can be ascertained after reasonable enquiries by the Directors, Supervisors or chief executive of the Company, the following entities (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (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%
Xi Lian International Company Limited	Beneficial Owner	17,050,000 H Shares (L)	5.01%	1.19%
Wuxi State-owned Assets Management Committee	Interest of corporation controlled	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 person’s long position in the shares.

- (b) Save as disclosed above, there is no other person (other than the Directors, Supervisors or chief executive of the Company) so far as is known to the Directors, Supervisors or chief executives of the Company who, as at 31 December 2012, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 10% or more of nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.



8. Directors, Supervisors, Senior Management and Employees

(1) CHANGES IN SHAREHOLDINGS AND THE REMUNERATION OF THE EXISTING AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Name	Position held	Sex	Age	Appointment date	Termination date	No. of shares held at the beginning of the year (share)	No. of shares held at the end of the year (share)	Changes in no. of shares for the year (share)	Reason for increase/decrease	Total repayable remuneration received from the Company during the reporting period (RMB0'000) (Before Tax)	Total repayable remuneration received from the shareholder of the Company during the reporting period (RMB0'000)
Zhang Wenhui	Executive Director, Chairman	M	58	18 December 2009	17 December 2015	0	0	—	—	80.33	0
Lin Wenbo	Executive Director, general manager	M	56	18 December 2009	17 December 2015	0	0	—	—	74.11	0
Fu Yana	Executive Director, deputy general manager and secretary to the Board	F	42	18 December 2009	17 December 2015	0	0	—	—	59.53	0
Zhong Huifang	Executive Director	F	45	18 December 2009	17 December 2015	0	0	—	—	10	0
Shi Zhenjuan	Executive Director	F	43	18 December 2012	17 December 2015	0	0	—	—	49.55	0
	Chief accountant			18 December 2009	17 December 2015	0	0	—	—		0
An Pindong	Non-executive Director	M	45	18 December 2009	17 December 2015	0	0	—	—	10	0
Chen Yinxing	Non-executive Director	F	39	18 December 2009	17 December 2015	0	0	—	—	10	0
Xie Rong	Independent non-executive Director	M	61	18 December 2009	17 December 2015	0	0	—	—	22	0
Di Xiaofeng	Independent non-executive Director	M	52	18 December 2009	17 December 2015	0	0	—	—	22	0
Lee Kit Ying, Karen	Independent non-executive Director	F	65	18 December 2009	17 December 2015	0	0	—	—	22	0
Zhang Mingqi	Chairman of Supervisory Committee	M	56	18 December 2009	17 December 2015	0	0	—	—	49.56	0
Nie Youzhuang	Supervisor	M	44	18 December 2009	17 December 2015	959	959	—	—	27.99	0
						domestic shares	domestic shares				
Wu Baolan	Supervisor	F	46	24 August 2011	23 August 2014	0	0	—	—	24.83	0
Wang Yanmin	Supervisor, deputy head of the audit department of Tianjin Investment Group	F	47	18 December 2009	17 December 2012	0	0	—	—	0	0
Li Xiaoshen	Supervisor, party chief deputy secretary of TMICL, chairman of Trade Union	M	54	18 December 2012	17 December 2015	0	0	—	—	20.84	0
Li Yang	Supervisor	M	44	18 December 2009	17 December 2015	0	0	—	—	50.47	0
Qi Lipin	Supervisor	F	36	18 December 2009	17 December 2015	0	0	—	—	23.96	0
Deng Biao	Deputy general manager	M	47	18 December 2009	17 December 2015	0	0	—	—	49.49	0
Yang Guang	Deputy general manager	M	43	18 December 2009	17 December 2015	0	0	—	—	49.45	0
Zhang Qiang	Deputy general manager	M	50	18 December 2009	17 December 2015	0	0	—	—	49.24	0
Li Yuqing	Chief engineer	M	48	18 December 2009	17 December 2015	0	0	—	—	49.67	0
Lo Wai Keung, Eric	Company secretary (Hong Kong)	M	37	18 December 2009	17 December 2015	0	0	—	—	12.70	0
Tang Fusheng	Deputy general manager	M	40	25 March 2010	17 December 2015	0	0	—	—	49.45	0
Wang Hong	Deputy general manager	M	38	25 March 2010	17 December 2015	0	0	—	—	49.54	0
Zhao Yi	Deputy general manager	M	42	18 October 2010	17 December 2015	0	0	—	—	49.44	0
Zhang Jian	Deputy general manager	M	42	17 January 2012	17 December 2015	0	0	—	—	65.19	0
Total	/	/	/	/	/	959	959	/	—	981.34	0
						domestic shares	domestic shares				

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

Lin Wenbo, is now the executive Director and general manager of the Company. Mr. Lin Wenbo joined the Company since December 2000 as deputy general manager and executive deputy general manager, in charge of the production operation, engineering and construction, and market development. He held positions as general manager and chairman, etc. at Tianjin Kaiying Technology Development Company Limited, Guizhou Capital Water Company Limited, Hangzhou Tianchuang Water Company Limited, Baoying Capital Water Company Limited, Wengdeng Capital Water Company Limited and Tianjin Capital Environmental Protection (Hong Kong) Company Limited. Mr. Lin was appointed as the executive Director of the Company since 18 December 2009 and as a general manager of the Company since 25 March 2010.

Fu Yana, is now the executive Director, deputy general manager and secretary of the Board of the Company, and also the manager of the human resources department of the Company. Ms. Fu has been the secretary to the Board since December 2000. She was appointed as the Director and deputy general manager of the Company since December 2003 and has been the manager of the human resources department since November 2010.

Zhong Huifang, is now the deputy director of the Chief Engineer Office of Tianjin Investment Group. Ms. Zhong Huifang began to work for the Company since August 2002. She was the executive Director of the Company since 18 December 2009. As at 8 April 2011, Ms. Zhong was transferred to Tianjin Investment Group due to working requirement. She was since longer the Director of the Company since 18 December 2012.

Shi Zhenjuan, is now the executive Director and chief accountant of the Company and the director of Water Recycling Company, the controlling Subsidiary of the Company. From August 2004 to October 2012, she was the chief accountant of Water Recycling Company. From March 2008 to December 2009, Ms Shi was the head and financial controller of the controlling shareholders office of the Company. From February 2008 to March 2009, she was the deputy chief accountant of the Company. She became the chief accountant of the Company from 5 March 2009. She was the executive Director of the Company from 18 December 2012.

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

8. Directors, Supervisors, Senior Management and Employees

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

Xie Rong, is now the independent non-executive Director of the Company and vice-president of Shanghai National Accounting Institute. Mr. Xie obtained a master degree in economics from the Department of Accounting of the Shanghai University of Finance and Economics in 1985. He received a doctorate degree in economics from the Shanghai University of Finance and Economics in 1992. From December 1985 to November 1997, he successively served as teaching assistant, lecturer, associate professor, professor, deputy head and instructor for doctorate students at the Department of Accounting of the Shanghai University of Finance and Economics. From December 1997 to October 2002, he became a partner of KPMG Huazhen and a certified public accountant in the PRC. From October 2002 to August 2012, he took up the post of vice-president of Shanghai National Accounting Institute. He was also the external director of SAIC Motors and independent director of various listed companies, including Baosight Software and Sinopharm Group Co. Ltd. Mr. Xie was appointed as the independent non-executive Director of the Company since 16 April 2008.

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

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

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

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

Wu Baolan, is now the Supervisor of the Company and the head of the party-masses department of the Company. Ms. Wu joined the Company again in December 2005, and acted as the vice head of the party-masses department of the Company, and chairman of the institutional labour union of the Company, head of the party-masses department of the Company. Ms. Wu has been elected as the Supervisor on behalf of the Company's staff since 24 August 2011.

Wang Yanmin, is now the deputy head of audit department of Tianjin Investment Group. Ms. Wang joined the Company in September 2004. She was transferred to Tianjin Investment Group in July 2009. Ms. Wang was appointed as the Supervisor of the Company since 19 December 2006. From 17 December 2012, she was no longer the Supervisor of the Company upon the expiry of her term of office.

Li Xiaoshen, is now the Supervisor of the Company, deputy secretary of the party general branch and chairman of the labour union of TMICL. From November 2004 to August 2009, Mr. Li successively held the posts of deputy head of the party committee work department and vice-chairman of the organ labour union of Tianjin Investment Group. From August 2009 to April 2011, he successively held the posts of deputy head of the party committee work department, deputy secretary of the organ party general branch and vice-chairman of the organ labour union of Tianjin Investment Group. From April 2011 to April 2012, he was the secretary of the commission for discipline inspection of the Company. Since May 2012, he has taken office as deputy secretary of the party general and chairman of the labour union of TMICL. Since 18 December 2012, Mr. Li has been the Supervisor of the Company



8. Directors, Supervisors, Senior Management and Employees

Li Yang, is now the Supervisor and assistant to general manager of the Company, and the general manager of the non-local water business division of the Shaanxi region. From November 2005 to April 2009, he was the general manager of Fuyang Capital Water Company Limited. From April 2009 to December 2009, he was the general manager of the 2nd water operation branch of the Company. He has been the general manager of the eastern region of Tianjin water business division from January 2010 to February 2011 and has been the general manager of the non-local water business division of the Shaanxi region since February 2011. Mr. Li was appointed as the assistant to general manager of the Company since January 2012 and the Supervisor of the Company since 8 September 2009.

Qi Lipin, is now the Supervisor, deputy chief economist and manager of operation management department of the Company. Ms Qi has been the manager in the department of operation management of the Company since 2006 and was appointed as the deputy chief economist of the Company since March 2010, Ms. Qi was appointed as the Supervisor of the Company since 17 June 2009. Ms. Qi was the supervisor of the Company's controlling subsidiaries, Tianjin Zichuang Engineering Investment Company Limited and Tianjin Kaiying Technology Development Company Limited.

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

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

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

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

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

Tang Fusheng, is now the deputy general manager of the Company, the chairman and general manager of Water Recycling Company, a wholly-owned Subsidiary of the Company, the chairman of the Company's Subsidiary, Jiayuanxing, the general manager of the energy and resources business division of the Company and the chairman of a wholly-owned subsidiary of the Company in Hong Kong. Mr. Tang successively served as the head, deputy general manager and general manager of the development department of Water Recycling Company from August 2001 to December 2009. He became the chairman and general manager of Water Recycling Company since December 2009. He was the assistant to general manager of the Company from April 2009 to March 2010. He has been the deputy general manager of the Company since April 2010. He has been the general manager of the energy and resources business division of the Company since the end of 2010, and he has been the chairman of a wholly-owned subsidiary of the Company in Hong Kong since June 2011.

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

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

8. Directors, Supervisors, Senior Management and Employees

Zhang Jian, senior engineer, is now the deputy general manager of the Company and the general manager of Hangzhou Tianchuang Water Company Limited. From April 2006 to December 2009, Mr. Zhang was the administrative deputy general manager (presiding over the work) of Hangzhou Tianchuang Water Company Limited, a Subsidiary of the Group. He has been the general manager of Hangzhou Tianchuang Water Company Limited since 31 December 2009. Mr. Zhang has been engaged in the construction and operation of sewage water treatment enterprises and business management, accumulating a wealth of experience in sewage water treatment technology and business management in the practical work.

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

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

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

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

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

As at 31st December 2012, none of the Directors, Supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

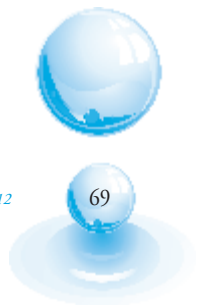
(2) POSITIONS HELD BY THE EXISTING AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

1. Positions held at the shareholder's entity

Name	Name of shareholder's entity	Position held	Commencement of employment	End of employment
An Pindong	TMICL	General manager	22 February 2005	—
Li Xiaoshen	TMICL	deputy secretary of the party general branch and chairman of the labour union	7 May 2012	—

2. Positions held at other entities:

Name	Name of other entities	Position held	Commencement of employment	End of employment
Zhao Yi	Hangzhou Tianchuang Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Zhao Yi	Qujing Capital Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Zhao Yi	Guizhou Capital Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Zhao Yi	Baoying Capital Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Zhao Yi	Xi'an Capital Water Company Limited,	Director, Chairman (legal representative)	22 November 2010	—
Zhao Yi	Wuhan Tianchuang Environmental Protection Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Zhao Yi	Wengdeng Capital Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Zhao Yi	Fuyang Capital Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Zhang Mingqi	Baoying Capital Water Company Limited	Supervisor	22 November 2010	—
Zhang Mingqi	Guizhou Capital Water Company Limited	Supervisor	22 November 2010	—
Zhang Mingqi	Xi'an Capital Water Company Limited,	Supervisor	22 November 2010	—
Zhang Mingqi	Wuhan Tianchuang Environmental Protection Company Limited	Supervisor	22 November 2010	—
Zhang Mingqi	Wengdeng Capital Water Company Limited	Supervisor	22 November 2010	—
Zhang Mingqi	Fuyang Capital Water Company Limited	Supervisor	22 November 2010	—
Li Yang	Xi'an Capital Water Company Limited	Director	5 March 2012	—
Zhang Jian	Hangzhou Tianchuang Water Company Limited	Director	28 January 2008	—
Lin Wenbo	Tianjin Capital New Materials Company Limited	Director (and shareholders' representative)	25 July 2012	—
Wu Baolan	Tianjin Capital New Materials Company Limited	Supervisor	9 August 2012	—
Tang Fusheng	Tianjin Water Recycling Company Limited	Director, Chairman (legal representative)	31 December 2009	—
Tang Fusheng	Tianjin Capital Environmental Protection (Hong Kong) Company limited.	Director, Chairman (legal representative)	1 June 2011	—
Tang Fusheng	Tianjin Jiayuanxing Innovative Energy Technology Company Limited	Executive Director (legal representative)	22 November 2010	—
Yang Guang	Anguo Capital Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Yang Guang	Tianjin Jing Hai Capital Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Yang Guang	Tianjin Capital Water Company Limited.	Director, Chairman (legal representative)	22 November 2010	—
Yang Guang	Tianjin Jinning Capital Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—



8. Directors, Supervisors, Senior Management and Employees

(3) REMUNERATIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

The remuneration payable of the Directors, Supervisors and senior management

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

Actual remuneration received by all Directors, Supervisors and senior management at the end of the reporting period (in total)

RMB9.8134 million

(4) CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Name	Position held	Change	Reasons for change
Zhong Huifang	Director	Resigned	Job transfer
Shi Zhenjuan	Director	Appointed	Working requirement
Wang Yanmin	Supervisor	Resigned	Expiry
Li Xiaoshen	Supervisor	Appointed	Working requirement
Zhang Jian	Deputy general manager	Appointed	Working requirement

(5) THE CORE TECHNICAL TEAM OR KEY TECHNICAL STAFF OF THE COMPANY

During the reporting period, there were no changes in the Company's core technical team or key technical staff (other than Directors, Supervisors and Senior Management), which may have significant impact on the Company's core competitiveness.

(6) THE EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES**1. The employees**

Number of on-duty employees of the Company	512
Number of on-duty employees of major Subsidiaries	921
Total number of on-duty employees	1,433
Number of retired employees for whom the Company and its major Subsidiaries are required to afford charges	0

Category of profession	Number of persons
Production	798
Development and sales	45
Technical	263
Financial	73
Administration	108
Management	146
Total	1,433

Category of education	Number of persons
Doctor	3
Master	54
Undergraduate (Master's degree)	56
Undergraduate	510
Tertiary	390
Below Tertiary	420
Total	1,433

2. Remuneration policy

The Company has established a sound remuneration system, implementing the job-rank salary system and the year-end award system. The remuneration of the Company's employees with annual salary system comprises standard annual job-rank salary and performance-related annual salary. The remuneration of the Company's employees with monthly salary system comprises job-rank salary, skill-based salary and performance-related salary. The performance-related annual salary is based on the completion of the annual targets. The year-end award is provided and distributed according to the completion of the annual profit targets.

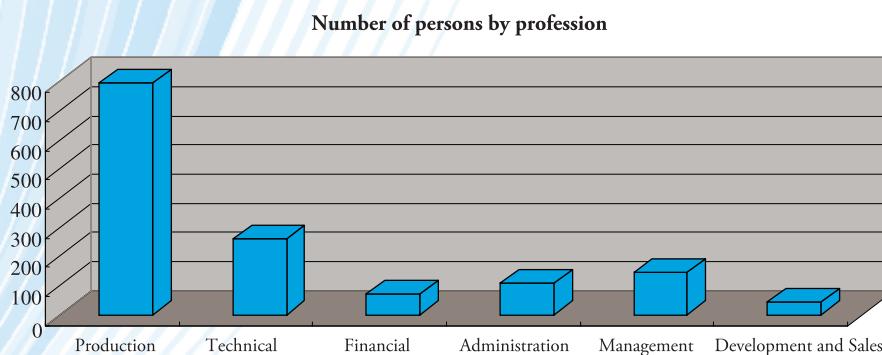


8. Directors, Supervisors, Senior Management and Employees

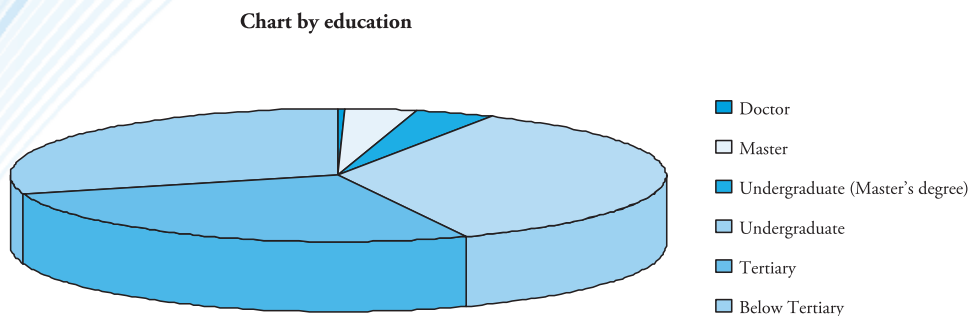
3. Training programs

The Company implements an independent training policy under the control of training funds. All the Company's departments and units develop the training programs according to the needs of the employees and the enterprise, to ensure the training courses are targeted and ensure the employees to grow with the enterprise.

4. Chart by profession



5. Chart by education



(1) DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT

1. Corporate Governance

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

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

9. Corporate Governance

(1) DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

- (5) In respect of performance appraisal and incentive control mechanism: The general meeting of the Company has approved the remuneration standard for the Directors. A strict remuneration and performance appraisal and incentive system has been implemented upon approval by the Board to conduct appraisal and evaluation on the performance of employees of the manager level or below.
- (6) In respect of stakeholders: The Company is able to duly respect and safeguard the legitimate interests of other stakeholders such as banks, other creditors and staff, cooperate and realize good communication with each other, jointly promote the sustained and healthy development of the Company.
- (7) In respect of information disclosure and transparency: In accordance with the listing rules in Shanghai and Hong Kong and the Information Disclosure Management System of the Company, the Company has internally established unimpeded information collection channels, ensuring timeliness, fairness, truthfulness, accuracy and integrity in relation to information disclosure of the Company. The Company has also established the Investor Relations Management System to conscientiously receive investors paying visits and conducting on-site inspections. The official website of the Company has established an investor column which serves as a platform for timely communication between the Company and investors. The establishment of a sound communication channel between the Company and investors is of great help to improve the Company's operational management standard and corporate governance.

2. Corporate Governance Report

(1) *About Corporate Governance Practices*

The Company has continuously amended its relevant code on corporate governances with strict implementation pursuant to the revised corporate governance rules of regulatory bodies. During the reporting period, the Company has amended the "Detailed Working Rules of the Nomination Committee", "Detailed Working Rules of the Remuneration and Assessment Committee" and "Detailed Working Rules of the Audit Committee", which were made public to shareholders on the websites of the Stock Exchange and SSE along with the Articles of Association of the Company. At present or during the reporting period, the Company strictly complies with the Corporate Governance Code.

(1) DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

(2) *About Securities Transactions by the Directors*

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

After making specific enquiries by the Board, there was only one Supervisor holding 959 A Shares of the Company (Please see Section 7 of this annual report for details), and there have been no share transactions during the reporting period. No other Directors, Supervisors and senior management of the Company has purchased the Company’s shares and debentures during the reporting period. Accordingly, all the Directors have complied with the Model Code during the reporting period.

(3) *About the Board*

The Sixth Board of the Company elected at the 2012 second extraordinary general meeting of the Company held on 17 December 2012 consists of nine members, of which, four are executive Directors, including Mr. Zhang Wenhui, Mr. Lin Wenbo, Ms. Fu Yana and Ms. Shi Zhenjuan; two are non-executive Directors, including Mr. An Pindong and Ms. Chen Yinxing; and three are independent non-executive Directors, including Mr. Xie Rong, Mr. Di Xiaofeng and Ms. Lee Kit Ying, Karen. There was no relationship including financial, business, family or other material/relevant relationship between the members of the Board of the Company. All of the Board members possess immense qualifications and management experience. The qualifications and professional experiences of the three independent non-executive Directors have fully complied with the requirements under the Listing Rules. The Board of the Company has accepted the declaration of independence for the year 2012 by each independent non-executive Director, and confirms that they comply with the relevant independence requirements as set out under Rule 3.13 of the Listing Rules.

The Company held 12 Board meetings and 3 general meetings during the reporting period. For details of the resolutions and attendance of Directors, please refer to the particulars in the section “Attendance of Directors at the Board meetings and general meetings”.



9. Corporate Governance

(1) DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

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

Trainings for Directors in 2012

With the continuous growth of the Company's business, occupational development on an on-going basis has become very important for the Directors. In order to ensure the Directors to constantly develop talents and knowledge necessary for their performance of duties, the Company has arranged some training for the Directors with proper training records kept in the Board office of the Company.

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

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

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

(1) DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

(5) *About Non-executive Director*

As required by the Articles of Association of the Company, independent non-executive Director is subject to a term of office of three years and is re-electable, provided that the appointment shall not exceed 6 years. The tenures of non-executive Directors, Mr. An Pindong and Ms. Chen Yinxing, and independent non-executive Director, Ms. Lee Kit Ying, Karen, commenced on 17 December 2012 for three years, while that of independent non-executive Directors, Mr. Di Xiao Feng and Mr. Xie Rong, commenced on 17 December 2012 and will expire on 15 April 2014.

(6) *About the Committees under the Board*

Remuneration and Assessment Committee consists of three independent non-executive Directors, Ms. Lee Kit Ying, Karen, Mr. Xie Rong and Mr. Di Xiao Feng, with Ms. Lee as its chairman. Its primary duties are to propose remuneration plan for the Directors and senior management of the Company to the Board, by adopting the second model under B.1.2 (c) as set out in Appendix 14 to the Listing Rules. For its written working scope, please refer to the “Detailed Working Rules of the Remuneration and Assessment Committee” of the Company which is available on the website of the Stock Exchange.

The Company held 4 meetings of the Remuneration and Assessment Committee which mainly discussed the remuneration policy for the senior management and Directors during the reporting period.

The members of the Nomination Committee of the Company comprised two executive Directors (being the Chairman, Mr. Zhang Wenhui, and General Manager, Mr. Lin Wenbo) and three independent non-executive Directors, Mr. Di Xiao Feng, Mr. Xie Rong and Ms. Lee Kit Ying, Karen, with Mr. Di as its chairman. The primary duties of the Nomination Committee are to study and propose candidates, the criteria of selecting and nomination procedures of directors and senior management of the Company. For its written working scope, please refer to the “Detailed Working Rules of the Nomination Committee” of the Company which is available on the website of the Stock Exchange.

The Company held 4 meetings of the Nomination Committee which mainly discussed the proposal for nomination of the candidates for Directors and senior management during the reporting period.

The Audit Committee of the Company comprised three independent non-executive Directors, Mr. Xie Rong, Mr. Di Xiao Feng and Ms. Lee Kit Ying, Karen, with Mr. Xie as its chairman. The primary duties of the Audit Committee include reviewing of financial statements and internal control of the Company, making proposal for the appointment of external auditors, and formulating of the corporate governance policy of the Company. For details of its written working scope, please see the “Detailed Working Rules of the Audit Committee” of the Company which is available on the website of the Stock Exchange.

9. Corporate Governance

(1) DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

The Company held 7 meetings of the Audit Committee which mainly discussed financial information in periodic reports, reviewed the internal control of the Company and made proposal for the appointment of external auditors during the reporting period.

The committee members have attended all the above committee meetings.

(7) *About the Remuneration of Auditors*

During the reporting period, the Company re-elected PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the Company's external auditors which was approved at the general meeting. The appointment agreement sets out the details of the audit content and remuneration of the auditors. For the remuneration of auditors, please see "Appointment and removal of accountants" in this report.

During the reporting period, the auditors provided internal control audit services to the Company and issued an audit opinion on the internal control of the Company. The Company signed an appointment agreement with the auditors with respect to such non-auditing services, which sets out the scope of the audit and remuneration of the auditors.

(8) *About Company Secretary*

The Company appointed Mr. Lo Wai Keung, Eric of Li & Partners, the legal advisor in Hong Kong, as company secretary (Hong Kong), who generally contacts Ms. Fu Yana, an executive Director and the secretary to the Board of the Company. Mr. Lo has attended not less than 15 hours of relevant professional trainings during 2012 financial year in accordance with Rule 3.29 of the Listing Rules.

(9) *About Shareholders' Rights*

In accordance with the relevant requirements of the Articles of Association of the Company and the Rules of the Procedures of General Meetings, shareholders who severally or jointly hold 10% or more shares in the Company are entitled to ask the Board or Supervisory Committee to convene or convene by themselves an extraordinary general meeting. The abovementioned Articles and Rules make explicit provision on the conditions and procedures for application of convening or convening by themselves such a general meeting. For details of the regulations, please refer to the Articles of Association of the Company and the Rules of the Procedures of General Meetings.

(1) DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

(10) *About Investor Relations*

During the reporting period, the Company has amended the “Detailed Working Rules of the Remuneration and Assessment Committee”, “Detailed Working Rules of the Nomination Committee”, “Detailed Working Rules of the Audit Committee” and the Articles of Association of the Company based on the actual circumstances, further improving the corporate governance of the Company.

In order to implement the spirit of the “Notice on further implementation of matter relating to cash dividends of listed companies” by the CSRC, the Company has revised the relevant provisions on profit appropriation as set out in the Articles of Association of the Company at the 2012 second extraordinary general meeting, which further protects the shareholders’ rights.

(11) *About other specific disclosures*

The Directors are responsible for supervising the compilation of the accounts for each financial period, in order to ensure that those accounts reflect genuinely and fairly the business and results of the Company for the period. In compiling the accounts for the year ended 31 December 2012, the Directors have chosen and thoroughly applied the appropriate accounting policies with due and reasonable judgment and estimates having been made, and prepared the accounts on a going concern basis.

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

The Board of the Company has been much concerned about the internal control of the Company. At the third meeting of the Sixth Board held on 28 March 2013, the resolution in respect of the internal control of the Company was solely considered and a self-assessment report on the internal control was issued. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company has audited the internal control of the Company during 2012, and has issued its audited opinion for the Board’s self-assessment report on the internal control 2012.

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have been the Company’s domestic and overseas auditors respectively. In view of their continued understanding to the Company and their high professional level, the Audit Committee has proposed to re-appoint the above audit firms to provide audit services to the Company in 2013, and such proposal has been considered and passed at the third meeting of the Sixth Board, which will be presented to the general meeting for consideration.



9. Corporate Governance

(1) DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

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

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

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

4. About insiders registration management

In October 2010, according to the requirements of the regulatory rules, the Company established a "management system for insiders" approved by the Board of the Company (For details, please refer to the website of the SSE (<http://www.sse.com.cn>) on 29 October 2010), making explicit provisions for the definitions of inside information and insider, registration of the insider, duty of confidentiality of inside information and the accountability and handling. During the reporting period, before the preparation of the 2011 Annual Report and the 2012 Interim Report, the Company issued notifications to the Directors, Supervisors, senior management, controlling shareholder and ultimate controller that no dealing of the stocks of the Company shall be made during the sensitive period.

On 28 February 2013, the Company convened the second meeting of the sixth Board at which the "Proposal on the establishment of a Management System for Inside Information and the amendment to the Management System for Insiders" was considered and approved. For details of the new Management System for Inside Information and the revised Management System for Insiders, please refer to the website of the SSE (<http://www.sse.com.cn>) on 1 March 2013.

(2) SHAREHOLDERS' GENERAL MEETINGS

Session	Convening Date	Resolutions considered at the meetings	Resolutions passed
2011 Annual General Meeting	11 May 2012	<p>1. considered the 2011 annual report of the Company and its summary announced in the PRC and overseas; 2. considered the 2011 accountant's report of the Company audited by the domestic and overseas auditors; 3. considered the 2011 working report of the Board of the Company and the operation strategies for 2012; 4. considered the 2011 final financial accounts of the Company and the financial budget for the year 2012; 5. considered the proposal in relation to the profit appropriation plan of the Company for the year 2011; 6. considered the resolution on the re-appointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the PRC and international auditors of the Company and authorize the Board to determine its remuneration; 7. considered the 2011 Supervisory Committee Working Report of the Company; 8. considered the resolution on the amendment to the Articles of Association of the Company.</p>	All resolutions were considered and approved



9. Corporate Governance

(2) SHAREHOLDERS' GENERAL MEETINGS (CONTINUED)

Session	Convening Date	Resolutions considered at the meetings	Resolutions passed
The 2012 first extraordinary general meeting	13 July 2012	<p>1. approved and confirmed the Jizhuangzi sewage water treatment plant relocation agreement, and the terms and conditions thereof and the transactions contemplated thereunder and the implementation thereof; 2. approved and confirmed the Jizhuangzi water recycling plant relocation agreement, and the terms and conditions thereof and the transactions contemplated thereunder and the implementation thereof; 3. approved and confirmed the Jizhuangzi sewage water treatment plant compensation agreement, and the terms and conditions thereof and the transactions contemplated thereunder and the implementation thereof; 4. approved and confirmed the Jizhuangzi water recycling plant compensation agreement, and the terms and conditions thereof and the transactions contemplated thereunder and the implementation thereof; 5. approved, ratified and confirmed any one of the Directors be authorised for and on behalf of the Company, among other matters, to sign, execute, perfect, deliver or to authorize signing, executing, perfecting and delivering all such documents and deeds, to do or authorise doing all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the agreements, and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of the agreements they may in their discretion consider to be desirable and in the interests of the Company and all the Directors' acts as aforesaid.</p>	All resolutions were considered and approved

(2) SHAREHOLDERS' GENERAL MEETINGS (CONTINUED)

Session	Convening Date	Resolutions considered at the meetings	Resolutions passed
The 2012 second extraordinary general meeting	17 December 2012	1. considered the resolution on the election of Mr. Zhang Wenhui as executive Director of the sixth Board of the Company; 2. considered the resolution on the election of Mr. Lin Wenbo as executive Director of the sixth Board of the Company; 3. considered the resolution on the election of Ms. Fu Yana as executive Director of the sixth Board of the Company; 4. considered the resolution on the election of Mr. Shi Zhenjuan as executive Director of the sixth Board of the Company; 5. considered the resolution on the election of Mr. An Pindong as non-executive Director of the sixth Board of the Company; 6. considered the resolution on the election of Ms. Chen Yinxing as non-executive Director of the sixth Board of the Company; 7. considered the resolution on the election of Mr. Xie Rong as independent non-executive Director of the sixth Board of the Company; 8. considered the resolution on the election of Mr. Di Xiaofeng as independent non-executive Director of the sixth Board of the Company; 9. considered the resolution on the election of Ms. Lee Kit Ying, Karen as independent non-executive Director of the sixth Board of the Company; 10. considered the resolution on the election of Mr. Li Yang as Supervisor of the sixth Supervisory Committee of the Company; 11. considered the resolution on the election of Mr. Nie Youzhuang as Supervisor of the sixth Supervisory Committee of the Company; 12. considered the resolution on the election of Mr. Li Xiaoshen as Supervisor of the sixth Supervisory Committee of the Company; 13. considered the resolution on the election of Ms. Qi Lipin as Supervisor of the sixth Supervisory Committee of the Company; 14. considered the resolution on the remuneration of the Directors of the sixth Board of the Company; 15. considered the resolution on the remuneration of the Supervisors of the sixth Supervisory Committee of the Company; 16. considered the resolution on the amendment to the Articles of Association of the Company.	All resolutions were considered and approved



9. Corporate Governance

(3) PERFORMANCE OF DUTIES BY DIRECTORS

1. Attendance of Directors at the Board meetings and general meetings

Name of Director	Independent non-executive Director?	Number of Board meetings required to attend this year	Attendance at the Board meetings			Absence (times)	Absence for two consecutive meetings in person?	Attend the general meetings (times)
			Attend in person (times)	Attend by way of other communication method (times)	Attend by proxies (times)			
Zhang Wenhui	No	12	12	8	0	0	No	3
Lin Wenbo	No	12	12	8	0	0	No	3
Fu Yana	No	12	12	8	0	0	No	3
Zhong Huifang	No	11	9	8	2	0	No	3
An Pindong	No	12	9	8	3	0	No	3
Chen Yinxing	No	12	10	9	2	0	No	3
Xie Rong	Yes	12	12	9	0	0	No	3
Di Xiaofeng	Yes	12	12	9	0	0	No	3
Lee Kit Ying, Karen	Yes	12	12	9	0	0	No	3
Shi Zhenjuan	No	1	1	0	0	0	No	1
Number of Board meetings held during the year								12
Among which: Physical Meetings (times)								0
Meetings held by way of other communication method (times)								8
Meetings held physically together with by way of other communication method (times)								4

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

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

(3) PERFORMANCE OF DUTIES BY DIRECTORS (CONTINUED)**3. Establishment and the effectiveness of the relevant working system of independent non-executive Directors, main contents and the performance of duty by independent non-executive Directors**

According to the relevant standards and rules of CSRC and SSE, there are clear regulations concerning the qualifications, the exercise of powers, rights and implementation of duties of independent non-executive Directors in the Articles of Association of the Company. When preparing the annual report, the Company formulated the “Working System for the Independent Non-executive Directors in the Annual Report”, providing clear regulations in respect of the responsibilities and duties which the independent non-executive Directors should take in the process of the compilation and disclosure of the annual report, the sufficiency of information of the annual report with which the Company should provide the independent non-executive Directors, as well as the on-site inspections arranged for the independent non-executive Directors by the Company.

According to the above regulations, during the reporting period, by adhering to the spirit of being accountable to the shareholders, the independent non-executive Directors of the Company conscientiously exercised their rights conferred by the shareholders, faithfully performed their duties, with diligence and responsibility, in order to timely know the information about the production and operation of the Company, paid full attention to the development of the Company, actively attended relevant meetings convened and on-the-spot inspection activities of the Company, and expressed independent and objective opinions concerning relevant matters considered by the Company’s Board and its special committees, which played an actively role for the decisions made by the Board in a scientific manner and the normal operation of the Company, thus effectively protecting the legitimate rights of the Company’s shareholders, especially the minority and medium shareholders, as a whole.

(4) IMPORTANT OPINIONS AND SUGGESTIONS RAISED BY SPECIAL COMMITTEES UNDER THE BOARD WHEN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD

During the reporting period, the Nomination Committee of the Board proposed to the Board of the Company for the candidates of Directors of the sixth Board of the Company and the appointment of new senior management of the Company based on the actual situation of the Board and the Company, coupled with other various factors.

During the reporting period, the Remuneration and Assessment Committee of the Board proposed to the Board for the remuneration of Directors of the sixth Board and the new senior management based on the actual situation of the Company. In order to motivate staffs to work diligently, the committee proposed to the Board for remuneration incentive system as one of the year-end incentive measures.

During the reporting period, the Audit Committee of the Company proposed to re-elect PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers as the Company’s domestic and overseas auditors. The auditors will review the financial information in periodic reports of the Company, inspect its internal control and conduct annual assessment.

9. Corporate Governance

(5) DESCRIPTION OF RISKS IN THE COMPANY FOUND BY THE SUPERVISORY COMMITTEE

The Supervisory Committee has no disagreement about the matters under its supervision during the reporting period.

(6) NO GUARANTEE OF INDEPENDENCE AND INCAPABILITY ON SELF-OPERATION BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER WITH RESPECT TO THE MATTERS INCLUDING BUSINESS, STAFFS, ASSETS, ORGANIZATION AND FINANCE

	Independent?	Descriptions
Independence of Business:	Yes	The Company was independent from the controlling shareholder in conducting of its business, with independent capability on business and self-operation.
Independence of Staffs:	Yes	The Company's senior management is employed by the Board of the Company, and their remuneration and assessment are determined by the Board. Staffs at the middle level are employed by the general manager, with their remuneration to be determined by the manager office. The Company has set up an independent human resource department. All senior management officers such as the present chairman, general manager, deputy general manager, financial controller, secretary to the Board of the Company received their salaries from the Company and they have not taken up any important positions other than directors in the entities of the controlling shareholder. Therefore, in terms of personnel and remuneration management, the Company is independent from the controlling shareholder.

	Independent?	Descriptions
Independence of Assets:	Yes	The assets of the Company and the controlling shareholder are clearly cut. The assets of the Company are completely independent from the controlling shareholder. The Company did not provide any guarantee for its controlling shareholder and other companies except for the Company's Subsidiaries. The Company has complete control and rights of its assets. There were no circumstances of its assets and capital being occupied by the controlling shareholder which would adversely affect the interest of the Company.
Independence of Organization:	Yes	The Company established an organizational structure which was absolutely independent from the controlling shareholder, and has set up organizations such as shareholders' general meetings, the Board, the Supervisory Committee and the general manager of the Company. The operation and management of the Company were subject to an accountability system of the general manager under the authorization of the Board. The Company has a separate place of business.
Independence of Finance:	Yes	The Company has set up an independent finance and accounting department, and established a separate bank account, an independent accounting and audit system and a financial management system.



9. Corporate Governance

(7) ESTABLISHMENT AND IMPLEMENTATION OF THE ASSESSMENT MECHANISM AND INCENTIVE SYSTEM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

During the reporting period, the Company operated an assessment mechanism combining objective assessment and post assessment for the senior management. The performance bonus in the annual salary of the senior management is linked to the assessment results of the completion of individual target. The provision of year-end bonus is made on the completion of the targets of the Company or annual profit recorded by respective departments, while distribution of that is tied to the assessment results of individual target assessment and post assessment.

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

Name	Contribution to pension scheme (RMB)
Zhang Wenhui	25,344
Lin Wenbo	25,344
Zhang Jian	25,344
Fu Yana	25,344
Li Yang	25,344

Notes: The basic remuneration for the above five persons is less than HK\$1 million.

(1) INTERNAL CONTROL RESPONSIBILITY STATEMENT AND INTERNAL CONTROL SYSTEM CONSTRUCTION

All members of the Board warrant the truthfulness, accuracy and completeness of this report which does not contain any false information, misleading statements or material omissions, and accept responsibility for establishing and maintaining an adequate internal control system relating to financial reporting.

The objective of internal control relating to financial reporting is to ensure the truthfulness, completeness and reliability of information in financial reports and prevent the risk of material misstatement. Since there are inherent limitations associated with internal control, only reasonable assurance can be provided for the aforesaid objective.

In compliance with the “Basic Standard for Enterprise Internal Control” and the “Corporate Internal Control Package Guidelines” issued by five agencies and the relevant laws and regulations, the Company improved its governance structure and standardized the organizational structure of its internal control, properly established the functional department and established a relatively sound internal control system.

The Board of the Company is responsible for establishing and improving the internal control system and examining its effectiveness. The Board has established the Audit Committee under it to guide, execute and supervise the establishment and operation of the internal control system of the Company. The operation management department is the main responsible department for the establishment and maintenance of the internal control system. The legal audit department is responsible for the evaluation of internal control. All business and functional departments are responsible for the construction, implementation and improvement of their respective internal control.

The Company has established a relatively sound internal control system and has formed written documents and updates the systems, guidelines and processes in the “System Process Management Manual of Tianjin Capital Environmental Protection Group Company Limited” each year in accordance with the business development of the Group on the basis of the 11 major business cycles in the “System Process Management Manual”. In 2012, the Company successively completed the issuance and amendment of various key system guidelines including production operation, financial management and information disclosure, and revised and improved almost 100 processes including the 11 major cycles.

In 2012, while implementing internal control in an all-round manner, the Company further facilitated the establishment and operation of the internal control system relating to financial reporting. As at the end of 2012, the Company established the new owners’ equity process and tax management process and amended 30 financial processes involved in the construction engineering cycle, production and procurement cycle, capital and capital management cycle and total budget cycle. The relevant system processes came into effect on the date of issue.

For details of the self-assessment report on internal control, please refer to the “2012 Assessment Report on Internal Control” disclosed on the website of the SSE (<http://www.sse.com.cn>) on 29 March 2013.



10. Internal Control

(2) EXPLANATION IN RESPECT OF THE INTERNAL CONTROL AUDIT REPORT

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company engaged by the Company has audited the effectiveness of internal control relating to financial reporting of the Company and has issued an internal control audit report with standard unqualified opinions.

For details of the internal control audit report, please refer to the “2012 Internal Control Audit Report” disclosed on the website of the SSE (<http://www.sse.com.cn>) on 29 March 2013.

(3) ACCOUNTABILITY SYSTEM FOR MAJOR ERRORS IN THE ANNUAL REPORT AND ITS IMPLEMENTATION

On 28 February, 2013, the second meeting of the Sixth Board of the Company passed the “Resolution on the Formulation of Accountability System for Major Errors in the Annual Report”. For details of the new “Accountability System for Major Errors in the Annual Report”, please refer to the website of the SSE (<http://www.sse.com.cn>) on 28 February 2013.

During the reporting period, the Company did not make any major errors in the annual report.

11. Other Information

SALE AND PURCHASE OR REDEMPTION OF SHARES OF THE COMPANY

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

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 year, in compliance with the Corporate Governance Code as set out in the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

TAX CONCESSION

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

CHARGE OF ASSETS

The Company did not charge any assets of the Company.

AUDIT COMMITTEE

On 31st July, 2001, the Board approved the establishment of the Audit Committee to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2012 with the Directors.

PUBLICATION OF FINANCIAL INFORMATION

The Company's 2012 annual report which sets out all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules is published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

12. Financial Accounting Report

For details, please refer to the accounting statements and audited reports for 2012 of the Company.



Auditor's Report

PwC ZT Shen Zi (2013) No. 10072

(Page 1 of 2)

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

We have audited the accompanying financial statements of Tianjin Capital Environmental Protection Group Company Limited (hereinafter the "Company"), which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated and company income statements, the consolidated and company statements of changes in shareholder's equity and the consolidated and company cash flow statements for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



13. Report of the Auditors

PwC ZT Shen Zi (2013) No. 10072

(Page 2 of 2)

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai , the People's Republic of China

28 March 2013

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

As at 31 December 2012

(All amounts in RMB thousand unless otherwise stated)

ASSETS	Notes 6	Group		Company	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
CURRENT ASSETS					
Cash and bank balances	(1)	1,000,565	691,693	469,715	257,969
Notes receivables		6,000	—	—	—
Trade receivables	(2)	1,566,743	1,096,583	1,454,780	1,010,492
Prepayments	(3)	120,306	95,706	43,815	3,458
Dividend receivables		—	—	6,750	—
Other receivables	(4)	10,589	17,049	108,459	121,653
Inventories	(5)	92,509	80,569	11,197	4,218
Other current assets		12,349	7,831	107,700	157,331
Total current assets		2,809,061	1,989,431	2,202,416	1,555,121
NON-CURRENT ASSETS					
Long-term receivables	(6)	406,425	407,240	406,425	407,240
Long-term equity investments	(7)	38,628	44,669	1,285,755	1,285,755
Investment properties	(8)	112,282	115,955	88,491	91,659
Fixed assets	(9)	3,281,259	2,383,709	2,992,541	2,152,292
Construction in progress	(9)	459,487	880,865	419,507	806,613
Intangible assets	(10)	3,191,339	3,254,821	431,966	443,073
Other non-current assets		8,513	8,634	40,377	35,045
Total non-current assets		7,497,933	7,095,893	5,665,062	5,221,677
TOTAL ASSETS		10,306,994	9,085,324	7,867,478	6,776,798



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

As at 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes 6	Group		Company	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
CURRENT LIABILITIES					
Short-term borrowings	(14)	86,000	152,000	66,000	136,000
Trade payables	(12)	20,847	18,481	5,373	3,157
Advances	(12)	601,371	423,387	4,871	8,331
Wages payable	(13)	9,298	8,227	5,882	5,790
Taxes payable	(12)	26,706	8,274	17,954	2,400
Dividend payable	(18)(c)	30,929	1,461	30,929	1,461
Other payables	(12)	511,940	412,095	590,875	330,812
Other non-current liabilities due within one year	(14)	806,181	856,186	619,501	653,466
Other current liabilities	(14)	20,007	19,961	16,364	16,364
Total current liabilities		2,113,279	1,900,072	1,357,749	1,157,781
NON-CURRENT LIABILITIES					
Long-term borrowings	(14)	1,931,876	1,865,040	863,600	782,400
Long-term debenture	(14)	691,950	689,850	691,950	689,850
Deferred revenue	(15)	385,661	369,928	201,880	204,221
Deferred income tax liabilities	(16)	60,645	48,479	21,721	19,966
Long-term payables	(14)	350,754	386,543	350,754	386,543
Other non-current liabilities	(14)	840,158	109,703	735,453	81,817
Total non-current liabilities		4,261,044	3,469,543	2,865,358	2,164,797
TOTAL LIABILITIES		6,374,323	5,369,615	4,223,107	3,322,578
SHAREHOLDERS' EQUITY					
Share capital	(17)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	(18)(a)	382,311	382,311	380,788	380,788
General reserves	(18)(b)	350,905	326,181	350,905	326,181
Undistributed profits	(18)(c)	1,619,785	1,432,617	1,485,450	1,320,023
Equity attributable to owners of the parent		3,780,229	3,568,337	3,644,371	3,454,220
Minority Interests	(19)	152,442	147,372	—	—
Total shareholders' equity		3,932,671	3,715,709	3,644,371	3,454,220
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,306,994	9,085,324	7,867,478	6,776,798

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department

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

For the year ended 31 December 2012

(All amounts in RMB thousand unless otherwise stated)

	Notes 6	Group		Company	
		2012	2011	2012	2011
Income from operations	(20)	1,637,320	1,562,490	933,539	937,963
Less: Cost for operations	(20)	(951,188)	(874,041)	(452,458)	(435,782)
Business tax and surcharges	(21)	(11,478)	(8,831)	(5,953)	(4,311)
Administrative expenses	(22)	(105,118)	(104,301)	(60,647)	(62,613)
Financial expenses - net	(23)	(212,328)	(196,415)	(118,823)	(108,539)
Add: Investment income	(7)	(5,541)	386	26,750	2,089
Including: Share of profit of an associate		(6,041)	186	—	—
Operation profit		<u>351,667</u>	<u>379,288</u>	<u>322,408</u>	<u>328,807</u>
Add: Non-operating income	(24)	25,128	10,573	4,834	5,028
Less: Non-operating expenses	(25)	(3,995)	(13,827)	(3,691)	(12,983)
Including: Loss on disposal of non-current assets		(3,818)	(13,661)	(3,691)	(12,983)
Total profit		372,800	376,034	323,551	320,852
Less: Income tax	(26)	(98,249)	(96,154)	(76,311)	(79,094)
Net profit		274,551	279,880	247,240	241,758
Attributable to owners of the parent		268,981	275,786	247,240	241,758
Minority interests		5,570	4,094	—	—
Earnings per share (in Rmb Yuan)	(27)				
– Basic		0.19	0.19		
– Diluted		0.19	0.19		
Other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income		274,551	279,880	247,240	241,758
Attributable to owners of the parent		268,981	275,786	247,240	241,758
Minority interests		5,570	4,094	—	—

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department



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

Cash Flow Statement

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2012	2011	2012	2011
1. Cash flows from operating activities				
Cash received from sales of goods and rendering of services	1,358,097	1,585,960	498,113	793,916
Cash received relating to other operating activities	29,162	77,843	20,001	40,454
Sub-total of cash inflows	1,387,259	1,663,803	518,114	834,370
Cash paid for goods and services	(579,497)	(538,117)	(255,077)	(220,281)
Cash paid to and on behalf of employees	(165,343)	(137,970)	(90,234)	(74,624)
Payments of taxes and levies	(102,160)	(121,121)	(64,851)	(104,381)
Cash payments relating to other operating activities	(32,468)	(32,422)	(18,864)	(18,993)
Sub-total of cash outflows	(879,468)	(829,630)	(429,026)	(418,279)
Net cash flows from operating activities	507,791	834,173	89,088	416,091
2. Cash flows from investing activities				
Cash received from returns on investments	500	200	20,000	2,089
Net cash received from disposal of fixed assets and intangible assets	21,093	808	337	187
Cash received from subsidiaries	—	—	167,050	165,112
Other cash received relating to investing activities	774,715	86,022	670,000	—
Sub-total of cash inflows	796,308	87,030	857,387	167,388
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(659,754)	(626,906)	(465,559)	(186,427)
Cash paid to acquire equity investments	—	—	—	(129,874)
Payments of restricted bank deposit	(900)	(1,800)	—	—
Cash paid to subsidiaries	—	—	(59,500)	(186,297)
Sub-total of cash outflows	(660,654)	(628,706)	(525,059)	(502,598)
Net cash flows from investing activities	135,654	(541,676)	332,328	(335,210)

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

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2012	2011	2012	2011
3. Cash flows from financing activities				
Cash received from borrowings	1,451,516	1,249,200	1,259,200	1,206,300
Cash received from debenture issuance	—	689,500	—	689,500
Cash received from investors	—	19,091	—	—
Including: Proceeds from capital contributions by minority shareholders of subsidiaries	—	19,091	—	—
Sub-total of cash inflows	1,451,516	1,957,791	1,259,200	1,895,800
Repayments of amounts borrowed	(1,517,765)	(1,738,015)	(1,295,864)	(1,610,364)
Payments for interest expenses	(241,103)	(203,684)	(145,385)	(113,619)
Payments for distribution of dividends or profits	(28,121)	(156,590)	(27,621)	(156,590)
Other payments relating to financing activities	—	(2,436)	—	—
Sub-total of cash outflows	(1,786,989)	(2,100,725)	(1,468,870)	(1,880,573)
Net cash flows from financing activities	(335,473)	(142,934)	(209,670)	15,227
4. Effect of foreign exchange rate changes on cash	—	—	—	—
5. Net increase in cash and bank balances	307,972	149,563	211,746	96,108
Add: Cash and bank balances at beginning of the year	688,993	539,430	257,969	161,861
6. Cash and bank balances at end of the year (note 6(28)(b))	996,965	688,993	469,715	257,969

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department



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

Consolidated statement of changes in equity

For the year ended 31 December 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
Changes in 2011						
Net profit	—	—	—	275,786	4,094	279,880
Investment of shareholders						
– Investment from minority interests	—	—	—	—	19,091	19,091
– Purchase of minority interests (note6(18)(a))	—	(1,027)	—	—	(1,409)	(2,436)
Profit appropriation						
– Appropriation to statutory common reserve	—	—	24,176	(24,176)	—	—
– Dividend appropriation to shareholders	—	—	—	(156,995)	—	(156,995)
Balance at 31 December 2011	1,427,228	382,311	326,181	1,432,617	147,372	3,715,709
Changes in 2012						
Net profit	—	—	—	268,981	5,570	274,551
Profit appropriation						
– Appropriation to statutory common reserve	—	—	24,724	(24,724)	—	—
– Dividend appropriation to shareholders	—	—	—	(57,089)	(500)	(57,589)
Balance at 31 December 2012	1,427,228	382,311	350,905	1,619,785	152,442	3,932,671

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

Zhang Wenhui
Company Representative

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Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department

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

Company statement of changes in equity

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

	Share capital	Capital surplus	General reserve	Undistributed profits	Total shareholders' equity
Balance at 1 January 2011	1,427,228	380,788	302,005	1,259,436	3,369,457
Changes in 2011					
Net profit	—	—	—	241,758	241,758
Profit appropriation					
– Appropriation to statutory common reserve	—	—	24,176	(24,176)	—
– Dividend appropriation to shareholders	—	—	—	(156,995)	(156,995)
Balance at 31 December 2011	1,427,228	380,788	326,181	1,320,023	3,454,220
Changes in 2012					
Net profit	—	—	—	247,240	247,240
Profit appropriation					
– Appropriation to statutory common reserve	—	—	24,724	(24,724)	—
– Dividend appropriation to shareholders	—	—	—	(57,089)	(57,089)
Balance at 31 December 2012	<u>1,427,228</u>	<u>380,788</u>	<u>350,905</u>	<u>1,485,450</u>	<u>3,644,371</u>

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

Zhang Wenhui
Company Representative

Shi Zhenjuan
Person in charge of
accounting function

Shi Zhenjuan
Person in charge of
accounting department



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

Notes to the Financial Statements

For the year ended 31 December 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 supply of heating and cooling and management of related facility as described below:

(a) Processing of sewage water

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

Plant Location	Agreement date	Customer
Dong Jiao, Tianjin	10 October 2000	Tianjin Sewage Company(“TSC”)
Ji Zhuang Zi, Tianjin	10 October 2000	TSC
Xian Yang Lu, Tianjin	10 October 2000	TSC
Bei Cang, Tianjin	10 October 2000	TSC
Gui Yang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Bao Ying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chi Bi, Hubei	15 July 2005	Chibi Construction Bureau
Fu Yang, Anhui	18 December 2005	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	Tianjin Tianyu Science Technology Park
Wen Deng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi An, Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
An Guo, Hebei	14 October 2008	An Guo Municipal Government
Xian Ning, Hubei	16 October 2008	Xianning Construction Committee
Ying Dong, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Qu Jing, Yunnan	16 August 2011	QuJing Housing and Urban Construction Bureau
Chao Hu, Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau

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

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(a) Processing of sewage water (Continued)

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

Dong Jiao:

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

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

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

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

All other sewage processing plants:

Initial sewage water processing prices are predetermined, thereafter processing prices may be revised after considering various factors including renovation of equipment, additional investment, power and energy and labor 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.

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

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(c) Supply of tap water

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

(d) Recycled water and pipeline connection

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

(e) Heating and cooling supply services

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

The Group has signed a concession agreement with Tianjin City Construction and Transportation Committee of providing heating and cooling supply services for Tianjin City Cultural Center's concentrated energy station project, which fall into the scope of Accounting Standards Interpretation No.2 (CAS Int-No.2) (note 4(14)(b)).

These consolidated financial statements were approved by the Directors of the Company on 28 March 2013.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

3 STATEMENT OF COMPLIANCE WITH CAS

The financial statements of the Company for the year ended 31 December 2012 truly and completely present the financial position as of 31 December 2012 and the operating results, cash flows and other information for the year then ended of the Group and the Company in compliance with the Accounting Standards for Business Enterprises.

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) **Accounting period**

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

(2) **Recording currency**

The recording currency is Renminbi (“Rmb”).

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

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

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

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

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

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

(4) **Cash and cash equivalents**

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



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

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Foreign currency translation

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

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

(6) Financial instruments

(a) Financial assets

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

(i) Recognition and measurement

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

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

(ii) Impairment of financial assets

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

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

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Financial instruments (Continued)

(a) Financial assets (Continued)

(iii) Derecognition of financial assets

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

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

(b) Financial liabilities

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

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

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

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



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

For the year ended 31 December 2012
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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Receivables

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

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

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

(8) Inventories

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

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

Except for work in progress, cost for raw materials, finished goods and low cost consumables are determined using the weighted average method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating 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 realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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

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(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments

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

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

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

(a) Determination of investment cost

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

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



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

(9) Long-term equity investments (Continued)

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

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

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

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

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(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments (Continued)

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

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

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

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

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

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



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

(10) Investment properties

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

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

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

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

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

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

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

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(All amounts in RMB thousand unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Fixed assets

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

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

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

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

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

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

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

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

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

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



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

(12) Construction in progress

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

(13) Borrowing costs

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

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

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

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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets

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

(a) Land use rights

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

(b) Concession rights

As described in note 1(a) and (e), the Group (exclude the sewage water company of Tianjin area) engages with government bodies and participates in the development, financing, operation and maintenance of infrastructure for public sewage processing services (concession services) over a specified period of time (concession services period). The Group has access to operate the infrastructure to provide the concession services in accordance with the terms specified in the arrangement. The arrangement is governed by the relevant Sewage Water Processing Agreements that sets out performance standards, mechanisms for adjusting prices. The concession services arrangement is within the scope of Accounting Standards interpretation No.2(CAS Int-No.2), and the Group recognizes the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognize an intangible asset to the extent that it receives a right (license) to charge users of the public service and shall recognize a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Therefore intangible assets - concession rights are recognized for the rights under these service concession arrangements by the Group, which are amortized on a straight-line basis over the terms of operation ranging from 25 to 30 years.

(c) Technical know-how and softwares

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

(d) Periodical review of useful life and amortization method

For an intangible asset with a finite useful life, review and adjustment on useful life and amortization method are performed at each year-end. When the recoverable amount of an intangible asset is lower than its carrying value, the carrying value shall be reduced to its recoverable amount (note 4(15)).

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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Intangible assets (Continued)

(e) Impairment of intangible assets

The carrying value of intangible assets are written down to its recoverable amount when its recoverable amount is lower than the carrying value

(15) Impairment of long-term assets

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

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

(16) Employee benefits

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

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

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

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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Dividend distribution

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

(18) Revenue recognition

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

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

(a) Sewage water processing and heating and cooling supply

Revenues from sewage water processing and heating and cooling supply are recognized when services are rendered.

(b) Construction contract

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

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

(c) Sales of tap water and recycled water

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



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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Revenue recognition (Continued)

(d) Sales of pipe connection for recycled water

Revenue from the sales of pipe connection for recycled water is recognized under completion method.

(e) Contract operation income

Revenue from contract operation is recognized under the accrual basis according to the service agreement.

(f) Operating lease revenue

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

(g) Interest income

Interest income is recognized using the effective interest method.

(h) Dividend income

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

(19) Government grants

Government grants represent monetary assets granted from government bodies for free, including tax refunds and financial subsidies

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

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

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

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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Deferred tax assets and deferred tax liabilities

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

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

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

Deferred tax assets and liabilities are offset when:

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

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

(21) Segment information

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

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

(22) Critical accounting estimate and judgments

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

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

(a) *Impairment for receivables*

The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 31 December 2012 are not impaired.

(b) *Income Tax*

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

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

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5 TAXATION

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

Tax by category	Basis of Tax	Tax rate
Enterprise income tax	Taxable income	0% - 25%
Value Added Tax (VAT)	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the effective tax rate less deductible VAT input of current period)	6%-13%
Business tax	Taxable sales amount	3%-5%
City construction and maintenance tax	The amount of paid business tax and VAT	7%

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

Name of subsidiaries	Enterprise income tax rate of 2012	Preferential tax policy
Chi Bi Capital Water Co.,Ltd.	0%	Income from engaging in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax for the first 3 years and reduction half for the next 3 years.
Fu Yang 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.
Tianjin Water Recycling Co.,Ltd.	The taxable income is 90% of revenue	According to Caishui[2008]47, since January 1, 2008, revenue generated by products which were in line with national or industry standards, the taxable income amount is reduced 90% of the total revenue.



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

(1) CASH AND BANK BALANCES

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Cash on hand and in bank	<u>1,000,565</u>	<u>691,693</u>	<u>469,715</u>	<u>257,969</u>
Including:				
Special funds for construction in progress (note (a))	200,466	48,259	139,137	43,442
Restricted bank deposits due within one year (note (b))	<u>3,600</u>	<u>2,700</u>	<u>—</u>	<u>—</u>

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

(b) The bank deposits represented projects deposits due within one year of Rmb3,600 thousand (2011: Rmb2,700 thousand).

(2) TRADE RECEIVABLES

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Trade receivable	1,566,743	1,096,583	1,454,780	1,010,492
Less: provision for bad debts	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>1,566,743</u>	<u>1,096,583</u>	<u>1,454,780</u>	<u>1,010,492</u>

(a) The ageing of trade receivables is analysed below:

	Group			
	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	921,093	59%	865,014	79%
1 to 2 years	<u>645,650</u>	<u>41%</u>	<u>231,569</u>	<u>21%</u>
Total	<u>1,566,743</u>	<u>100%</u>	<u>1,096,583</u>	<u>100%</u>

	Company			
	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	818,971	56%	779,073	77%
1 to 2 years	<u>635,809</u>	<u>44%</u>	<u>231,419</u>	<u>23%</u>
Total	<u>1,454,780</u>	<u>100%</u>	<u>1,010,492</u>	<u>100%</u>

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

(2) TRADE RECEIVABLES (Continued)

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

Category	31 December 2012				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
Trade receivables with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	1,421,319	91%	—	—	998,903	91%	—	—
General credit portfolio	145,424	9%	—	—	97,680	9%	—	—
Total	1,566,743	100%	—	—	1,096,583	100%	—	—

Category	31 December 2012				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
Trade receivables with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	1,421,319	98%	—	—	998,903	99%	—	—
General credit portfolio	33,461	2%	—	—	11,589	1%	—	—
Total	1,454,780	100%	—	—	1,010,492	100%	—	—



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

- (c) As at 31 December 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:

	Ending balance	Group and Company Provision for bad debts	Ratio
TSC	1,421,319	—	—
Total	1,421,319	—	—

TSC is the Chinese government subordinate enterprise which has good creditability history. In December 2012, TSC and its supervising government department submitted application to Tianjin Government to apply for granting concession services right of four sewage water processing plants in Tianjin to the Company. The application is in the process of government approval. Management expected to collect the receivables from TSC when the concession services agreements are signed and replaced the current agreement. Therefore, Management believes that the receivable balance is not impaired

- (d) The ageing of general credit portfolio is analysed below:

	Group			
	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	135,583	93%	97,680	100%
1 to 2 years	9,841	7%	—	—
Total	145,424	100%	97,680	100%

	Company			
	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	33,461	100%	11,589	100%
Total	33,461	100%	11,589	100%

- (e) Trade receivables from any of the shareholders of the Company who hold 5% or more of voting shares are analyzed as below:

	31 December 2012	31 December 2011
TICIG	13,419	—

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

(f) As at 31 December 2012, the trade receivables from the top five debtors are analyzed as below:

	relationship with the Group	amount	ageing	% of total balance
TSC	customer	785,510	within 1 year	50%
		635,809	1 to 2 years	40%
Qijing City Water General Company	customer	40,645	within 1 year	3%
Hangzhou Sewage Company	customer	15,685	within 1 year	1%
	Ultimate holding company			
TICIG	company	13,419	within 1 year	1%
	Controlled by the same ultimate holding company			
Tianjin Lecheng Properties Co., Ltd.	company	8,197	within 1 year	1%
Total		<u>1,499,265</u>		<u>96%</u>

(g) Trade receivable from related parties are analysed as follows:

	relationship with the Group	31 December 2012		31 December 2011	
		Amount	% of total balance	Amount	% of total balance
TICIG	Ultimate holding company	13,419	0.86%	—	—
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company	8,197	0.52%	404	0.04%
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company	801	0.05%	801	0.07%
Tianjin subway Group Co., Ltd.	Controlled by the same ultimate holding company	—	—	76	0.01%
Total		<u>22,417</u>	<u>1.43%</u>	<u>1,281</u>	<u>0.12%</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(3) PREPAYMENTS

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

	Group			
	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	85,069	71%	79,204	83%
1 to 2 years	28,809	24%	13,928	14%
Over 2 years	6,428	5%	2,574	3%
Total	120,306	100%	95,706	100%

As at 31 December 2012, the prepayments aged over one year with amount of Rmb35,237 thousand (2011: Rmb16,502 thousand) mainly for plant construction projects and recycled water pipeline connection service for which the projects have not been completed and hence balances remain outstanding.

	Company			
	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	43,576	99.5%	1,785	52%
1 to 2 years	144	0.3%	1,565	45%
Over 2 years	95	0.2%	108	3%
Total	43,815	100%	3,458	100%

(b) As at 31 December 2012, the prepayments to the top five debtors are analyzed as below:

	relationship with the Group	amount	% of total balance	Prepayment time	reason for not settled
Tianjin No.2 Municipal&Highway Engineering Co., Ltd	construction contractor	15,913	14%	2012	project in progress
Tianjin Pipeline Construction Group Co., Ltd.	construction contractor	13,511	11%	2011	project in progress
China Tiesiju Civil Engineering Group Co., Ltd	construction contractor	11,154	9%	2012	project in progress
Tianjin Jianchang Environment Co., Ltd	equipment supplier	7,599	6%	2012	Equipment under inspection
Tianjin No.7 Municipal&Highway Engineering Co., Ltd	construction contractor	4,440	4%	2012	project in progress
		<u>52,617</u>	<u>44%</u>		

(c) As at 31 December 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). As at 31 December 2012, there were no prepayments to any of the related parties of the Company (31 December 2011: Nil).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) OTHER RECEIVABLES

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Project deposits	3,207	6,681	2,200	2,743
Payment on behalf of others	1,893	1,381	38	12
Receivables from subsidiaries	—	—	105,034	112,534
Others	5,489	8,987	1,187	6,364
Less: provision for bad debts	—	—	—	—
	<u>10,589</u>	<u>17,049</u>	<u>108,459</u>	<u>121,653</u>

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

	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	4,892	46%	3,000	18%
1 to 2 years	857	8%	3,132	18%
2 to 3 years	1,538	15%	3,933	23%
Over 3 years	3,302	31%	6,984	41%
	<u>10,589</u>	<u>100%</u>	<u>17,049</u>	<u>100%</u>

(b) As at December 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). As at December 2012, there were no other receivables from any of the related parties of the Company (31 December 2011: Nil).

(c) As at 31 December 2012, other receivables from the top five debtors is analysed as below:

	relationship with the Group	amount	ageing	% of total balance
Guiyang Construction Investment Holding Co., Ltd.	customer	1,150	over 3 years	10%
Tianjin Construction Team Communication Service Centre	regulator	1,000	2 to 3 years	9%
Tianjin Construction Wastes Management Station	regulator	500	1 to 2 years	5%
Tianjin Construction Engineering Quality Supervision and Management Station	regulator	271	within 1 year	3%
Wuchuan County Urban Management Office	customer	200	within 1 year	2%
		<u>3,121</u>		<u>29%</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) OTHER RECEIVABLES (Continued)

(d) Other receivables is analysed as below:

Category	31 December 2012				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
General credit portfolio	10,589	100%	—	—	17,049	100%	—	—
Total	10,589	100%	—	—	17,049	100%	—	—

Category	31 December 2012				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
General credit portfolio	108,459	100%	—	—	121,653	100%	—	—
Total	108,459	100%	—	—	121,653	100%	—	—

(5) INVENTORIES

(a) Inventories are summarised by categories as follows:

	31 December 2012			31 December 2011		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
	Raw materials	17,962	—	17,962	10,960	—
Finished goods	—	—	—	3,682	(3,000)	682
Spare parts and low cost consumables	106	—	106	434	—	434
Work in progress	74,441	—	74,441	68,493	—	68,493
	92,509	—	92,509	83,569	(3,000)	80,569

	31 December 2012			31 December 2011		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
	Raw materials	11,029	—	11,029	4,193	—
Spare parts and low cost consumables	—	—	—	25	—	25
Work in progress	168	—	168	—	—	—
	11,197	—	11,197	4,218	—	4,218

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(5) INVENTORIES (Continued)

(b) Provision for decline in the value of inventories are analysed as follows:

	31 December 2011	Increase in current year	Group Decrease in current year		31 December 2012
			Reversal	Write-off	
Finished goods (note 6 11(a))	(3,000)	—	—	3,000	—

(6) LONG-TERM RECEIVABLES

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Receivables from toll road concession (note (a))	337,631	338,446	337,631	338,446
Receivables from TSC (note (b))	68,794	68,794	68,794	68,794
	<u>406,425</u>	<u>407,240</u>	<u>406,425</u>	<u>407,240</u>

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

(b) As at 31 December 2012, receivables of TSC construction fund had passed the credit period. Since TSC is the Chinese government subordinate enterprise which has good creditability history, the management believes there is no material risk of impairment for receivables (note6 (2)(c)).

(7) LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Investment in subsidiaries (note (a))	—	—	1,308,255	1,308,255
Less: Impairment provision for long-term investment (note (b))	—	—	(26,500)	(26,500)
	—	—	1,281,755	1,281,755
Investment in an associate (note (c))	34,628	40,669	—	—
Other long-term equity investments(note (d))	4,000	4,000	4,000	4,000
	<u>38,628</u>	<u>44,669</u>	<u>1,285,755</u>	<u>1,285,755</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(a) Subsidiaries

the subsidiaries acquired by establishment or investment:

	Company type	Place of registration	Nature of business and business activity	Registered capital	Enterprise type	Legal representative	Institution code
Qijing Capital Water Co., Ltd.	A	Qijing	Sewage processing, tap water supply	178,983	Limited Company	Zhao Yi	781687756
Guizhou Capital Water Co., Ltd.	A	Guizhou	Sewage processing	100,000	Limited Company	Zhao Yi	750194086
Fuyang Capital Water Co., Ltd.	B	Fuyang	Sewage processing	69,000	Limited Company	Zhao Yi	783074750
Baoying Capital Water Co., Ltd.	A	Baoying	Sewage processing	53,000	Limited Company	Zhao Yi	776407692
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Sewage processing	62,987	Limited Company	Tang Fusheng	N/A
Hangzhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Sewage processing	257,445	Limited Company	Zhao Yi	785336929
Wendeng Capital Water Co., Ltd.	B	Wendeng	Sewage processing	52,000	Limited Company	Zhao Yi	661386940
Tianjin Jing Hai Capital Water Co., Ltd.	B	Tianjin	Sewage processing	12,000	Limited Company	Yang Guang	666139631
Tianjin Water Recycling Co., Ltd.	B	Tianjin	Production and sales of recycled water and technical consulting for water recycling business	100,000	Limited Company	Tang Fusheng	72573188X
Xi'an Capital Water Co., Ltd.	B	Xi'an	Sewage processing	270,000	Limited Company	Zhao Yi	668679180
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	B	Tianjin	Environmental engineering protection and technical consultation	5,000	Limited Company	Zhang Wenhui	673733268
Anguo Capital Water Co., Ltd.	B	Anguo	Tap water supply and drain off for urban area and sewage processing	41,000	Limited Company	Li Yuqing	681355439
Wuhan Tianchuang Capital Water Co., Ltd.	B	Wuhan	Sewage processing and tap water supply	103,240	Limited Company	Zhao Yi	679132033
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Production and sales of new types of construction material	37,500	Limited Company	Fu Yana	752229932
Tianjin Capital Water Co., Ltd.	B	Tianjin	Sewage processing	5,000	Limited Company	Yang Guang	697448664
Tianjin Zichuang Project Investment Co., Ltd.	B	Tianjin	Construction project investment	23,400	Limited Company	Lin Wenbo	55946747X
Tianjin Jinning Capital Water Co., Ltd.	B	Tianjin	Sewage processing	15,000	Limited Company	Li Yuqing	559490071
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	B	Tianjin	Energy saving, innovative energy research, consulting and transfer service property management	60,000	Limited Company	Tang Fusheng	569314725

A: Subsidiary

B: Wholly-owned subsidiaries

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(a) Subsidiaries (Continued)

	Investment cost at beginning/ end of the year	Share holding/ Voting rights (%)	Consolidate financial statement (Y/N)	Minority interest	Provisions of impairment	Cash dividends declared in the current year
Xi'an Capital Water Co., Ltd.	270,000	100	Y	—	—	—
Hangzhou Tianchuang Capital Water Co., Ltd.	180,212	70	Y	95,466	—	—
Qijing Capital Water Co., Ltd.	154,918	87	Y	27,397	—	—
Tianjin Water Recycling Co., Ltd.	100,436	100	Y	—	—	10,000
Guizhou Capital Water Co., Ltd.	95,000	95	Y	6,921	—	9,500
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,987	100	Y	1,656	—	—
Wendeng Capital Water Co., Ltd.	52,000	100	Y	—	—	—
Wuhan Tianchuang Environmental Protection Co., Ltd.	98,500	100	Y	2,444	—	—
Fuyang Capital Water Co., Ltd.	69,202	100	Y	—	—	6,750
Anguo Capital Water Co., Ltd.	41,000	100	Y	—	—	—
Baoying Capital Water Co., Ltd.	37,100	70	Y	18,507	—	—
Tianjin Capital New Materials Co., Ltd.	26,500	71	Y	51	(26,500)	—
Tianjin Jing Hai Capital Water Co., Ltd.	12,000	100	Y	—	—	—
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	5,000	100	Y	—	—	—
Tianjin Zichuang Project Investment Co., Ltd.	23,400	100	Y	—	—	—
Tianjin Jinning Capital Water Co., Ltd.	15,000	100	Y	—	—	—
Tianjin Capital Water Co., Ltd.	5,000	100	Y	—	—	—
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	60,000	100	Y	—	—	—
Total	1,308,255			152,442	(26,500)	26,250



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(a) Subsidiaries (Continued)

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

(ii) In 2012, the cash dividend declared by the subsidiaries was Rmb26.25 million.

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

(c) Investment in an associate

	Registered capital	Interest & voting shares held	31 December 2012			2012	
			Total assets	Total liabilities	Net assets	Revenue	Share of loss
Tianjin international Machinery Co., Ltd.	120,000	27.50%	608,002	454,032	153,970	2,024,631	(6,041)

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 loss	Cash dividends by the associate	31 December 2012	Share holding/ Voting rights (%)
Tianjin international Machinery Co., Ltd.	33,000	40,669	(6,041)	—	34,628	27.50%

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(d) Other long-term equity investments

	Accounting method	Investment cost	31 December 2011 and 31 December 2012	Share holding/ Voting rights	Cash dividends declared in the current year
Tianjin Beifang Rencaigang Company Limited	Cost method	2,000	2,000	6.10%	500
Tianjin Baotong Light Mass Materials Company Limited	Cost method	2,000	2,000	4.90%	—
			4,000		500
			4,000		500



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(8) INVESTMENT PROPERTIES

Buildings	Group	Company
Cost		
At 31 December 2011 and 2012	<u>137,374</u>	<u>110,648</u>
Accumulated depreciation		
At 31 December 2011	(21,419)	(18,989)
Charge for the year	<u>(3,673)</u>	<u>(3,168)</u>
At 31 December 2012	<u>(25,092)</u>	<u>(22,157)</u>
Net book value		
At 31 December 2012	<u>112,282</u>	<u>88,491</u>
At 31 December 2011	<u>115,955</u>	<u>91,659</u>

The Group's investment properties mainly represent the apportioned cost of its office building located in Tianjin held for long-term rental. Based on the Directors' assessment, the fair value of leased building at 31 December 2012 was approximately Rmb151 million (2011: Rmb151 million) and its carrying value was approximately Rmb88 million.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS

(a) Group

	Buildings & structure (note (i))	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 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	1,592,323	1,681,433	172,971	3,446,727
Transfer from construction in progress	435,518	532,965	77,251	1,045,734
Addition	877	7,376	5,269	13,522
Disposal	(23,746)	(9,200)	(15,755)	(48,701)
At 31 December 2012	2,004,972	2,212,574	239,736	4,457,282
Accumulated depreciation				
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	(591,649)	(381,290)	(74,079)	(1,047,018)
Charge for the year	(49,532)	(79,258)	(19,703)	(148,493)
Disposal	4,821	4,866	9,801	19,488
At 31 December 2012	(636,360)	(455,682)	(83,981)	(1,176,023)
Impairment				
At 31 December 2011	(11,000)	(4,068)	(932)	(16,000)
Write-off for the year (note 6 11(b))	11,000	4,068	932	16,000
At 31 December 2012	—	—	—	—
Net book value				
At 31 December 2012	1,368,612	1,756,892	155,755	3,281,259
At 31 December 2011	989,674	1,296,075	97,960	2,383,709



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2012
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Group (Continued)

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) The Group's depreciation expense of Rmb142 million (2011:Rmb130 million) has been included in cost of operations and Rmb6 million (2011: Rmb6 million) in administrative expenses.
- (iii) As at 31 December 2012, the certificate of title to the building and land use rights included in property, plant and equipment, investment properties and land use rights with carrying amount of Rmb156 million (cost of Rmb170 million) (31 December 2011: carrying amount of Rmb295 and cost of Rmb325 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the Directors believe that the titles will be received in due course without additional significant cost to the Group, if any.

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

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

(b) Company

	Buildings & structure	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 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	1,418,286	1,569,921	133,794	3,122,001
Transfer from construction in progress	415,815	480,232	75,997	972,044
Addition	—	526	858	1,384
Disposal	—	(3,196)	(10,035)	(13,231)
At 31 December 2012	1,834,101	2,047,483	200,614	4,082,198
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	(564,528)	(337,701)	(67,480)	(969,709)
Charge for the year	(48,219)	(68,092)	(12,843)	(129,154)
Disposal	—	2,305	6,901	9,206
At 31 December 2012	(612,747)	(403,488)	(73,422)	(1,089,657)
Net book value				
At 31 December 2012	1,221,354	1,643,995	127,192	2,992,541
At 31 December 2011	853,758	1,232,220	66,314	2,152,292



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)
(9) FIXED ASSETS AND CONSTRUCTION IN PROGRESS (Continued)

(c) Movement of significant projects of construction in progress

Name	Budgeted amount	31 December 2011	Increase in current year	Transfer to fixed assets	Other decreases	31 December 2012	Cumulative capitalized borrowing costs as at 31 December 2011	Increase in current year	Transfer to fixed assets	Cumulative capitalized borrowing costs as at 31 December 2012	Proportion of expenditures incurred to budgeted amount	Source of funds
Water recycling plants:												
- Bei Chen recycling plants	65,000	57,395	8,064	(65,459)	-	-	-	1,719	(1,719)	-	100%	Self-raised fund
Sewage water processing plants												
- Dong Jiao (upgrade project)	373,500	292,010	74,897	(364,445)	(2,459)	3	9,909	7,288	(17,197)	-	98%	Self-raised fund
- XianYang Lu (upgrade project)	205,510	165,607	31,926	(195,914)	(1,615)	4	5,632	1,852	(7,484)	-	96%	Self-raised fund
- Ji Zhuang Zi (upgrade project)	191,660	156,074	25,194	(177,940)	(3,327)	1	5,866	3,657	(9,523)	-	95%	Self-raised fund
- Bei Cang (upgrade project)	166,000	131,140	32,538	(162,231)	(1,446)	1	7,465	4,197	(11,662)	-	99%	Self-raised fund
- Jin Nan	2,065,590	-	417,130	-	-	417,130	-	-	-	-	20%	Government grants
Others	-	4,387	4,036	(6,055)	-	2,368	-	-	-	-	-	Self-raised fund
Total - Company		806,613	593,785	(972,044)	(8,847)	419,507	28,872	18,713	(47,585)	-		
Water recycling plants:												
- Ji Zhuang Zi (expansion project)	87,573	71,886	227	(72,113)	-	-	1,982	538	(2,520)	-	82%	Self-raised fund
- Jin Nan	260,351	-	39,111	-	-	39,111	-	-	-	-	15%	Government grants
Others	-	2,366	80	(1,577)	-	869	-	-	-	-	-	Self-raised fund
Total - Group		880,865	633,203	(1,045,734)	(8,847)	459,487	30,854	19,251	(50,105)	-		

In 2012, the capitalization rate which is used to determine the borrowing cost capitalization amount is 6.55% (2011: 6.47%).

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Construction in progress

As at 31 December 2012, the progress of significant projects of construction in progress is analysed as follows:

	Construction progress	Remark
Sewage water processing plants - Jin Nan	20%	Estimated by percent of occurred cost amount to total project budget
Water recycling plants - Jin Nan	15%	Estimated by percent of occurred cost amount to total project budget

In year 2012, in order to improve the infrastructure construction of Tianjin, Tianjin Government decided to relocate Tianjin Jizhuangzi sewage water processing plant and water recycling plant owned by the Group, and authorized the Group to construct and operate Tianjin Jinnan sewage water processing plant and water recycling plant. The total investment amount of the Jinnan Project is about Rmb2.33 billion. Instructed from Tianjin Government, the construction fund is provided by land compensation fund from Tianjin Haihe Construction Developing Investment Co., Ltd. ("Haihe Company"), which is under common control by TICIG, the Company's ultimate holding company. The Group will keep operating Jizhuangzi sewage water processing plant and water recycling plant during the construction period of the Jinnan Project. When the construction is complete and the Jinnan Project is ready for use, the Jizhuangzi sewage water processing plant and water recycling plant will be demolished.

The Company commenced the construction of Jinnan Project current year and expect completion within 2013. As of 31 December, 2012, the Company has received land compensation fund of Rmb750 million and recorded as other non-current liabilities (note6 (14)(e)(i)).



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

(10) INTANGIBLE ASSETS

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Concession rights (note (a))	2,745,732	2,795,150	—	—
Land use rights (note (b))	437,653	451,784	424,835	435,186
Technical know-how and computer software(note (c))	7,954	7,887	7,131	7,887
	<u>3,191,339</u>	<u>3,254,821</u>	<u>431,966</u>	<u>443,073</u>

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

	Group
Cost	
At 31 December 2011	3,218,156
Addition(note (i))	74,590
Disposals	(1,836)
At 31 December 2012	<u>3,290,910</u>
Accumulated amortization	
At 31 December 2011	(423,006)
Charge for the year	(122,569)
Disposals	397
At 31 December 2012	<u>(545,178)</u>
Net book value	
At 31 December 2012	<u>2,745,732</u>
At 31 December 2011	<u>2,795,150</u>

- (i) The addition was mainly new concession rights during the current period including Phase II Project of the Company's subsidiary, Baoying Capital Water Co., Ltd. and the BOT project of the Company's subsidiary, Tianjin Jinning Capital Water Co., Ltd.
- (ii) As at 31 December 2012, certain of concession rights with net book value of Rmb232 million (Cost: Rmb302 million) (31 December 2011: net book value: Rmb242 million; cost: Rmb302 million) have been secured against long-term borrowings of Rmb133 million (31 December 2011: Rmb148 million) (note 6(14)(a)(i)). Certain of concession rights with net book value Rmb14 million (Cost: Rmb19 million) (31 December 2011: nil) have been secured against long-term borrowings of Rmb10 million (31 December 2011: nil).
- (iii) In 2012, there's no newly increased borrowing cost (2011: Rmb712 thousand have been capitalized in concession right at an average interest of 7.05%).
- (iv) The remaining amortization period of concession rights range from 17 to 28 years.

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

(10) INTANGIBLE ASSETS (Continued)

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

	Group	Company
Cost		
At 31 December 2011 and 2012	593,529	567,266
Addition	—	—
Decrease(note (i))	(10,472)	—
At 31 December 2012	<u>583,057</u>	<u>567,266</u>
Accumulated amortization		
At 31 December 2011	(141,745)	(132,080)
Charge for the year	(10,850)	(10,351)
Disposal(note (i))	7,191	—
At 31 December 2012	<u>(145,404)</u>	<u>(142,431)</u>
Net book value		
At 31 December 2012	<u>437,653</u>	<u>424,835</u>
At 31 December 2011	<u>451,784</u>	<u>435,186</u>

(i) In 2012, the Company's subsidiary, Tianjin Capital New Materials Co., Ltd., disposed its land use right.

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

	Group	Company
Cost		
At 31 December 2011	8,307	8,307
Addition	2,752	1,904
At 31 December 2012	<u>11,059</u>	<u>10,211</u>
Accumulated amortization		
At 31 December 2011	(420)	(420)
Charge for the year	(2,685)	(2,660)
At 31 December 2012	<u>(3,105)</u>	<u>(3,080)</u>
Net book value		
At 31 December 2012	<u>7,954</u>	<u>7,131</u>
At 31 December 2011	<u>7,887</u>	<u>7,887</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(11) PROVISION FOR ASSET IMPAIRMENT

	31 December 2011	Increase in current year	Decrease in current year Reversal	Write-off	31 December 2012
Provision for impairment of inventory	(3,000)	—	—	3,000	—
Provision for impairment of fixed assets	(16,000)	—	—	16,000	—
	<u>(19,000)</u>	<u>—</u>	<u>—</u>	<u>19,000</u>	<u>—</u>

- (a) As at 31 December 2011, the provision for decline in value of inventories of Rmb3 million was provided for finished goods by the Group's subsidiary Tianjin Capital New Materials Co., Ltd. These finished goods are disposed and the provision is written-off in current year respectively.
- (b) As at 31 December 2011, the provision for impairment of fixed assets of Rmb16 million was provided for fixed assets by the Group's subsidiary Tianjin Capital New Materials Co., Ltd. These fixed assets are disposed and the provision is written-off in current year respectively.

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

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Trade payables (note (a))	20,847	18,481	5,373	3,157
Advances (note (b))	601,371	423,387	4,871	8,331
Other payables (note (c))	511,940	412,095	590,875	330,812
Taxes payable (note (d))	26,706	8,274	17,954	2,400
	<u>1,160,864</u>	<u>862,237</u>	<u>619,073</u>	<u>344,700</u>

- (a) As at 31 December 2012, the majority of trade payables are aged within one year and mainly for raw materials purchase.

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

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(b) Advances comprise:

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
For pipeline connection service	580,944	407,679	—	—
For heating service	13,776	6,881	—	—
Received from project of Han Gu	2,261	4,521	2,261	4,521
Other advances	4,390	4,306	2,610	3,810
	<u>601,371</u>	<u>423,387</u>	<u>4,871</u>	<u>8,331</u>

As at 31 December 2012, advances of Rmb314 million (31 December 2011: Rmb179 million) are aged over one year, which mainly represent advances in relation to those projects of recycled water pipeline connection. The balances are yet to be settled as those projects have not been completed.

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

(c) Other payables comprise:

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Construction costs payable	392,679	224,627	299,271	101,302
Payable for purchase of fixed assets and concession rights	40,935	111,179	10,148	20,607
Long-term debenture interests payables(note 6(14)(c))	7,747	7,747	7,747	7,747
Others	70,579	68,542	273,709	201,156
	<u>511,940</u>	<u>412,095</u>	<u>590,875</u>	<u>330,812</u>

As at 31 December 2012, other payables of Rmb137 million (31 December 2011: Rmb133 million) are aged over year, which mainly represent unsettled payables and deposits for upgrade projects.

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



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Income tax payable	21,763	7,671	15,501	—
Business tax payable	2,727	3,189	1,631	1,356
Value-added tax payable	1,047	(3,883)	—	—
Others	1,169	1,297	822	1,044
	<u>26,706</u>	<u>8,274</u>	<u>17,954</u>	<u>2,400</u>

(13) EMPLOYEE BENEFITS PAYABLE

	31 December 2011	Increase in current year	Decrease in current year	31 December 2012
Wages and salaries, bonuses, allowances and subsidies	6,218	104,205	(106,854)	3,569
Staff welfare	2,641	3,489	(3,562)	2,568
Social security contributions	(1,313)	32,168	(30,639)	216
Including: Medical insurance	(1,066)	8,606	(8,137)	(597)
Basic pensions	(16)	20,276	(19,397)	863
Unemployment insurance	—	2,228	(2,171)	57
Work injury insurance	(93)	468	(449)	(74)
Maternity insurance	(138)	590	(485)	(33)
Housing funds	7	21,119	(20,281)	845
Labor union funds and employee education funds	1,241	4,648	(3,257)	2,632
Others	(567)	785	(750)	(532)
	<u>8,227</u>	<u>166,414</u>	<u>(165,343)</u>	<u>9,298</u>

As at 31 December 2012, no defaulted payables are included in the balance of employee benefits payable and the balance is estimated to be used up in 2013.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Note	Group		Company	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
Non-current:					
Long-term bank borrowings	(a)	2,710,056	2,690,760	1,455,100	1,405,400
Less: current portion within one year	(a)	(778,180)	(825,720)	(591,500)	(623,000)
		<u>1,931,876</u>	<u>1,865,040</u>	<u>863,600</u>	<u>782,400</u>
Long-term debenture	(c)	691,950	689,850	691,950	689,850
Long-term payable	(d)	350,754	386,543	350,754	386,543
Other non-current liabilities	(e)	840,158	109,703	735,453	81,817
		<u>3,814,738</u>	<u>3,051,136</u>	<u>2,641,757</u>	<u>1,940,610</u>
Current:					
Current portion of long-term bank borrowings	(a)	778,180	825,720	591,500	623,000
Current portion of long-term payable	(d)	28,001	30,466	28,001	30,466
Short-term borrowings	(b)	86,000	152,000	66,000	136,000
Other current liabilities	(e)	20,007	19,961	16,364	16,364
		<u>912,188</u>	<u>1,028,147</u>	<u>701,865</u>	<u>805,830</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings

The long-term bank borrowings are summarized by the bank names as below:

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Borrowings from:				
China Construction Bank Industrial and Commercial Bank of China	608,850	910,900	177,600	372,400
State Development Bank	553,216	446,900	20,000	—
Agriculture Bank of China	421,500	348,500	258,000	173,000
Shanghai Bank	371,990	235,460	300,000	150,000
Ping An Bank	318,000	320,000	318,000	320,000
China Ever bright Bank	190,000	200,000	190,000	200,000
China Merchants Bank	94,000	50,000	94,000	50,000
Bank of China	47,500	70,000	47,500	70,000
China CITIC Bank	30,000	35,000	—	—
Rural Credit Cooperatives Union	30,000	30,000	30,000	30,000
Bohai Bank	25,000	—	—	—
Industrial Bank	20,000	—	20,000	—
Shanghai Pudong Development Bank	—	40,000	—	40,000
	—	4,000	—	—
	<u>2,710,056</u>	<u>2,690,760</u>	<u>1,455,100</u>	<u>1,405,400</u>

Summary of current portion of of long-term bank borrowings:

	Note	Group		Company	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
Pledge	(i)	16,000	65,000	—	50,000
Guarantee	(ii)	170,680	187,720	—	—
Unsecured		591,500	573,000	591,500	573,000
		<u>778,180</u>	<u>825,720</u>	<u>591,500</u>	<u>623,000</u>

Summary of non-current portion of of long-term bank borrowings:

	Note	Group		Company	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
Pledge	(i)	127,000	133,000	—	—
Guarantee	(ii)	941,276	949,640	—	—
Unsecured		863,600	782,400	863,600	782,400
		<u>1,931,876</u>	<u>1,865,040</u>	<u>863,600</u>	<u>782,400</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings (Continued)

- (i) As at 31 December 2012, bank pledge borrowings of Rmb143 million (31 December 2011: Rmb198 million), including Rmb133 million (31 December 2011: Rmb148 million) secured by the collection right of tap water and sewage processing fees of the Company's subsidiary, Qujing Capital Water Co. Ltd. (note 6(10) (a)). The other Rmb10 million were secured by the land and buildings of the Company's subsidiary, Baoying Capital Water Co. Ltd..
- (ii) As at 31 December 2012, bank guarantee borrowings of Rmb820 million (31 December 2011: Rmb759 million) and Rmb292 million (31 December 2011: Rmb378 million) were secured by the guarantee of the Company and TICIG respectively.
- (iii) These long term bank borrowings bear a weighted average interest rate of 6.41% in 2012 (2011: 6.44%).
- (iv) These borrowings mature as follows:

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Within 1 year	778,180	825,720	591,500	623,000
In the 2 year	850,750	752,180	650,000	608,000
In the 2 to 5 year	738,526	733,260	167,600	163,400
Over the 5 year	342,600	379,600	46,000	11,000
	<u>2,710,056</u>	<u>2,690,760</u>	<u>1,455,100</u>	<u>1,405,400</u>

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

	Grant date	Maturity date	Currency	Rate(%)	Group	
					31 December 2012	31 December 2011
Shanghai Bank	2010-06-30	2013-06-29	RMB	5.535%	100,000	—
Shanghai Bank	2010-08-10	2013-06-29	RMB	5.535%	100,000	—
Shanghai Bank	2010-12-28	2013-06-29	RMB	5.535%	50,000	—
Agriculture Bank of China	2011-07-08	2013-07-07	RMB	6.458%	50,000	—
Agriculture Bank of China	2011-10-12	2013-09-16	RMB	6.765%	50,000	—
					<u>350,000</u>	<u>—</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings (Continued)

(vi) Non-current portion of top five long-term bank borrowings is analysed as follows:

Grant date	Maturity date	Currency	Rate(%)	Group		
				31 December 2012	31 December 2011	
China Construction Bank	2008-09-28	2022-09-27	RMB	6.555%	271,000	292,000
Agriculture Bank of China	2012-04-28	2014-04-28	RMB	6.765%	200,000	—
State Development Bank	2009-10-12	2019-10-11	RMB	6.550%	151,000	106,000
China Construction Bank	2006-05-26	2018-05-26	RMB	6.390%	118,000	133,000
Industrial and Commercial Bank of China	2006-11-23	2016-11-22	RMB	6.345%	103,000	132,000
					<u>843,000</u>	<u>663,000</u>

(b) Short-term borrowings

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Borrowings from:				
Shanghai Pudong Development Bank	16,000	52,000	16,000	36,000
China Minsheng Bank	20,000	100,000	—	100,000
China Merchants Bank	50,000	—	50,000	—
	<u>86,000</u>	<u>152,000</u>	<u>66,000</u>	<u>136,000</u>

Summary of terms of short-term borrowings:

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Guaranteed(note(i))	20,000	16,000	—	—
Unsecured(note(ii))	66,000	136,000	66,000	136,000
	<u>86,000</u>	<u>152,000</u>	<u>66,000</u>	<u>136,000</u>

(i) Includes Rmb20 million borrowed from China Minsheng Bank guaranteed by the Company for the subsidiary, Tianjin Zichuang Investment Co., Ltd (2011: Rmb16 million borrowed from Shanghai Pudong Development Bank guaranteed by TMICL for the Company's subsidiary, Tianjin Water Recycling Co., Ltd.).

(ii) Rmb66 million is unsecured loans (2011: Rmb136 million).

(iii) The weighted average interest rate of short-term bank borrowings in 2012 is 6.16% (2011: 6.85%) per annum.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(c) Long-term debenture

Long-term Debenture	2011	Addition	Decrease	2012
Par value	700,000	—	—	700,000
Transaction cost	(10,150)	—	2,100	(8,050)
	<u>689,850</u>	<u>—</u>	<u>2,100</u>	<u>691,950</u>

On 16 November 2011, the Company issued a long-term debenture at par value of Rmb700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The debenture matures five years from the issue date, and bears fixed interest rate at 6.64% per annum. The principal will be repaid on maturity.

Interest accrued of debentures is analysed as follows:

	31 December 2011	Interest accrued		31 December 2012
		Interest accrued in current year	Interest paid in current year	
Corporate debenture	<u>7,747</u>	<u>46,480</u>	<u>(46,480)</u>	<u>7,747</u>

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

	Group and Company			
	2012 Payable	Unrecognized financial charges	2011 Payable	Unrecognized financial charges
Payable to TSC for assets acquisition	<u>700,393</u>	<u>(321,638)</u>	<u>802,193</u>	<u>(385,184)</u>



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

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

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

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

	Maturity date	Original balance	Effective interest rate	Ending balance	Current portion
TSC	20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>350,754</u>	<u>28,001</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 the certain sewage processing assets. The down payment is 261 million, and remaining payments will be settled in Rmb translating at exchange rates prevailing on each repayment date over the remaining years. The fair value of the initial recognition of the payable balance is based on discounting future cash payments using an effective interest rate of 5.94%.

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

	Group and Company	
	2012	2011
JPY	546,618	631,576
US dollar	<u>153,775</u>	<u>170,617</u>
	<u>700,393</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.

(iii) The long-term payable mature as follows, and as at 31 December 2012, the current portion of long-term payable of Rmb28 million was classified as current liabilities.

	Group and Company	
	2012	2011
Within 1 year	28,001	30,466
In the 1 to 2 year	26,721	29,021
In the 3 to 5 year	73,495	79,450
Over the 5 year	<u>250,538</u>	<u>278,072</u>
	<u>378,755</u>	<u>417,009</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(e) Other liabilities

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Non-current:				
– Land compensation fund for Jizhuangzi sewage plant relocation(note(i))	670,000	—	670,000	—
– Land compensation fund for Jizhuangzi water recycling plants relocation(note(i))	80,000	—	—	—
– Government loan for sewage water processing plants construction (note(ii))	65,453	81,817	65,453	81,817
– Government loan for water recycling plants construction (note(iii))	14,092	17,273	—	—
– Others	10,613	10,613	—	—
	<u>840,158</u>	<u>109,703</u>	<u>735,453</u>	<u>81,817</u>
Current:				
– Current portion of government loan for sewage water processing plants construction (note(ii))	16,364	16,364	16,364	16,364
– Current portion of government loan for water recycling plants construction (note(iii))	3,181	3,181	—	—
– Others	462	416	—	—
	<u>20,007</u>	<u>19,961</u>	<u>16,364</u>	<u>16,364</u>

(i) As of 31 December 2012, the Group has received Rmb750 million land compensation fund of Jinnan sewage treatment plants and water recycling plant (note 6 (9)(d)).

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

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



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(15) DEFERRED REVENUE

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

	31 December 2012	31 December 2011
Sewage water processing plants :		
– Xian Yang Lu (upgrade project)	67,219	67,500
– Ji Zhuang Zi (upgrade project)	39,535	39,700
– Dong Jiao (upgrade project)	38,439	38,600
Water recycling plants in:		
– Dong Jiao	25,131	25,762
– Bei Chen	21,000	21,000
Others	10,556	11,659
Total-Company	<u>201,880</u>	<u>204,221</u>
Heating and Cooling supply service project:	104,563	84,156
Water recycling plants :		
– Ji Zhuang Zi (sewage reuse project)	42,057	43,371
– Ji Zhuang Zi (expansion project)	20,400	21,000
– Xian Yang Lu (water recycling project)	15,171	15,585
Others	1,590	1,595
Total-Group	<u>385,661</u>	<u>369,928</u>

(16) DEFERRED INCOME TAX LIABILITIES

	31 December 2012		31 December 2011	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>60,645</u>	<u>242,580</u>	<u>48,479</u>	<u>193,916</u>

(17) SHARE CAPITAL

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

	Circulating A shares	Circulating H shares	Total
At 31 December 2011 and 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.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(18) CAPITAL RESERVES, SURPLUS RESERVES AND DIVIDEND

- (a) Capital reserve: capital reserve comprises share premium arising from the issuance of shares and adjustment from acquisition of shares from minority interests. This reserve can be utilized to offset prior years' losses or for issuance of bonus shares.
- (b) Surplus reserve: according to the PRC Companies Law and the Company's Articles of Association, a company is required to transfer 10% of its net profit for the year to the statutory common reserve, which can be ceased till the reserve reaches 50% of the registered capital. This reserve shall only be used to make up losses; or to increase the capital of the Company upon approval from the shareholders.
- (c) Undistributed profits

	2012		2011	
	Amount	Appropriation/ distribution ratio	Amount	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	1,432,617	—	1,338,002	—
Add: net profit attributable to owners of the parent for the current year	268,981	—	275,786	—
Less: appropriation for statutory surplus reserve	(24,724)	10%	(24,176)	10%
Ordinary share dividends payable	(57,089)	—	(156,995)	—
Undistributed profits at the end of the year	<u>1,619,785</u>		<u>1,432,617</u>	

As at 31 December 2012, undistributed profits include Rmb17,018 thousand subsidiaries' common reserve attributable to the Company (31 December 2011: Rmb12,445 thousand), of which Rmb4,573 thousand has been appropriated for the current year (31 December 2011: Rmb4,328 thousand).

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 2011, 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).

On 28 March 2013, the Directors proposed a dividend of Rmb0.6 (gross tax) for every 10 shares held, total shares of 1,427 million, amounting to a total dividend of Rmb 86 million. In 2012, capital reserve will not to be use to increase share capital. This proposed dividend is yet to be approved at the Annual General Meeting. These financial statements do not reflect this dividend payable.



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(19) MINORITY INTERESTS

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

	31 December 2012	Group 31 December 2011
Hangzhou Tianchuang Capital Water Co., Ltd.	95,466	92,144
Qijing Capital Water Co., Ltd.	27,397	26,490
Baoying Capital Water Co., Ltd.	18,507	17,503
Guizhou Capital Water Co., Ltd.	6,921	7,244
Honghu Capital Water Co., Ltd.	2,346	2,293
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	1,656	1,602
Chibi Capital Water Co., Ltd.	98	96
Tianjin Capital New Material Co., Ltd.	51	—
	<u>152,442</u>	<u>147,372</u>

(20) INCOME FROM AND COST FOR OPERATIONS

	Group			
	2012		2011	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Income from principal operations	1,541,166	891,577	1,493,146	835,020
Other operating income	96,154	59,611	69,344	39,021
	<u>1,637,320</u>	<u>951,188</u>	<u>1,562,490</u>	<u>874,041</u>

	Company			
	2012		2011	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Income from principal operations	868,508	421,848	892,102	415,881
Other operating income	65,031	30,610	45,861	19,901
	<u>933,539</u>	<u>452,458</u>	<u>937,963</u>	<u>435,782</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

	Group			
	2012	2012	2011	2011
	Income from operations	Cost of operations	Income from operations	Cost of operations
Processing of sewage water and construction of related facility	1,241,607	719,943	1,270,551	725,310
Water recycling and connection project	133,495	94,681	105,099	69,384
Heating and cooling service	51,976	34,929	2,774	2,066
Tap water supplying	44,115	28,564	39,976	24,412
Others	69,973	13,460	74,746	13,848
	<u>1,541,166</u>	<u>891,577</u>	<u>1,493,146</u>	<u>835,020</u>

The income and cost categorised by the area is analysed as below:

	Group			
	2012	2012	2011	2011
	Income from operations	Cost of operations	Income from operations	Cost of operations
Tianjin area	1,073,070	567,929	1,061,072	543,211
Hangzhou area	153,631	106,700	146,946	102,378
Xi'an area	76,113	65,756	75,288	62,995
Qujing area	69,600	44,134	69,056	37,289
Others	168,752	107,508	140,784	89,147
	<u>1,541,166</u>	<u>891,577</u>	<u>1,493,146</u>	<u>835,020</u>

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

	Group			
	2012	2012	2011	2011
	Income from operations	Cost for operations	Income from operations	Cost for operations
Entrust operation income	57,408	41,990	28,679	17,333
Technical service	19,009	3,485	13,667	2,684
Rental	10,529	5,501	12,027	4,813
Others	9,208	8,635	14,971	14,191
	<u>96,154</u>	<u>59,611</u>	<u>69,344</u>	<u>39,021</u>



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

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

(c) As at 31 December 2012, the income from the top five customers is analysed as below:

The total revenue of the Group's top 5 customers is Rmb1,151 million for the year ended 31 December 2012, which account for about 70% of the Group's total revenue (2011: Rmb1,114 million and 71%).

	Revenue	% of total balance
TSC	785,510	48%
Hangzhou Sewage Company	153,631	9%
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd.	76,113	5%
Qujing City Water General Company	68,706	4%
Tianjin Municipal and Highway Management Bureau	67,027	4%
	<u>1,150,987</u>	<u>70%</u>

(21) BUSINESS TAX AND SURCHARGES

	Group		Company	
	2012	2011	2012	2011
Business tax	9,883	7,614	5,328	3,815
City construction and maintenance fee	834	660	282	267
Education fee surcharge and others	761	557	343	229
	<u>11,478</u>	<u>8,831</u>	<u>5,953</u>	<u>4,311</u>

(22) Administrative expenses

The detail of administrative expenses is as below:

	Group		Company	
	2012	2011	2012	2011
Employee wages	51,924	47,038	32,590	31,692
Travelling, meeting and entertainment expenses	12,145	13,262	3,680	3,951
Taxes	7,337	9,287	3,417	5,131
Depreciation	5,602	5,555	4,212	3,228
Auditors' remuneration	4,200	4,200	4,200	4,200
Expenses of Board of Directors	3,957	3,704	3,957	3,704
Repair and maintenance expenses	3,529	2,710	2,494	2,059
Office expenses	2,239	2,787	1,284	1,187
Expenditure on power	1,506	942	1,263	695
Amortization	1,452	666	1,255	586
Consulting services fee	1,038	3,232	866	2,233
Others	10,189	10,918	1,429	3,947
	<u>105,118</u>	<u>104,301</u>	<u>60,647</u>	<u>62,613</u>

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

(23) FINANCIAL EXPENSES – NET

	Group		Company	
	2012	2011	2012	2011
Interest expenses of borrowings	290,435	238,355	194,179	146,117
Less: Capitalised interest	(19,251)	(19,147)	(18,713)	(16,974)
Net interest expenses	271,184	219,208	175,466	129,143
Less: Interest income	(30,001)	(23,963)	(27,124)	(21,111)
– long-term receivables	(11,507)	(11,433)	(11,507)	(11,433)
– bank deposits	(18,494)	(12,530)	(15,617)	(9,678)
Exchange loss/(gain)(note(a))	(36,845)	(5,814)	(36,845)	(5,814)
Others	7,990	6,984	7,326	6,321
	<u>212,328</u>	<u>196,415</u>	<u>118,823</u>	<u>108,539</u>

(a) As at 31 December 2012, the long-term payables denominated in Japanese Yen and USD are translated into Rmb at the stipulated exchange rates as at 31 December 2012 and recognised the unrealised exchange gains of about Rmb37 million (31 December 2012: exchange gains of about Rmb6 million).

(24) Non-operating income

			Recognised in 2012 extraordinary gain or loss
	2012	2011	
Gains on disposal of non-current assets	6,978	—	6,978
Government grants	12,096	6,757	12,096
Others	6,054	3,816	6,054
	<u>25,128</u>	<u>10,573</u>	<u>25,128</u>

(25) Non-operating expenses

			Recognised in 2012 extraordinary gain or loss
	2012	2011	
Loss on disposal of fixed assets and intangible assets	3,818	13,661	3,818
Others	177	166	177
	<u>3,995</u>	<u>13,827</u>	<u>3,995</u>



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

(26) INCOME TAX

	Group		Company	
	2012	2011	2012	2011
Current income tax	86,083	86,102	74,556	76,595
Deferred income tax	12,166	10,052	1,755	2,499
	<u>98,249</u>	<u>96,154</u>	<u>76,311</u>	<u>79,094</u>

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

	Group	
	2012	2011
Total profit	372,800	376,034
Calculated at applicable income tax rates(25%)	93,200	94,009
Effect of different income tax rates applicable to certain subsidiaries	(3,160)	(2,432)
Income not subject to tax	(977)	(1,214)
Expenses not deductible for taxation purposes	6,032	2,326
Utilization of previously deductible tax losses for which no deferred income tax was recognized	(139)	(3,379)
Current year tax losses for which no deferred income tax asset was recognized	3,293	6,844
Income tax expenses	<u>98,249</u>	<u>96,154</u>

(27) EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb269 million (2011: Rmb276 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2011: 1,427 million shares).

As the Company has no related matters which have impact on the ordinary shares in issue, diluted earnings per share are calculated using the same bases as described above for calculating basic earnings per share.

	Group	
	2012	2011
Profit attributable to owners of the parent	<u>268,981</u>	<u>275,786</u>
Weighted average number of ordinary shares in issue (million shares)	<u>1,427</u>	<u>1,427</u>
Basic and diluted earnings per share (Rmb Yuan)	<u>0.19</u>	<u>0.19</u>

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Group		Company	
	2012	2011	2012	2011
Net profit	274,551	279,880	247,240	241,758
Adjustments for:				
Depreciation of fixed assets and investment properties	152,166	139,837	132,322	123,072
Amortisation of intangible assets	136,104	117,428	13,011	11,313
(Gains)/losses on disposal of fixed assets and intangible assets	(3,160)	13,661	3,691	12,983
Financial expenses-net	234,339	219,208	138,621	129,143
Investment losses/(income)	5,541	(386)	(26,750)	(2,089)
Amortisation of deferred revenue	(7,875)	(2,968)	(1,241)	(1,238)
Increase in deferred tax liabilities	12,166	10,052	1,755	2,499
Increase in inventories	(11,940)	(48,093)	(6,979)	(241)
Decrease/(increase) in operating receivables	(489,753)	(40,882)	(428,102)	(36,237)
Increase/(decrease) in operating payables	205,652	146,436	15,520	(64,872)
Net cash flows from operating activities	<u>507,791</u>	<u>834,173</u>	<u>89,088</u>	<u>416,091</u>
Net changes in cash and bank balances				
Cash at end of year	996,965	688,993	469,715	257,969
Less: cash at beginning of year	<u>(688,993)</u>	<u>(539,430)</u>	<u>(257,969)</u>	<u>(161,861)</u>
Net increase in cash and bank balances	<u><u>307,972</u></u>	<u><u>149,563</u></u>	<u><u>211,746</u></u>	<u><u>96,108</u></u>

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

	Group		Company	
	2012	2011	2012	2011
Cash and bank balances	1,000,565	691,693	469,715	257,969
Less: Restricted bank deposit (note 6(1)(b))	<u>(3,600)</u>	<u>(2,700)</u>	<u>—</u>	<u>—</u>
Cash and bank balances shown in the cash flow statements	<u><u>996,965</u></u>	<u><u>688,993</u></u>	<u><u>469,715</u></u>	<u><u>257,969</u></u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(c) Cash received relating to other operating activities mainly includes:

	Group		Company	
	2012	2011	2012	2011
Interest income from bank deposits	18,494	12,530	15,617	9,678
Release of deposit on project bids	1,010	25,000	1,010	25,000
Subsidies received	3,114	6,011	2,467	3,011
Maintenance fee received	—	29,495	—	—
Others	6,544	4,807	907	2,765
	<u>29,162</u>	<u>77,843</u>	<u>20,001</u>	<u>40,454</u>

(d) Cash paid relating to other operating activities includes:

	Group		Company	
	2012	2011	2012	2011
Travelling, meeting and entertainment expenses	12,145	13,262	3,680	3,951
Consulting service fee	5,238	8,232	5,066	7,233
Expenses of board of directors	3,957	3,704	3,957	3,704
Repair and maintenance expenses	3,529	2,710	2,494	2,059
Others	7,599	4,514	3,667	2,046
	<u>32,468</u>	<u>32,422</u>	<u>18,864</u>	<u>18,993</u>

(e) Net cash received on disposal of fixed assets/intangible assets

	Group	
	2012	2011
Carrying value of disposal of fixed assets/intangible assets	17,933	14,469
Gains/(losses) on disposal of fixed assets/intangible assets	<u>3,160</u>	<u>(13,661)</u>
Net cash received on disposal of fixed assets/intangible assets	<u>21,093</u>	<u>808</u>

(f) Cash received relating to other investing activities mainly includes:

	Group		Company	
	2012	2011	2012	2011
Land compensation fund received (note6 (14)(e))	750,000	—	670,000	—
Received of government grants	<u>24,715</u>	<u>86,022</u>	<u>—</u>	<u>—</u>
	<u>774,715</u>	<u>86,022</u>	<u>670,000</u>	<u>—</u>

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7 SEGMENT REPORTING

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

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

(a) Segment information as at and for the year ended 31 December 2012 is as follows:

	Sewage processing and facility construction services						All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants	Recycled water	Heating and cooling	Tap water		
Income from third parties (note 6(20))	801,482	153,631	286,494	133,495	51,976	44,115	166,127	1,637,320
Interest income (note (23))	11,627	499	992	5,297	59	31	11,496	30,001
Interest expenses (note 6(23))	(175,466)	(27,771)	(48,516)	(1,766)	(5,260)	(11,895)	(510)	(271,184)
Investment loss from associate (note 6(7)(c))	—	—	—	—	—	—	(6,041)	(6,041)
Depreciation & Amortisation	(134,756)	(33,688)	(63,513)	(21,213)	(13,297)	(12,695)	(9,108)	(288,270)
Total profit	200,142	14,455	21,515	27,049	13,698	1,345	94,596	372,800
Income tax expense	(67,343)	(3,688)	(6,951)	(6,891)	(3,397)	(493)	(9,486)	(98,249)
Net profit	132,799	10,767	14,564	20,158	10,301	852	85,110	274,551
Segment assets	5,605,653	760,044	1,697,790	909,639	384,503	332,373	616,992	10,306,994
Segment liabilities	3,846,900	422,482	727,236	856,916	316,586	115,238	88,965	6,374,323
Long-term equity investment	—	—	—	—	—	—	38,628	38,628
Non-current assets addition other than related to long-term investment	576,075	10,619	44,995	55,554	9,772	1,797	16,408	715,220



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

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT REPORTING (Continued)

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

	Sewage processing and facility construction services			Recycled water	Heating and cooling	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants					
Income from third parties (note 6(20))	825,075	146,946	298,530	105,099	2,774	39,976	144,090	1,562,490
Interest income (note 6(23))	6,513	430	1,055	4,250	36	65	11,614	23,963
Interest expenses (note 6(23))	(129,143)	(27,631)	(44,632)	(6,066)	(234)	(11,207)	(295)	(219,208)
Investment profit from associate	—	—	—	—	—	—	186	186
Depreciation & Amortisation	(123,133)	(36,249)	(60,991)	(16,832)	(856)	(11,624)	(7,580)	(257,265)
Total profit	247,774	8,353	27,366	23,412	1,350	(225)	68,004	376,034
Income tax expense	(70,749)	(3,380)	(7,456)	(5,499)	(337)	(280)	(8,453)	(96,154)
Net profit	177,025	4,973	19,910	17,913	1,012	(505)	59,552	279,880
Segment assets	4,574,655	784,819	1,701,045	715,894	356,644	335,259	617,008	9,085,324
Segment liabilities	3,047,488	478,126	731,689	680,026	256,979	125,954	49,353	5,369,615
Long-term equity investment	—	—	—	—	—	—	44,669	44,669
Non-current assets addition other than related to long-term investment	168,180	13,326	51,775	21,978	336,736	52,497	22,204	666,696

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK

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

(a) **Market risk:**

(i) *Foreign currency risk:*

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign currency exposure of the Group arises from fluctuation of US dollar and Japanese Yen pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from TSC (note 6(14)(d)).

At 31 December 2012, if RMB had strengthened/weakened by 5 % against the US dollar with all other variables held constant, post-tax profit for the year would have been Rmb4 million (2011: Rmb4 million) higher/lower. Similarly, if RMB had strengthened/weakened by 5 % against the JPY with all other variables held constant, post-tax profit for the year would have been Rmb10 million (2011: Rmb12 million) higher/lower.

(ii) *Interest rate risk:*

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

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



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(a) Market risk: (Continued)

(ii) Interest rate risk: (Continued)

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

	Group			Total	Company		
	Fixed	Floating	Non-interest bearing		Fixed	Floating	Total
At 31 December 2012							
Assets							
Cash and bank balances	3,600	996,965	—	1,000,565	—	469,715	469,715
Long-term receivables	337,631	—	—	337,631	337,631	—	337,631
Liabilities							
Current borrowings	—	883,725	462	884,187	—	673,864	673,864
Non-current borrowings	—	2,011,421	10,613	2,022,034	—	929,053	929,053
Long-term payables due within 1 year	21,231	6,770	—	28,001	21,231	6,770	28,001
Long-term payables	258,132	92,622	—	350,754	258,132	92,622	350,754
Long-term debenture	691,950	—	—	691,950	691,950	—	691,950
At 31 December 2011							
Assets							
Cash and bank balances	2,700	688,993	—	691,693	—	257,969	257,969
Long-term receivables	338,446	—	—	338,446	338,446	—	338,446
Liabilities							
Current borrowings	—	997,265	416	997,681	—	775,364	775,364
Non-current borrowings	—	1,964,130	10,613	1,974,743	—	864,217	864,217
Long-term payables due within 1 year	23,750	6,716	—	30,466	23,750	6,716	30,466
Long-term payables	287,602	98,941	—	386,543	287,602	98,941	386,543
Long-term debenture	689,850	—	—	689,850	689,850	—	689,850

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(a) Market risk: (Continued)

(ii) Interest rate risk: (Continued)

At 31 December 2012, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by Rmb28 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.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(c) Liquidity risk:

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2012					
Cash and bank balances	1,000,565	—	—	—	1,000,565
Trade and other receivables	1,583,332	—	—	—	1,583,332
Long-term receivables	15,503	87,607	63,650	363,603	530,363
Long-term bank borrowings	(928,544)	(948,347)	(876,878)	(366,591)	(3,120,360)
Long-term payables	(32,572)	(32,917)	(101,421)	(603,003)	(769,913)
Other non-current liabilities	(23,002)	(22,341)	(64,424)	(15,353)	(125,120)
Trade and other payables	(532,787)	—	—	—	(532,787)
Short-term borrowings	(91,267)	—	—	—	(91,267)
Long-term debenture	(46,480)	(46,480)	(792,960)	—	(885,920)
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)
Short-term debenture	(46,480)	(46,480)	(839,440)	—	(932,400)

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(d) Capital risk management

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

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

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

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

	31 December 2012	31 December 2011
Total borrowings	3,976,926	3,662,274
Less: Cash	(996,965)	(688,993)
Net debt	<u>2,979,961</u>	<u>2,973,281</u>
Total equity	<u>3,932,671</u>	<u>3,715,709</u>
Total capital	<u><u>6,912,632</u></u>	<u><u>6,688,990</u></u>
Gearing ratio	<u>43%</u>	<u>44%</u>

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



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

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(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) General information of the parent company

	Type	Place of registration	Legal representative	Nature of business	Code of organisation
TMICL	Limited Company	Tianjin, the PRC	Xiong Guang Yu	Development and management of municipal infrastructures	70042249

The Company's ultimate controlling party is company TICIG

(a) Registered capital and changes in registered capital of the parent company

	31 December 2011	Increase in current year	Decrease in current year	31 December 2012
TMICL	1,820,000	—	—	1,820,000

(b) The percentages of share holding and voting rights in the Company held by the parent company

	31 December 2012		31 December 2011	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
TMICL	51.60%	51.60%	51.60%	51.60%

(2) Information of subsidiaries

The general information and other related information of the subsidiaries is set out in note6 (7)(a).

(3) Information of joint ventures and associates

The general information and other related information of joint ventures and associates is set out in note6 (7)(c).

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(4) Information of other related parties

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

(5) 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 between the Group and its related parties during the year:

(a) Income

Related party	Nature of transaction	2012	2011
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	35,330	404
TICIG	Commission income from contract operation	22,365	—
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant	7,350	48,535
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects	2,800	4,400
Tianjin Subway Group Limited company	Income from heating and cooling supply	2,616	76
Tianjin Environment Construction Investment Company Limited	Rental income from TCEP building	1,851	1,238
Tianjin Environment Construction Investment Company Limited	Income from heating and cooling supply	261	87
TICIG	Rental income from TCEP building	239	2,014
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building	—	344

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 heating and cooling with related parties is based on the reference price stipulated by government.



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(b) Key management compensation

	2012	2011
Key management compensation	<u>9,813</u>	<u>7,067</u>

(6) Receivables from and payables to related parties

(a) Receivables from related parties

	31 December 2012	31 December 2011
Trade receivables from related parties		
– TICIG	13,419	—
– Tianjin Lecheng Properties Limited	8,197	404
– Tianjin City Resource Operation Co., Ltd.	801	801
– Tianjin Subway Group Limited company	<u>—</u>	<u>76</u>

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

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

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

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

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

10 COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2012 Rmb' million	31 December 2011 Rmb' million	31 December 2012 Rmb' million	31 December 2011 Rmb' million
Sewage water processing plants in:				
– Ji Zhuang Zi (upgrade project)	—	21	—	15
– Xian Yang Lu (upgrade project)	—	9	—	31
– Bei Cang (upgrade project)	—	10	—	25
– Dong Jiao (upgrade project)	—	18	—	63
– Ninghe project	—	16	—	9
– Baoying project	—	16	—	—
– Hangzhou project	—	4	—	5
– Ji Zhuang Zi (relocation project)	330	—	1,318	—
Water recycling plants in:				
– Ji Zhuang Zi water recycling plants (relocation project)	72	—	150	—
– Ji Zhuang Zi (expansion project)	—	—	—	16
	402	94	1,468	164
	402	94	1,468	164



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Supplement of the Financial Statement

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

(1) EXTRAORDINARY PROFIT AND LOSS STATEMENT

	2012	2011
Gains/(losses) on disposal of non-current assets	3,160	(13,661)
Other non-operating income and expenses	17,973	10,407
	<u>21,133</u>	<u>(3,254)</u>
Effect amount of income tax	(5,283)	814
Effect amount of minority interest(after tax)	(51)	—
	<u>15,799</u>	<u>(2,440)</u>

Basis of preparing extraordinary profit and loss statement

According to *Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public - Extraordinary profit and loss statement [2008]* published by China Security Regulatory Commission (“CSRC”), Extraordinary profit and loss is the trading and issues that have no direct relation with the normal operations of a company, or that are related with normal operations but affect the users of the statement to make reasonable judgment of the company’s operation performance and profitability due to the special and occasional nature of such trading and issues.

(2) Reconciliation statement of inland and abroad financial statement

There’s no difference on inland and abroad financial statement.

(3) Rate of return on net assets and earnings per share

	Weighted average income rate of net assets(%)		Earnings per share			
			Basic earnings per share		diluted earnings per share	
	2012	2011	2012	2011	2012	2011
Net profit attribute to the ordinary share holders of the company	7.33	7.73	0.19	0.19	0.19	0.19
Net profit exclude extraordinary profit and loss attribute to the ordinary share holders of the company	6.91	7.80	0.18	0.19	0.18	0.19

14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Supplement of the Financial Statement

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

(4) Statement of the abnormal conditions and the reason on main subjects of the financial statement

(i) Consolidated balance sheet

Item	31 December 2012	31 December 2011	Variance	Percentage	Analysis
Asset					
Cash and bank balances	1,000,565	691,693	308,872	45%	Was mainly attributable to the first land compensation fund about Jizhuangzi sewage water processing plant and water recycling plant.
Trade receivables and Notes receivables	1,572,743	1,096,583	476,160	43%	Mainly include the Company's sewage water processing service fee in this year.
Other receivables	10,589	17,049	(6,460)	38%	Some of other receivables were written off in this year.
Other current assets	12,349	7,831	4,518	58%	Mainly include input value-added-tax debit balance.
Fixed assets	3,281,259	2,383,709	897,550	38%	The four upgrading and renovation projects of sewage water plants of the Company has been completed and capitalized in this year, construction in progress decreased accordingly.
Construction in progress	<u>459,487</u>	<u>880,865</u>	<u>(421,378)</u>	<u>48%</u>	
Liability					
Short-term borrowings	86,000	152,000	(66,000)	43%	Repaid short-term loans.
Advances	601,371	423,387	177,984	42%	The advances increased with the business of pipeline connection of the Company's subsidiary, Tianjin Water Recycling Company Limited.
Dividend payable	30,929	1,461	29,468	2017%	Mainly include annual dividend payable to TMICL of 2011.
Taxes payable	26,706	8,274	18,432	223%	Mainly include income tax payable by the end of the year.
Other non-current liabilities	840,158	109,703	730,455	666%	Mainly include the first land compensation fund of Jizhuangzi sewage water processing plant and water recycling plant of Rmb750 million received in this year.
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	



14. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises Supplement of the Financial Statement

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

(ii) Consolidated income statement

Item	31 December 2012	31 December 2011	Variance	Percentage	Analysis
Investment income/(loss)	(5,541)	386	(5,927)	1535%	The associate company suffered loss in this year.
Non-operating income	25,128	10,573	14,555	138%	The government grants of the Group increased in this year and the assets disposal income of the Company's subsidiary, Tianjin Capital New Materials Co., Ltd. was recognized in this year.
Non-operating expenses	(3,995)	(13,827)	9,832	71%	The decrease is mainly due to disposal is less than prior year.
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	

(iii) Consolidated cash flow statement

Item	31 December 2012	31 December 2011	Variance	Percentage	Analysis
Net cash flows from operating activities	507,791	834,173	(326,382)	39%	The decrease is mainly due to the collection of sewage treatment and construction management fees in the prior period.
Net cash flows from investing activities	135,654	(541,676)	677,330	125%	The increase is mainly due to the first land compensation about Jizhuangzi sewage water processing plant and water recycling plant of Rmb750 million received in this year.
Net cash flows from financing activities	(335,473)	(142,934)	(192,539)	134%	The decrease is mainly due to the repayment is higher than the borrowing in this year.
Net increase in cash and bank balances	<u>307,972</u>	<u>149,563</u>	<u>158,409</u>	<u>106%</u>	



羅兵咸永道

Independent Auditor's Report

To the shareholders of

Tianjin Capital Environmental Protection Group Company Limited

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

We have audited the consolidated financial statements of Tianjin Capital Environmental Protection Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 177 to 249, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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



15. Independent Auditor's Report

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2013

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

As at 31 December 2012

(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,740,746	3,264,574
Intangible assets	7	2,753,686	2,803,037
Land use rights	8	437,653	451,784
Investment properties	9	112,282	115,955
Investment in an associate	11	34,628	40,669
Available-for-sale financial assets	12	4,000	4,000
Long-term receivables	13	337,631	338,446
Trade receivables due after one year	14	68,794	68,794
Other non-current assets		8,513	8,634
		7,497,933	7,095,893
Current assets			
Inventories	16	92,509	80,569
Trade receivables	17	1,572,743	1,096,583
Prepayments	18	120,306	95,706
Other receivables	19	10,589	17,049
Other current assets		12,349	7,831
Cash and bank balances	20	1,000,565	691,693
		2,809,061	1,989,431
Total assets		10,306,994	9,085,324



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

As at 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2012	2011
EQUITY			
Equity attributable to owners of the parent			
Share capital	21	1,427,228	1,427,228
Other reserves	22	733,216	708,492
Retained earnings	22	1,619,785	1,432,617
– Proposed final dividend		85,634	57,089
– Others		1,534,151	1,375,528
		<u>3,780,229</u>	<u>3,568,337</u>
Non-controlling interests		<u>152,442</u>	<u>147,372</u>
Total equity		<u>3,932,671</u>	<u>3,715,709</u>
LIABILITIES			
Non-current liabilities			
Borrowings	23	3,814,738	3,051,136
Deferred revenue	24	385,661	369,928
Deferred income tax liabilities	25	60,645	48,479
		<u>4,261,044</u>	<u>3,469,543</u>
Current liabilities			
Trade payables	26	20,847	18,481
Advances from customers	26	601,371	423,387
Wages payables		9,298	8,227
Income tax payable	26	21,763	7,671
Other taxes payable	26	4,943	603
Dividend payable		30,929	1,461
Other payables	26	511,940	412,095
Borrowings	23	912,188	1,028,147
		<u>2,113,279</u>	<u>1,900,072</u>
Total liabilities		<u>6,374,323</u>	<u>5,369,615</u>
Total equity and liabilities		<u>10,306,994</u>	<u>9,085,324</u>
Net current assets		<u>695,782</u>	<u>89,359</u>
Total assets less current liabilities		<u>8,193,715</u>	<u>7,185,252</u>

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

Zhang Wenhui
Director

Lin Wenbo
Director

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

As at 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,412,048	2,958,905
Intangible assets		7,131	7,887
Land use rights	8	424,835	435,186
Investment properties	9	88,491	91,659
Investments in subsidiaries	10	1,281,755	1,281,755
Available-for-sale financial assets	12	4,000	4,000
Long-term receivables	13	337,631	338,446
Trade receivables due after one year	14	68,794	68,794
Other non-current assets		40,377	35,045
		5,665,062	5,221,677
Current assets			
Inventories	16	11,197	4,218
Trade receivables	17	1,454,780	1,010,492
Prepayments	18	43,815	3,458
Other receivables	19	115,209	121,653
Other current assets		107,700	157,331
Cash and bank balances	20	469,715	257,969
		2,202,416	1,555,121
Total assets		7,867,478	6,776,798



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

As at 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2012	2011
EQUITY			
Equity attributable to owners of the parent			
Share capital	21	1,427,228	1,427,228
Other reserves	22	731,693	706,969
Retained earnings	22	1,485,450	1,320,023
– Proposed final dividend		85,634	57,089
– Others		1,399,816	1,262,934
Total equity		3,644,371	3,454,220
LIABILITIES			
Non-current liabilities			
Borrowings	23	2,641,757	1,940,610
Deferred revenue	24	201,880	204,221
Deferred income tax liabilities		21,721	19,966
		2,865,358	2,164,797
Current liabilities			
Trade payables	26	5,373	3,157
Advances from customers	26	4,871	8,331
Wages payables		5,882	5,790
Income tax payable	26	15,501	—
Other taxes payable	26	2,453	2,400
Dividend payable		30,929	1,461
Other payables	26	590,875	330,812
Borrowings	23	701,865	805,830
		1,357,749	1,157,781
Total liabilities		4,223,107	3,322,578
Total equity and liabilities		7,867,478	6,776,798
Net current assets		844,667	397,340
Total assets less current liabilities		6,509,729	5,619,017

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

Zhang Wenhui
Director

Lin Wenbo
Director

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

Consolidated Statement of Comprehensive Income

As at 31 December 2012

(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December	
		2012	2011
Revenue	5(a)	1,541,166	1,493,146
Business tax	27	(11,478)	(8,831)
Cost of sales	28	(891,577)	(835,020)
Gross profit		638,111	649,295
Administrative expenses	28	(105,118)	(104,301)
Other income - net	5(b)	37,043	30,523
Other gains/(losses) - net		21,133	(3,254)
Operating profit		591,169	572,263
Finance income		66,846	23,963
Finance costs		(279,174)	(220,378)
Finance costs - net	30	(212,328)	(196,415)
Share of (loss)/profits of an associate	11	(6,041)	186
Profit before income tax		372,800	376,034
Income tax expense	31	(98,249)	(96,154)
Profit/total comprehensive income for the year		274,551	279,880
Profit and total comprehensive income for the year attributable to:			
Owners of the parent		268,981	275,786
Non-controlling interests		5,570	4,094
		274,551	279,880
Earnings per share for profit attributable to the owners of the parent (in Rmb Yuan)			
– basic	33	0.19	0.19
– diluted	33	0.19	0.19
Proposed final dividends	34	85,634	57,089

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

Zhang Wenhui
Director

Lin Wenbo
Director



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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

	Note	Attributable to owners of the Company			Non-controlling interests	Total	
		Share capital	Other reserves	Retained earnings			Sub-total
Balance at 1 January 2011		1,427,228	685,343	1,338,002	3,450,573	125,596	3,576,169
Comprehensive income							
– Profit for the year		—	—	275,786	275,786	4,094	279,880
Total comprehensive income		—	—	275,786	275,786	4,094	279,880
Transactions with owners							
– Profit appropriation to statutory common reserves, net	22(a)	—	24,176	(24,176)	—	—	—
– Dividends declared		—	—	(156,995)	(156,995)	—	(156,995)
– Changes in ownership interests in subsidiaries that do not result in a loss of control		—	(1,027)	—	(1,027)	17,682	16,655
Total transactions with owners		—	23,149	(181,171)	(158,022)	17,682	(140,340)
Balance at 31 December 2011		1,427,228	708,492	1,432,617	3,568,337	147,372	3,715,709
Comprehensive income							
– Profit for the year		—	—	268,981	268,981	5,570	274,551
Total comprehensive income		—	—	268,981	268,981	5,570	274,551
Transactions with owners							
– Profit appropriation to statutory common reserves, net	22(a)	—	24,724	(24,724)	—	—	—
– Dividends declared		—	—	(57,089)	(57,089)	(500)	(57,589)
Total transactions with owners		—	24,724	(81,813)	(57,089)	(500)	(57,589)
Balance at 31 December 2012		1,427,228	733,216	1,619,785	3,780,229	152,442	3,932,671

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

Zhang Wenhui
Director

Lin Wenbo
Director

16. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Statements of Cash Flow

For the year ended 31 December 2012
(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December	
		2012	2011
Cash flows from operating activities			
Cash generated from operations	35	553,457	916,662
PRC income tax paid		(64,160)	(95,019)
Interest received	30	18,494	12,530
Net cash generated from operating activities		507,791	834,173
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(659,754)	(626,906)
Deposits for new project bids		(900)	(1,800)
Land compensation fund received	23(e)	750,000	—
Government grant received		24,715	86,022
Proceeds from disposal of property, plant and equipment, intangible assets and land use right	35	21,093	808
Dividends received		500	200
Net cash generated/(used) in investing activities		135,654	(541,676)
Cash flows from financing activities			
Proceeds from capital contributions by minority shareholders of subsidiaries		—	19,091
Proceeds from borrowings		1,451,516	1,249,200
Proceeds from issuance of debenture		—	689,500
Repayment of borrowings		(1,517,765)	(1,738,015)
Interest paid		(241,103)	(203,684)
Dividends paid to company's shareholders		(27,621)	(156,590)
Dividends paid to non-controlling interests		(500)	—
Acquisition of non-controlling interests		—	(2,436)
Net cash used in financing activities		(335,473)	(142,934)
Net increase in cash and bank balances		307,972	149,563
Cash and bank balances at beginning of the year		688,993	539,430
Cash and bank balances at end of the year	20	996,965	688,993

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

Zhang Wenhui
Director

Lin Wenbo
Director

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 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 and construction and management of related facility, supply of tap water and recycled water, and supply of heating and cooling and construction and management of related facility as described below:

(a) Processing of sewage water

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

Plant Location	Agreement date	Customer
Dong Jiao, Tianjin	10 October 2000	Tianjin Sewage Company(“TSC”)
Ji Zhuang Zi, Tianjin	10 October 2000	TSC
Xian Yang Lu, Tianjin	10 October 2000	TSC
Bei Cang, Tianjin	10 October 2000	TSC
Gui Yang, Guizhou	16 September 2004	Guiyang City Administration Bureau
Bao Ying, Jiangsu	13 June 2005	Baoying Construction Bureau
Chi Bi, Hubei	15 July 2005	Chibi Construction Bureau
Fu Yang, Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qu Jing, Yunnan	25 December 2005	Qujing City Water General Company
Hong Hu, Hubei	29 December 2005	Honghu Construction Bureau
Hang Zhou, Zhejiang	20 November 2006	Hangzhou Sewage Company
Jing Hai, Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wen Deng, Shandong	19 December 2007	Wendeng Construction Bureau
Xi An, Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
An Guo, Hebei	14 October 2008	An Guo Municipal Government
Xian Ning, Hubei	16 October 2008	Xianning Construction Committee
Ying Dong, Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Qu Jing, Yunnan	16 August 2011	QuJing Housing and Urban Construction Bureau
Chao hu, Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau

Except for four Tianjin plants including Dong Jiao, Ji Zhuang Zi, Xian Yang Lu and Bei Cang, all other plants above are governed by service concession arrangements which fall into the scope of HK (IFRIC) - Int 12 (note 2.7(a)).

For the year ended 31 December 2012
(All amounts in Rmb thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(a) Processing of sewage water (Continued)

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

Dong Jiao:

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

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

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

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

All other sewage processing plants:

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in Rmb thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(b) Construction and management of sewage water facility

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

(c) Supply of tap water

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

(d) Recycled water and pipeline connection

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

(e) Heating and cooling supply services

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

The Group has signed a concession agreement with Tianjin city construction and Transportation Committee of providing heating and cooling supply services for Tianjin City Cultural Center's concentrated energy station project. This is governed by service concession arrangements that fall into the scope of HK (IFRIC) - Int 12 (note 2.7(a)).

These consolidated financial statements were approved by the Directors of the Company on 28 March 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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

For the year ended 31 December 2012
(All amounts in Rmb thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

Amendment to HKAS 12, 'Income taxes', on deferred tax, requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, HK(SIC) 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into HKAS 12 the remaining guidance previously contained in HK(SIC) 21, which is accordingly withdrawn.

There are no HKFRS or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.



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

For the year ended 31 December 2012
(All amounts in Rmb thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

HKAS 19, 'Employee benefits', was amended in June 2011. The impact on the Group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments.

HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKFRS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed.

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

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

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

For the year ended 31 December 2012
(All amounts in Rmb thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2012.

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

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

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

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

(a) Business combinations

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

Acquisition-related costs are expensed as incurred.



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

For the year ended 31 December 2012
(All amounts in Rmb thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

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

(d) *Separate financial statements*

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

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

For the year ended 31 December 2012
(All amounts in Rmb thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(e) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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

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

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

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

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

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

For the year ended 31 December 2012
(All amounts in Rmb thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

For the year ended 31 December 2012
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(c) Group companies

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

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

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

2.5 Property, plant and equipment

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

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

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

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



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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment (Continued)

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

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

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

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

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

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

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.

2.6 Investment properties

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

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

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Intangible assets

(a) Concession services rights

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

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

The concession services arrangement is within the scope of HK (IFRIC) – Interpretation 12, and the Group recognises the related rights in the services concession arrangements as intangible assets or financial assets. The operator shall recognise an intangible asset to the extent that it receives a right (license) to charge users of the public service and shall recognize a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Therefore intangible assets - concession rights are recognised for the rights under these service concession arrangements by the Group, which are amortized on a straight-line basis over the terms of operation ranging from 25 to 30 years.

(b) Technical know-how and software

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

2.8 Land use rights

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

2.10.2 Recognition and measurement

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

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

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.



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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of financial assets (Continued)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.13 Inventories

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

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

Except for the inventory of construction contract, cost for raw materials, finished goods and low cost consumables are determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). 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 applicable variable selling expenses.

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

In the consolidation statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Borrowing Cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.21 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Current and deferred income tax (Continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowance 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.

(a) Retirement benefit obligation

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligation of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred.

(b) Housing fund

The Group provides housing fund based on certain percentage of the wages and with no more than the upper limit of the requirement. The housing fund is paid to government social security organisation and corresponding costs are expensed or included in the cost of sales for the current year. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods.

2.23 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of value added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sewage water processing and heating and cooling supply*

Revenues from sewage water processing and heating and cooling supply are 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) *Sales of pipe connection for recycled water*

Revenue from the sales of pipe connection for recycled water is recognised when the connection is finished and recycled water is delivered to customers.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Revenue recognition (Continued)

(e) Contract operation income

Revenue from the sales of pipe connection for recycled water is recognized under completion method.

(f) Rental income

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

2.25 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.26 Dividend income

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

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.28 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

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3 FINANCIAL RISK MANAGEMENT

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

(a) Market risk

(i) Foreign exchange 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 (Note 23(d)).

At 31 December 2012, if RMB had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been RMB 4 million (2011: Rmb4 million) lower/higher. Similarly, if RMB had weakened/ strengthened by 5% against the JPY with all other variables held constant, post-tax profit for the year would have been Rmb10 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 payable.

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

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

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3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Market risk (Continued)

(ii) Interest rate risk (Continued)

	Group				Company		
	Fixed	Floating	Non-interest bearing	Total	Fixed	Floating	Total
At 31 December 2012							
<i>Assets</i>							
<i>Cash and bank balances</i>	3,600	996,965	—	1,000,565	—	469,715	469,715
<i>Long-term receivables</i>	337,631	—	—	337,631	337,631	—	337,631
<i>Liabilities</i>							
<i>Current borrowings</i>	—	883,725	462	884,187	—	673,864	673,864
<i>Non current borrowings</i>	—	2,011,421	10,613	2,022,034	—	929,053	929,053
<i>Long-term payable due within</i>							
<i>1 year</i>	21,231	6,770	—	28,001	21,231	6,770	28,001
<i>Long-term payable</i>	258,132	92,622	—	350,754	258,132	92,622	350,754
<i>Long-term debenture</i>	691,950	—	—	691,950	691,950	—	691,950
At 31 December 2011							
<i>Assets</i>							
<i>Cash and bank balances</i>	2,700	688,993	—	691,693	—	257,969	257,969
<i>Long-term receivables</i>	338,446	—	—	338,446	338,446	—	338,446
<i>Liabilities</i>							
<i>Current borrowings</i>	—	997,265	416	997,681	—	775,364	775,364
<i>Non current borrowings</i>	—	1,964,130	10,613	1,974,743	—	864,217	864,217
<i>Long-term payable due within</i>							
<i>1 year</i>	23,750	6,716	—	30,466	23,750	6,716	30,466
<i>Long-term payable</i>	287,602	98,941	—	386,543	287,602	98,941	386,543
<i>Long-term debenture</i>	689,850	—	—	689,850	689,850	—	689,850

At 31 December 2012, if interest rates on bank borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been lower/higher by Rmb28 million (2011: Rmb26 million).

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



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3 FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

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

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

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

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

(c) Liquidity risk

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

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3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2012					
<i>Cash and bank balance</i>	1,000,565	—	—	—	1,000,565
<i>Trade and other Receivables</i>	1,583,332	—	—	—	1,583,332
<i>Long-term Receivables</i>	15,503	87,607	63,650	363,603	530,363
<i>Long-term bank borrowings</i>	(928,544)	(948,347)	(876,878)	(366,591)	(3,120,360)
<i>Long-term payable</i>	(32,572)	(32,917)	(101,421)	(603,003)	(769,913)
<i>Other non-current liabilities</i>	(23,002)	(22,341)	(64,424)	(15,353)	(125,120)
<i>Trade and other payables</i>	(532,787)	—	—	—	(532,787)
<i>Short-term borrowings</i>	(91,267)	—	—	—	(91,267)
<i>Long-term debenture</i>	(46,480)	(46,480)	(792,960)	—	(885,920)
At 31 December 2011					
<i>Cash and bank balance</i>	691,693	—	—	—	691,693
<i>Trade and other Receivables</i>	1,113,632	—	—	—	1,113,632
<i>Long-term Receivables</i>	12,313	84,297	57,770	388,296	542,676
<i>Long-term bank borrowings</i>	(972,464)	(848,099)	(877,479)	(416,701)	(3,114,743)
<i>Long-term payable</i>	(32,278)	(32,572)	(100,021)	(637,322)	(802,193)
<i>Other non-current liabilities</i>	(23,317)	(22,697)	(64,026)	(32,245)	(142,285)
<i>Trade and other payables</i>	(430,576)	—	—	—	(430,576)
<i>Short-term borrowings</i>	(162,416)	—	—	—	(162,416)
<i>Long-term debenture</i>	(46,480)	(46,480)	(839,440)	—	(932,400)



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3 FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management

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

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

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

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

	As at 31 December	
	2012	2011
Total borrowings (note23)	3,976,926	3,662,274
Less: unrestricted cash (note20)	(996,965)	(688,993)
Net debt	2,979,961	2,973,281
Total equity	3,932,671	3,715,709
Total capital	6,912,632	6,688,990
Gearing ratio	43%	44%

There is no significant change in gearing ratio of the Group during 2012.

(e) Fair value estimation

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

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Group's principal estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year is in relation to impairment of trade and other receivables.

- (a) The Group determines the impairment of trade and other receivables based on objective evidence of impairment and historical loss experience of the respective individual balances. Management believes that trade and other receivables as at 31 December 2012 are not impaired.
- (b) The Group is subject to income taxes in numerous regions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these regions. The Group recognizes income taxes in each region based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



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5 SEGMENT INFORMATION

An analysis of revenue and contributions to operating profit for the year by principal activities is as follows:

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

	2012	2011
Sales turnover	1,541,166	1,493,146
Other income – net	<u>37,043</u>	<u>30,523</u>
Total revenues	<u><u>1,578,209</u></u>	<u><u>1,523,669</u></u>

(b) Analysis of other income

	2012		2011	
	Income	Cost	Income	Cost
Contract operation service	57,408	41,990	28,679	17,333
Technical service	19,009	3,485	13,667	2,684
Rental	10,529	5,501	12,027	4,813
Other	<u>9,708</u>	<u>8,635</u>	<u>15,171</u>	<u>14,191</u>
	<u><u>96,654</u></u>	<u><u>59,611</u></u>	<u><u>69,544</u></u>	<u><u>39,021</u></u>

(c) Operating segment analysis

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

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

Other services include contract operation services, lease of office building or apartments and other services. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column.

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

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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2012 and 2011 respectively is as follows:

(i) For the year ended 31 December 2012

	Sewage processing and facility construction services			Recycled water and pipeline connection	Heating and Cooling Services	Tap water operations	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants					
Segment revenue	801,482	153,631	286,494	133,495	51,976	44,115	107,016	1,578,209
Segment expense	(601,340)	(139,176)	(264,979)	(106,446)	(38,278)	(42,770)	(6,379)	(1,199,368)
Results before share of profits of an associate	200,142	14,455	21,515	27,049	13,698	1,345	100,637	378,841
Share of (loss)/ profits of an associate (note11)								(6,041)
Profit before tax								372,800
Income tax expense								(98,249)
Profit for the year								274,551
Segment assets	5,605,653	760,044	1,697,790	909,639	384,503	332,373	582,364	10,272,366
Investment in an associate (note11)	—	—	—	—	—	—	34,628	34,628
Total assets	5,605,653	760,044	1,697,790	909,639	384,503	332,373	616,992	10,306,994
Total liabilities	3,846,900	422,482	727,236	856,916	316,586	115,238	88,965	6,374,323
Other information								
– Interest income (note30)	11,627	499	992	5,297	59	31	11,496	30,001
– Interest expenses (note30)	(175,466)	(27,771)	(48,516)	(1,766)	(5,260)	(11,895)	(510)	(271,184)
– Depreciation	(123,741)	—	—	(20,660)	—	—	(7,765)	(152,166)
– Amortization	(11,015)	(33,688)	(63,513)	(553)	(13,297)	(12,695)	(1,343)	(136,104)
– Capital expenditures	576,075	10,619	44,995	55,554	9,772	1,797	16,408	715,220



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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

(ii) For the year ended 31 December 2011

	Sewage processing and facility construction services			Recycled water and pipeline connection	Heating and Cooling Services	Tap water operations	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants					
Segment revenue	825,075	146,946	298,530	105,099	2,774	39,976	105,269	1,523,669
Segment expense	(577,301)	(138,593)	(271,164)	(81,687)	(1,424)	(40,201)	(37,451)	(1,147,821)
Results before share of profits of an associate	247,774	8,353	27,366	23,412	1,350	(225)	67,818	375,848
Share of (loss)/ profits of an associate (note11)								186
Profit before tax								376,034
Income tax expense								(96,154)
Profit for the year								279,880
Segment assets	4,574,655	784,819	1,701,045	715,894	356,644	335,259	576,339	9,044,655
Investment in an associate	—	—	—	—	—	—	40,669	40,669
Total assets	4,574,655	784,819	1,701,045	715,894	356,644	335,259	617,008	9,085,324
Total liabilities	3,047,488	478,126	731,689	680,026	256,979	125,954	49,353	5,369,615
Other information								
– Interest income (note30)	6,513	430	1,055	4,250	36	65	11,614	23,963
– Interest expenses (note30)	(129,143)	(27,631)	(44,632)	(6,066)	(234)	(11,207)	(295)	(219,208)
– Depreciation	(113,184)	—	(3,476)	(16,700)	—	—	(6,477)	(139,837)
– Amortization	(9,949)	(36,249)	(57,515)	(132)	(856)	(11,624)	(1,103)	(117,428)
– Capital expenditures	168,180	13,326	51,775	21,978	336,736	52,497	22,204	666,696

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6 PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings and structures (note (i))	Machinery and equipment	Motor vehicles and others	Construction in progress ("CIP") (note (c))	Total
<i>Cost</i>					
At 1 January 2011	1,590,184	1,690,698	198,012	703,651	4,182,545
Additions	489	479	1,055	190,374	192,397
Transfers	1,717	3,007	1,136	(5,860)	—
Transfer to intangible assets	—	—	—	(7,300)	(7,300)
Disposals	(67)	(12,751)	(27,232)	—	(40,050)
At 31 December 2011	1,592,323	1,681,433	172,971	880,865	4,327,592
Additions	877	7,376	5,269	633,203	646,725
Transfers(note(c))	435,518	532,965	77,251	(1,045,734)	—
Transfer to other assets	—	—	—	(8,847)	(8,847)
Disposals	(23,746)	(9,200)	(15,755)	—	(48,701)
At 31 December 2012	2,004,972	2,212,574	239,736	459,487	4,916,769
<i>Accumulated depreciation</i>					
At 1 January 2011	(545,714)	(308,685)	(82,036)	—	(936,435)
Charge for the year	(45,976)	(75,094)	(15,094)	—	(136,164)
Disposals	41	2,489	23,051	—	25,581
At 31 December 2011	(591,649)	(381,290)	(74,079)	—	(1,047,018)
Charge for the year	(49,532)	(79,258)	(19,703)	—	(148,493)
Disposals	4,821	4,866	9,801	—	19,488
At 31 December 2012	(636,360)	(455,682)	(83,981)	—	(1,176,023)
<i>Impairment</i>					
At 31 December 2011	(11,000)	(4,068)	(932)	—	(16,000)
Write off of impairment charge(note15)	11,000	4,068	932	—	16,000
At 31 December 2012	—	—	—	—	—
<i>Net book value</i>					
At 31 December 2012	1,368,612	1,756,892	155,755	459,487	3,740,746
At 31 December 2011	989,674	1,296,075	97,960	880,865	3,264,574



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6 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Group (Continued)

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) The Group's depreciation expense of Rmb142 million (2011: Rmb130 million) has been included in cost of revenue and Rmb6 million (2011: Rmb6 million) in administrative expenses.
- (iii) As at 31 December 2012, the certificate of title to the building and land use rights included in property, plant and equipment, investment properties and land use rights with carrying amount of Rmb156 million (cost of Rmb170 million) (31 December 2011: carrying amount of Rmb295 million and cost of Rmb325 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the Directors believe that the titles will be received in due course without additional significant cost to the Group, if any.

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6 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

	Buildings and structures	Machinery and equipment	Motor vehicles and others	Construction in progress ("CIP") (note (c))	Total
<i>Cost</i>					
At 1 January 2011	1,417,993	1,577,428	154,245	649,964	3,799,630
Additions	—	309	1,048	168,452	169,809
Transfers	360	3,007	1,136	(4,503)	—
Transfer to intangible assets	—	—	—	(7,300)	(7,300)
Disposals	(67)	(10,823)	(22,635)	—	(33,525)
At 31 December 2011	1,418,286	1,569,921	133,794	806,613	3,928,614
Additions	—	526	858	593,785	595,169
Transfers(note(c))	415,815	480,232	75,997	(972,044)	—
Transfer to other assets	—	—	—	(8,847)	(8,847)
Disposals	—	(3,196)	(10,035)	—	(13,231)
At 31 December 2012	1,834,101	2,047,483	200,614	419,507	4,501,705
<i>Accumulated depreciation</i>					
At 1 January 2011	(521,732)	(275,925)	(72,503)	—	(870,160)
Charge for the year	(42,837)	(63,205)	(13,862)	—	(119,904)
Disposals	41	1,429	18,885	—	20,355
At 31 December 2011	(564,528)	(337,701)	(67,480)	—	(969,709)
Charge for the year	(48,219)	(68,092)	(12,843)	—	(129,154)
Disposals	—	2,305	6,901	—	9,206
At 31 December 2012	(612,747)	(403,488)	(73,422)	—	(1,089,657)
<i>Net book value</i>					
At 31 December 2012	<u>1,221,354</u>	<u>1,643,995</u>	<u>127,192</u>	<u>419,507</u>	<u>3,412,048</u>
At 31 December 2011	<u>853,758</u>	<u>1,232,220</u>	<u>66,314</u>	<u>806,613</u>	<u>2,958,905</u>



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6 PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Movement of significant projects of construction in progress

Name	Budgeted amount	31 December 2011	Increase in current year	Transfer to fixed assets	Other decreases	31 December 2012	Cumulative capitalised borrowing costs as at 31 December 2011	Increase in current year (note i)	Transfer to fixed assets	Cumulative capitalised borrowing costs as at 31 December 2012	Proportion of expenditures incurred to budgeted amount	Source of funds
Water recycling plants:												
- Bei Chen recycling plants	65,000	57,395	8,064	(65,459)	-	-	-	1,719	(1,719)	-	100%	Self-raised fund
Sewage water processing plants												
- Dong Jiao (upgrade project)	373,500	292,010	74,897	(364,445)	(2,459)	3	9,909	7,288	(7,197)	-	98%	Self-raised fund
- XianYang Lu (upgrade project)	205,510	165,607	31,926	(195,914)	(1,615)	4	5,632	1,852	(7,484)	-	96%	Self-raised fund
- Ji Zhuang Zi (upgrade project)	191,660	156,074	25,194	(177,940)	(3,327)	1	5,866	3,657	(9,523)	-	95%	Self-raised fund
- Bei Cang (upgrade project)	166,000	131,140	32,538	(162,231)	(1,446)	1	7,465	4,197	(11,662)	-	99%	Self-raised fund
- Jin Nan	2,065,590	-	417,130	-	-	417,130	-	-	-	-	20%	Land compensation
Others	-	4,387	4,056	(6,055)	-	2,368	-	-	-	-	-	Self-raised fund
Total - Company		806,613	593,785	(972,044)	(8,847)	419,507	28,872	18,713	(47,585)			
Water recycling plants:												
- Ji Zhuang Zi (expansion project)	87,573	71,886	227	(72,113)	-	-	1,982	538	(2,520)	-	82%	Self-raised fund
- Jin Nan	260,351	-	39,111	-	-	39,111	-	-	-	-	15%	land compensation
Others	-	2,366	80	(1,577)	-	869	-	-	-	-	-	Self-raised fund
Total - Group		880,865	633,203	(1,045,734)	(8,847)	459,487	30,854	19,251	(50,105)			

(i) Borrowing costs have been capitalized for the year ended 31 December 2012 at an average interest rate of 6.55% per annum (2011:6.47%).

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6 PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Construction in progress

As at 31 December 2012, the progress of significant projects of construction in progress is analysed as follows:

	Construction progress	Remark
Sewage water processing plant - Jin Nan	20%	Estimated by percent of cost incurred to total project budget
Water recycling plant - Jin Nan	15%	Estimated by percent of cost incurred to total project budget

In year 2012, in order to improve the infrastructure construction of Tianjin, Tianjin Government decided to relocate Tianjin Jizhuangzi sewage water processing plant and water recycling plant owned by the Group, and authorized the Group to construct and operate Tianjin Jinnan sewage water processing plant and water recycling plant (the “Jinnan Project”). The total investment amount of the Jinnan Project is about Rmb2.33 billion. Instructed by Tianjin Government, the construction fund is provided by land compensation fund from Tianjin Haihe Construction Developing Investment Co., Ltd., the Company’s related party which is under common control by TICIG. The Group will keep operating Jizhuangzi sewage water processing plant and water recycling plant during the construction period of the Jinnan Project. When the construction is complete and the Jinnan Project is ready for use, the Jizhuangzi sewage water processing plant and water recycling plant will be demolished.

The Group commenced construction of the Jinnan Project in the current year, which is expected to complete within 2013. As of 31 December, 2012, the Group had received land compensation fund of about Rmb750 million and recorded as other non-current liabilities (note 23).



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7 INTANGIBLE ASSETS

The movements of the Group's intangible assets are as follows:

	Concession right	Technical know-how and Software	Total
Cost			
At 1 January 2011	2,744,864	—	2,744,864
Addition	473,292	8,307	481,599
At 31 December 2011	3,218,156	8,307	3,226,463
Addition(note(a))	74,590	2,752	77,342
Disposals	(1,836)	—	(1,836)
At 31 December 2012	3,290,910	11,059	3,301,969
Amortisation			
At 1 January 2011	(317,082)	—	(317,082)
Charge for the year	(105,924)	(420)	(106,344)
At 31 December 2011	(423,006)	(420)	(423,426)
Charge for the year	(122,569)	(2,685)	(125,254)
Disposals	397	—	397
At 31 December 2012	(545,178)	(3,105)	(548,283)
Net book value			
At 31 December 2012	2,745,732	7,954	2,753,686
At 31 December 2011	2,795,150	7,887	2,803,037

- (a) The addition was mainly new concession rights during the current period including Phase II Project of the Company's subsidiary, Baoying Capital Water Co., Ltd. and the BOT project of the Company's subsidiary, Tianjin Jinning Capital Water Co., Ltd..
- (b) Certain of concession rights with net book value of Rmb246 million (2011: Rmb242 million) have been secured against loan facilities (Note 23(a)(i)).
- (c) In 2012, no borrowing cost has been capitalised in concession right (2011: Rmb712 thousand, at an average interest of 7.05%).
- (d) The remaining amortisation period of concession rights ranges from 17 to 28 years.

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8 LAND USE RIGHTS

All the Group's and Company's land use rights are located in the PRC and are held on medium term leases of 25 to 50 years. The Group's and Company's interests in land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

	Group	Company
Cost		
At 1 January 2011 and 31 December 2011	593,529	567,266
Disposals(note i)	<u>(10,472)</u>	<u>—</u>
At 31 December 2012	<u>583,057</u>	<u>567,266</u>
Amortisation		
At 1 January 2011	(130,661)	(121,187)
Charge for the year	<u>(11,084)</u>	<u>(10,893)</u>
At 31 December 2011	(141,745)	(132,080)
Charge for the year	(10,850)	(10,351)
Disposals	<u>7,191</u>	<u>—</u>
At 31 December 2012	<u>(145,404)</u>	<u>(142,431)</u>
Net book value		
At 31 December 2012	<u>437,653</u>	<u>424,835</u>
At 31 December 2011	<u>451,784</u>	<u>435,186</u>

(i) In 2012, the Company's subsidiary, Tianjin Capital New Materials Co., Ltd., disposed its land use right.



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9 INVESTMENT PROPERTIES

	Group	Company
Cost		
At 31 December 2011 and 2012	<u>137,374</u>	<u>110,648</u>
Accumulated depreciation		
At 1 January 2011	(17,746)	(15,821)
Charge for the year	<u>(3,673)</u>	<u>(3,168)</u>
At 31 December 2011	(21,419)	(18,989)
Charge for the year	<u>(3,673)</u>	<u>(3,168)</u>
At 31 December 2012	<u>(25,092)</u>	<u>(22,157)</u>
Net book value		
At 31 December 2012	<u><u>112,282</u></u>	<u><u>88,491</u></u>
At 31 December 2011	<u><u>115,955</u></u>	<u><u>91,659</u></u>

The Group's investment properties represent mainly the part of the Company's office building located in Tianjin held for long-term rental. The fair value of the office building held for long-term rental at 31 December 2012 based on the Directors' assessment was approximately Rmb151 million (2011: Rmb151 million), and its book value is Rmb88 million.

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10 INVESTMENTS IN SUBSIDIARIES - COMPANY

	2012	2011
Subsidiaries	1,308,255	1,308,255
Less: Impairment of subsidiaries (note(iii))	(26,500)	(26,500)
	1,281,755	1,281,755

Subsidiaries acquired by establishment or investment:

	Company type (note i)	Place of registration	Nature of business and Business Scope	Registered capital	Enterprise type	Legal representative	Institution code
Qijing Capital Water Co., Ltd.	A	Qijing	Sewage processing, tap water supply	178,983	Limited company	Zhao Yi	781687756
Guizhou Capital Water Co., Ltd.	A	Guizhou	Sewage processing	100,000	Limited company	Zhao Yi	750194086
Fuyang Capital Water Co., Ltd.	B	Fuyang	Sewage processing	69,000	Limited company	Zhao Yi	783074750
Baoying Capital Water Co., Ltd.	A	Baoying	Sewage processing	53,000	Limited company	Zhao Yi	776407692
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Sewage processing	62,987	Limited company	Tang Fu Sheng	NA
Hang Zhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Sewage processing	257,445	Limited company	Zhao Yi	785336929
Wendeng Capital Water Co., Ltd.	B	Wendeng	Sewage processing	52,000	Limited company	Zhao Yi	661386940
Tianjin Jinghai Capital Water Co., Ltd.	B	Tianjin	Sewage processing	12,000	Limited company	Yang Guang	666139631
Tianjin Water Recycling Co., Ltd.	B	Tianjin	Production and sales of recycled water and technical consulting for water recycling business	100,000	Limited company	Tang Fu Sheng	72573188X
Xi'an Capital Water Co., Ltd.	B	Xi'an	Sewage processing	270,000	Limited company	Zhao Yi	668679180
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	B	Tianjin	Environmental engineering, protection and technical consultation	5,000	Limited company	Zhang Wen Hui	673733268
Anguo Capital Water Co., Ltd.	B	Anguo	Sewage and tap water	41,000	Limited company	Li Yu Qing	681355439
Wuhan Tianchuang Environmental Protection Co., Ltd.	B	Wuhan	Sewage and tap water processing	103,240	Limited company	Zhao Yi	679132033
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Production and sales of new types of construction	37,500	Limited company	Fu Ya Na	752229932
Tianjin Capital Water Co., Ltd.	B	Tianjin	Sewage processing,	5,000	Limited company	Yang Guang	697448664
Tianjin Zichuang Project Investment Co., Ltd.	B	Tianjin	Construction project investment	23,400	Limited company	Lin Wen Bo	55946747X
Tianjin Jinning Capital Water Co., Ltd.	B	Tianjin	Sewage processing	15,000	Limited company	Li Yu Qing	559490071
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	B	Tianjin	Energy saving, innovative energy research, consulting and transfer service property management	60,000	Limited company	Tang Fu Sheng	569314725

(i) A: Holding subsidiary

B: Wholly-owned subsidiary



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10 INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

	Investment cost at end of the year	Share holding And Voting rights (%)	Consolidate financial statement (Y/N)	Minority interest	Provision	Declared distribution of cash dividend this year
Xi'an Capital Water Co., Ltd.	270,000	100	Y	—	—	—
Hangzhou Tianchuang Water Co., Ltd	180,212	70	Y	95,466	—	—
Qijing Capital Water Co., Ltd.	154,918	87	Y	27,397	—	—
Tianjin Water Recycling Co., Ltd. (note(ii))	100,436	100	Y	—	—	10,000
Guizhou Capital Water Co., Ltd.(note(ii))	95,000	95	Y	6,921	—	9,500
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,987	100	Y	1,656	—	—
Wendeng Capital Water Co., Ltd.	52,000	100	Y	—	—	—
Wuhan Tianchuang Environmental Protection Co.,Ltd	98,500	100	Y	2,444	—	—
Fuyang Capital Water Co., Ltd. (note(ii))	69,202	100	Y	—	—	6,750
Anguo Capital Water Co., Ltd.	41,000	100	Y	—	—	—
Baoying Capital Water Co., Ltd.	37,100	70	Y	18,507	—	—
Tianjin Capital New Materials Co., Ltd. (note(iii))	26,500	71	Y	51	(26,500)	—
Tianjin Jinghai Capital Water Co., Ltd.	12,000	100	Y	—	—	—
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	5,000	100	Y	—	—	—
Tianjin Zichuang Project Investment Co., Ltd.	23,400	100	Y	—	—	—
Tianjin Jinning Capital Water Co., Ltd.	15,000	100	Y	—	—	—
Tianjin Capital Water Co., Ltd.	5,000	100	Y	—	—	—
Tianjin Jiayuanxing Innovative Energy Technology Co.,Ltd.	60,000	100	Y	—	—	—
	<u>1,308,255</u>			<u>152,442</u>	<u>(26,500)</u>	<u>26,250</u>

- (i) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.
- (ii) In 2012, the cash dividend declared by the subsidiaries was Rmb26.25 million.
- (iii) Full provision has been made for investment in this subsidiary of approximately Rmb26.5 million as at 31 December 2012 (31 December 2011: Rmb26.5 million).

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11 INVESTMENT IN AN ASSOCIATE - GROUP

	2012	2011
Beginning of the year	40,669	41,583
Share of profit/(loss)	(6,041)	186
Dividends declared by the associate	—	(1,100)
	<u>34,628</u>	<u>40,669</u>
End of the year	<u>34,628</u>	<u>40,669</u>

(a) The Group's share of the results of its associate and its assets and liabilities, are as follows:

	Registered capital	Voting rights (%)	Assets	Liabilities	Net assets	Operating income	share of (loss)/ profit
2012							
Tianjin International Machinery Co., Ltd.	<u>120,000</u>	<u>27.5%</u>	<u>608,002</u>	<u>454,032</u>	<u>153,970</u>	<u>2,024,631</u>	<u>(6,041)</u>
2011							
Tianjin International Machinery Co., Ltd.	<u>120,000</u>	<u>27.5%</u>	<u>632,344</u>	<u>461,409</u>	<u>170,935</u>	<u>1,628,952</u>	<u>186</u>

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

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2012	2011	2012	2011
Unquoted equity investments	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>

13 LONG-TERM RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
Receivables from toll road concession	<u>337,631</u>	<u>338,446</u>	<u>337,631</u>	<u>338,446</u>

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



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14 TRADE RECEIVABLES DUE AFTER ONE YEAR

	Group		Company	
	2012	2011	2012	2011
Receivables from TSC - sewage water plant construction (note17)	<u>68,794</u>	<u>68,794</u>	<u>68,794</u>	<u>68,794</u>

15 PROVISION FOR ASSET IMPAIRMENT

	31 December 2011	Write-off	31 December 2012
Provision for decline in value of inventories (note(a))	(3,000)	3,000	—
Provision for impairment of fixed assets(note(b))	<u>(16,000)</u>	<u>16,000</u>	<u>—</u>
	<u>(19,000)</u>	<u>19,000</u>	<u>—</u>

- (a) As at 31 December 2011, the provision for decline in value of inventories of Rmb3 million was for finished goods of a subsidiary Tianjin Capital New Materials Co., Ltd. These finished goods are disposed and the provision is written-off in current year.
- (b) As at 31 December 2011, the provision for impairment of fixed assets of Rmb16 million was for fixed assets of a subsidiary Tianjin Capital New Materials Co., Ltd. These fixed assets are disposed and the provision is written-off in current year.

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16 INVENTORIES

(a) Inventories are summarised by categories as follows:

	Group					
	31 December 2012			31 December 2011		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	17,962	—	17,962	10,960	—	10,960
Finished goods	—	—	—	3,682	(3,000)	682
Spare parts and low cost consumables	106	—	106	434	—	434
Work in progress	74,441	—	74,441	68,493	—	68,493
	<u>92,509</u>	<u>—</u>	<u>92,509</u>	<u>83,569</u>	<u>(3,000)</u>	<u>80,569</u>

	Company					
	31 December 2012			31 December 2011		
	Ending balance	Provision for decline in the value of inventories	Carrying amount	Ending balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	11,029	—	11,029	4,193	—	4,193
Spare parts and low cost consumables	—	—	—	25	—	25
Work in progress	168	—	168	—	—	—
	<u>11,197</u>	<u>—</u>	<u>11,197</u>	<u>4,218</u>	<u>—</u>	<u>4,218</u>

(b) Provision for decline in the value of inventories is analysed as follows:

	31 December 2011	Write-off	31 December 2012
Finished goods(note 15)	<u>(3,000)</u>	<u>3,000</u>	<u>—</u>



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17 TRADE RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
Due from TSC for (note(b)):				
– Sewage processing service	1,421,319	998,903	1,421,319	998,903
– Construction of sewage processing plants	68,794	68,794	68,794	68,794
	<u>1,490,113</u>	<u>1,067,697</u>	<u>1,490,113</u>	<u>1,067,697</u>
Less: Non-current portion	(68,794)	(68,794)	(68,794)	(68,794)
	<u>1,421,319</u>	<u>998,903</u>	<u>1,421,319</u>	<u>998,903</u>
Due from others – current	151,424	97,680	33,461	11,589
	<u>1,572,743</u>	<u>1,096,583</u>	<u>1,454,780</u>	<u>1,010,492</u>

(a) The ageing of trade receivables is analysed below:

	Group			
	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	927,093	59%	865,014	79%
1 to 2 years	645,650	41%	231,569	21%
Total	<u>1,572,743</u>	<u>100%</u>	<u>1,096,583</u>	<u>100%</u>

	Company			
	31 December 2012		31 December 2011	
	amount	% of total balance	amount	% of total balance
Within 1 year	818,971	56%	779,073	77%
1 to 2 years	635,809	44%	231,419	23%
Total	<u>1,454,780</u>	<u>100%</u>	<u>1,010,492</u>	<u>100%</u>

(b) TSC is the Chinese government subordinate enterprise which has good creditability history.

In December 2012, TSC and its supervising government department submitted application to Tianjin Government to apply for granting concession services right of four sewage water processing plants in Tianjin to the Company. The application is in the process of government approval. Management expected to collect the receivables from TSC when the concession services agreements are signed and replaced the current agreement. Management believes that the receivable balance is not impaired.

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18 PREPAYMENTS

The ageing of prepayments is analysed below:

	Group			
	31 December 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	85,069	71%	79,204	83%
1 to 2 years	28,809	24%	13,928	14%
Over 2 years	6,428	5%	2,574	3%
	<u>120,306</u>	<u>100%</u>	<u>95,706</u>	<u>100%</u>

As at 31 December 2012, the prepayments aged over one year with amount of Rmb35 million (2011:Rmb16 million) were mainly for plant construction projects and recycled water pipeline connection services for which the projects have not been completed and hence balances remain outstanding.

	Company			
	31 December 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	43,576	99.5%	1,785	52%
1 to 2 years	144	0.3%	1,565	45%
Over 2 years	95	0.2%	108	3%
	<u>43,815</u>	<u>100%</u>	<u>3,458</u>	<u>100%</u>

19 OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
Project deposits	3,207	6,681	2,200	2,743
Payment on behalf of others	1,893	1,381	38	12
Receivables from subsidiaries	—	—	105,034	112,534
Others	5,489	8,987	7,937	6,364
	<u>10,589</u>	<u>17,049</u>	<u>115,209</u>	<u>121,653</u>

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

	2012		2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	4,892	46%	3,000	18%
1 to 2 years	857	8%	3,132	18%
2 to 3 years	1,538	15%	3,933	23%
Over 3 years	3,302	31%	6,984	41%
	<u>10,589</u>	<u>100%</u>	<u>17,049</u>	<u>100%</u>



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20 CASH AND BANK BALANCES

	Group		Company	
	2012	2011	2012	2011
Cash on hand and in bank	1,000,565	691,693	469,715	257,969
Including:				
Special funds for construction in progress (note (a))	200,466	48,259	139,137	43,442
Restricted bank deposits due within 1 year (note (b))	3,600	2,700	—	—
	<u>1,000,565</u>	<u>691,693</u>	<u>469,715</u>	<u>257,969</u>

- (a) The special funds for construction in progress represent the unutilised balances of the special funds obtained for sewage processing projects and recycled water projects.
- (b) Represented deposits for project bids amount due within one year.

Cash and bank balances comprise the following for the purposes of the cash flow statement:

	Group	
	2012	2011
Cash and bank balances	1,000,565	691,693
Restricted bank deposits	(3,600)	(2,700)
	<u>996,965</u>	<u>688,993</u>

21 SHARE CAPITAL

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

	Circulating A shares	Circulating H shares	Total
At 31 December 2011 and 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.

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22 RESERVES AND RETAINED EARNINGS

The reconciliation and movement of other reserves and retained earnings are as follows:

(a) Group

	Capital reserve (note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2011	383,338	302,005	685,343	1,338,002	2,023,345
Profit for the year	—	—	—	275,786	275,786
Profit appropriation to statutory common reserves, net (Note (ii))	—	24,176	24,176	(24,176)	—
Dividends declared for 2010	—	—	—	(156,995)	(156,995)
Changes in ownership interests in subsidiaries that do not result in a loss of control	(1,027)	—	(1,027)	—	(1,027)
Balance at 31 December 2011	382,311	326,181	708,492	1,432,617	2,141,109
Profit for the year	—	—	—	268,981	268,981
Profit appropriation to statutory common reserve, net (Note (ii))	—	24,724	24,724	(24,724)	—
Dividends declared for 2011	—	—	—	(57,089)	(57,089)
Balance at 31 December 2012	382,311	350,905	733,216	1,619,785	2,353,001

(b) Company

	Capital reserve (note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2011	380,788	302,005	682,793	1,259,436	1,942,229
Profit for the year	—	—	—	241,758	241,758
Profit appropriation to statutory common reserves, net (Note (ii))	—	24,176	24,176	(24,176)	—
Dividends declared for 2010	—	—	—	(156,995)	(156,995)
Balance at 31 December 2011	380,788	326,181	706,969	1,320,023	2,026,992
Profit for the year	—	—	—	247,240	247,240
Profit appropriation to statutory common reserves, net (Note (ii))	—	24,724	24,724	(24,724)	—
Dividends declared for 2011	—	—	—	(57,089)	(57,089)
Balance at 31 December 2012	380,788	350,905	731,693	1,485,450	2,217,143

Notes:

- (i) Capital reserve comprises share premium arising from the issuance of shares and the adjustment arising from transaction with non-controlling interest of the subsidiaries. This reserve can be utilised to offset prior years' losses or for issuance of bonus shares.
- (ii) General reserve represents the statutory common reserve.

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

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23 BORROWINGS

	Note	Group		Company	
		2012	2011	2012	2011
<i>Non-current:</i>					
Long-term bank borrowings	(a)	2,710,056	2,690,760	1,455,100	1,405,400
Less: Current portion	(a)	(778,180)	(825,720)	(591,500)	(623,000)
		<u>1,931,876</u>	<u>1,865,040</u>	<u>863,600</u>	<u>782,400</u>
Long-term debenture	(c)	691,950	689,850	691,950	689,850
Long-term payable	(d)	350,754	386,543	350,754	386,543
Other non-current liabilities	(e)	840,158	109,703	735,453	81,817
		<u>3,814,738</u>	<u>3,051,136</u>	<u>2,641,757</u>	<u>1,940,610</u>
<i>Current:</i>					
Current portion of long-term bank borrowings	(a)	778,180	825,720	591,500	623,000
Current portion of long-term payable	(d)	28,001	30,466	28,001	30,466
Short-term bank borrowings	(b)	86,000	152,000	66,000	136,000
Other current liabilities	(e)	20,007	19,961	16,364	16,364
		<u>912,188</u>	<u>1,028,147</u>	<u>701,865</u>	<u>805,830</u>

(a) Long-term bank borrowings

The long-term bank borrowings are summarized by the bank names as below:

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Borrowings from:				
China Construction Bank	608,850	910,900	177,600	372,400
Industrial and Commercial Bank of China	553,216	446,900	20,000	—
State Development Bank	421,500	348,500	258,000	173,000
Agriculture Bank of China	371,990	235,460	300,000	150,000
Shanghai Bank	318,000	320,000	318,000	320,000
PingAn Bank	190,000	200,000	190,000	200,000
China Ever bright Bank	94,000	50,000	94,000	50,000
China Merchants Bank	47,500	70,000	47,500	70,000
Bank of China	30,000	35,000	—	—
China CITIC Bank	30,000	30,000	30,000	30,000
Rural Credit Cooperatives Union	25,000	—	—	—
Bohai Bank	20,000	—	20,000	—
Industrial Bank	—	40,000	—	40,000
Shanghai Pudong Development Bank	—	4,000	—	—
	<u>2,710,056</u>	<u>2,690,760</u>	<u>1,455,100</u>	<u>1,405,400</u>

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23 BORROWINGS (Continued)

(a) Long-term bank borrowings (Continued)

Summary of terms of long-term bank borrowings:

	Note	Group		Company	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011
Pledge	(i)	143,000	198,000	—	50,000
Guarantee	(ii)	1,111,956	1,137,360	—	—
Unsecured		1,455,100	1,355,400	1,455,100	1,355,400
		<u>2,710,056</u>	<u>2,690,760</u>	<u>1,455,100</u>	<u>1,405,400</u>

- (i) As at 31 December 2012, bank pledge borrowings included Rmb133 million (31 December 2011: Rmb148 million) secured by the collection right of tap water and sewage processing fees of the Company's subsidiary, Qujing Capital Water Co., Ltd. (Note 7), and Rmb10 million secured by the land and buildings of the Company's subsidiary, Baoying Capital Water Co., Ltd..
- (ii) As at 31 December 2012, bank guarantee borrowings of Rmb820 million (31 December 2011: Rmb759 million) were secured by the guarantee of the Company for its subsidiaries. The remaining bank guarantee borrowings of Rmb292 million (31 December 2011: Rmb378 million) were secured by the guarantee of TICIG.
- (iii) These long term bank borrowings bear a weighted average interest rate of 6.41% as at 31 December 2012 (2011: 6.44%).
- (iv) These borrowings mature as follows:

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Within 1 year	778,180	825,720	591,500	623,000
In the 2 year	850,750	752,180	650,000	608,000
In the 3 to 5 year	738,526	733,260	167,600	163,400
Over the 5 year	342,600	379,600	46,000	11,000
	<u>2,710,056</u>	<u>2,690,760</u>	<u>1,455,100</u>	<u>1,405,400</u>

- (v) Bank borrowings which are exposed to interest-rate changes and the contractual reprising dates are as follows:

	Group		Company	
	2012	2011	2012	2011
6 months or less	1,049,150	1,750,760	761,500	1,155,400
6- 12 months	<u>1,660,906</u>	<u>940,000</u>	<u>693,600</u>	<u>250,000</u>

- (vi) The carrying amounts of long-term bank borrowings approximate their fair values as at 31 December 2012 because they bear interest at prevailing market rates throughout their maturity period.



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23 BORROWINGS (Continued)

(b) Short-term bank borrowings

	Group		Company	
	2012	2011	2012	2011
Borrowings from:				
Shanghai Pudong Development Bank	16,000	52,000	16,000	36,000
China Minsheng Bank	20,000	100,000	—	100,000
China Merchants Bank	50,000	—	50,000	—
	<u>86,000</u>	<u>152,000</u>	<u>66,000</u>	<u>136,000</u>

Summary of terms of short-term bank borrowings:

	Note	Group		Company	
		2012	2011	2012	2011
Guarantee	(i)	20,000	16,000	—	—
Unsecured	(ii)	66,000	136,000	66,000	136,000
		<u>86,000</u>	<u>152,000</u>	<u>66,000</u>	<u>136,000</u>

- (i) Includes Rmb20 million borrowed from China Minsheng Bank guaranteed by the Company for the subsidiary Tianjin Zichuang Project Investment Co., Ltd (2011: Rmb16 million borrowed from Shanghai Pudong Development Bank guaranteed by TMICL for the Company's subsidiary, Tianjin Water Recycling Co., Ltd.).
- (ii) Rmb66 million is unsecured loans (2011: Rmb136 million).
- (iii) The weighted average interest rate of short-term bank borrowings in 2012 is 6.16% (2011: 6.85%) per annum.
- (iv) The carrying amounts of short-term bank borrowings approximate their fair values as at 31 December 2012 either due to their short-term maturity or because they bear interest at prevailing market rates throughout their maturity period.

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23 **BORROWINGS** (Continued)

(c) **Long-term debenture**

Long-term Debenture	2011	Addition	Decrease	2012
Par value	700,000	—	—	700,000
Transaction cost	(10,150)	—	2,100	(8,050)
	<u>689,850</u>	<u>—</u>	<u>2,100</u>	<u>691,950</u>

On 16 November 2011, the Company issued a long-term debenture at par value of Rmb700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The debenture matures in five years from the issue date, and bears fixed interest rate at 6.64% per annum. The principal will be repaid on maturity.

Interest accrued of debentures is analysed as follows:

	31 December 2011	Interest accrued		31 December 2012
		Interest accrued in current year	Interest paid in current year	
Corporate debenture	<u>7,747</u>	<u>46,480</u>	<u>(46,480)</u>	<u>7,747</u>

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

	Group and Company			
	2012 Payable	Unrecognized financing charges	2011 Payable	Unrecognized financing charges
Payable to TSC for assets acquisition	<u>700,393</u>	<u>(321,638)</u>	<u>802,193</u>	<u>(385,184)</u>



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23 BORROWINGS (Continued)

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

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

	Maturity date	Original balance	Effective interest rate	Ending balance	Current portion
TSC	20 March 2041	<u>430,314</u>	<u>5.94%</u>	<u>350,754</u>	<u>28,001</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", TSC sold to the Company certain sewage processing assets. After the first instalment of Rmb261 million in cash, the balance of the consideration will be settled on a quarterly basis in RMB translating at exchange rates prevailing on each repayment date over the remaining years. The fair value of the initial recognition of the payable balance is based on discounting future cash payments using an effective interest rate of 5.94%.

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

	Group and Company	
	2012	2011
JPY	546,618	631,576
US dollar	<u>153,775</u>	<u>170,617</u>
	<u>700,393</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.

- (iii) The long-term payable mature as follows, and as at 31 December 2012, the current portion of long-term payable of Rmb28 million was classified as current liabilities.

	Group and Company	
	2012	2011
Within 1 year	28,001	30,466
In the 1 to 2 year	26,721	29,021
In the 2 to 5 year	73,495	79,450
After the 5 year	<u>250,538</u>	<u>278,072</u>
	<u>378,755</u>	<u>417,009</u>

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23 **BORROWINGS** (Continued)

(e) **Other liabilities**

	Group		Company	
	2012	2011	2012	2011
Non-current:				
– Land compensation fund for Jizhuangzi sewage water processing plant(note(i))	670,000	—	670,000	—
– Land compensation fund for Jizhuangzi water recycling plant (note(i))	80,000	—	—	—
– Government loan for sewage water processing plants construction (note(ii))	65,453	81,817	65,453	81,817
– Government loan for water recycling plants construction (note(iii))	14,092	17,273	—	—
– Others	10,613	10,613	—	—
	<u>840,158</u>	<u>109,703</u>	<u>735,453</u>	<u>81,817</u>
Current:				
– Current portion of government loan for sewage water processing plants construction (note(ii))	16,364	16,364	16,364	16,364
– Current portion of government loan for water recycling plants construction (note(iii))	3,181	3,181	—	—
– Others	462	416	—	—
	<u>20,007</u>	<u>19,961</u>	<u>16,364</u>	<u>16,364</u>

(i) As at 31 December 2012, the Group had received Rmb750 million land compensation fund of Jinnan sewage water processing plant and water recycling plant (Note 6(d)).

(ii) A loan was taken from Tianjin Municipal Engineering Bureau (TMEB) by the Company during 2005 specifically for construction of sewage water processing plants. The current portion of the long-term loan is Rmb16 million

(2011: Rmb16 million). The loan is repayable in equal instalments over eleven years from 2007. The loan bears interest at 5% per annum for the first six years. From the seventh year to maturity, the interest will be based on the rate for deposits in RMB for period of one year on the quotation date plus 0.3% premium.

(iii) A loan was taken from TMEB by Tianjin Water Recycling Co., Ltd, the subsidiary of the Company during 2003 specifically for construction of water recycling plants. The current portion of the long-term loan is Rmb3 million (2011: Rmb3 million). The loan is repayable in equal instalments over eleven years from 2007. The interest will be based on the rate for deposits in RMB for period of one year on the quotation date plus 0.3% premium.

(f) **As at year end, the Group has the following committed undrawn banking facilities:**

	Group	
	2012	2011
Floating rate expiring within 1 year	<u>228,400</u>	<u>309,600</u>

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24 DEFERRED REVENUE

Deferred revenue represents the subsidies received from governmental authorities in relation to Group's certain construction and research and development projects. The details of deferred revenue are as below:

	2012	2011
Sewage water processing plants(note6(c)):		
– Xian Yang Lu (upgrade project)	67,219	67,500
– Ji Zhuang Zi (upgrade project)	39,535	39,700
– Dong Jiao (upgrade project)	38,439	38,600
Water recycling plants in:		
– Dong Jiao	25,131	25,762
– Bei Chen	21,000	21,000
Others	10,556	11,659
Total-Company	<u>201,880</u>	<u>204,221</u>
Heating and cooling supply service project:	104,563	84,156
Water recycling plants :		
– Ji Zhuang Zi (sewage reuse project)	42,057	43,371
– Ji Zhuang Zi (expansion project)	20,400	21,000
– Xian Yang Lu (water recycling project)	15,171	15,585
Others	1,590	1,595
Total-Group	<u><u>385,661</u></u>	<u><u>369,928</u></u>

25 DEFERRED INCOME TAX LIABILITIES

	2012		2011	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>60,645</u>	<u>242,580</u>	<u>48,479</u>	<u>193,916</u>

26 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND TAX PAYABLES

	Group		Company	
	2012	2011	2012	2011
Trade payables (note (a))	20,847	18,481	5,373	3,157
Advances from customers (note (b))	601,371	423,387	4,871	8,331
Other payables (note (c))	511,940	412,095	590,875	330,812
Tax payables(note (d))	26,706	8,274	17,954	2,400
	<u>1,160,864</u>	<u>862,237</u>	<u>619,073</u>	<u>344,700</u>

(a) As at 31 December 2012, the majority of trade payables are aged within one year.

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26 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND TAX PAYABLES
(Continued)

(b) Advances from customers comprise:

	Group		Company	
	2012	2011	2012	2011
For pipeline connection services	580,944	407,679	—	—
For heating supply service	13,776	6,881	—	—
For project Han Gu	2,261	4,521	2,261	4,521
Other advances	4,390	4,306	2,610	3,810
	<u>601,371</u>	<u>423,387</u>	<u>4,871</u>	<u>8,331</u>

As at 31 December 2012, advances of Rmb314 million (31 December 2011:Rmb 179millions) are aged over one year, which mainly represent advances in relation to those projects of recycled water pipeline connection. The balances are yet to be settled as those projects have not been completed.

(c) Other payables comprise:

	Group		Company	
	2012	2011	2012	2011
Construction costs payable	392,679	224,627	299,271	101,302
Payable for purchase of property, plant and equipment and concession rights	40,935	111,179	10,148	20,607
Interest payable for long term debenture (Note 23(d))	7,747	7,747	7,747	7,747
Others	70,579	68,542	273,709	201,156
	<u>511,940</u>	<u>412,095</u>	<u>590,875</u>	<u>330,812</u>

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

As at 31 December 2012, other payables of Rmb137 million (31 December 2011:Rmb133 million) are aged over one year, which mainly represent unsettled payables and deposits for upgrade projects.

(d) Tax payables comprise:

	Group		Company	
	2012	2011	2012	2011
Income Tax Payables	21,763	7,671	15,501	—
Business Tax Payables	2,727	3,189	1,631	1,356
VAT Payables	1,047	(3,883)	—	—
Others	1,169	1,297	822	1,044
	<u>26,706</u>	<u>8,274</u>	<u>17,954</u>	<u>2,400</u>



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27 BUSINESS TAX

	2012	Group 2011
Business tax	9,883	7,614
City construction and maintenance fee	834	660
Education fee surcharge and others	761	557
	<u>11,478</u>	<u>8,831</u>

28 EXPENSE BY NATURE

Expenses included in cost of sales and administrative expenses are analysed as follows:

	2012	2011
Utilities	196,595	176,337
Employee benefit expense (note 29)	157,097	137,742
Depreciation of property, plant and equipment and investment properties	152,166	139,837
Amortisation of intangible assets and land use rights	136,104	117,428
Repair and maintenance expenses	77,200	60,927
Raw materials and consumables used	53,075	48,919
Sewage processing fee	53,120	24,552
Cost of recycling water pipeline connection service	40,428	28,205
Cost for construction contract	26,368	110,900
Travel, meeting and business entertainment expenses	15,898	13,262
Other taxes	12,369	9,624
Toll road management fee	7,120	7,120
Auditors' remuneration	4,200	4,200
Operating lease rentals for land and buildings	904	784
Others	64,051	59,484
	<u>996,695</u>	<u>939,321</u>

29 EMPLOYEE BENEFIT EXPENSE

(a) The analysis of employee benefits is as follows:

	2012	2011
Wages and salaries	105,979	92,677
Social security costs	20,316	21,970
Pension costs – defined contribution plans	13,981	11,922
Other benefits	16,821	11,173
	<u>157,097</u>	<u>137,742</u>

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29 EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Directors' and senior managements' emoluments

The remuneration of every director and senior management for the year ended 31 December 2012 is set out below:

Name	Fees	Salaries and other emoluments	Total
Executive Directors:			
Zhang Wenhui(note(iv))	150	653	803
Lin Wenbo(note(v))	100	641	741
Fu Yana (note(v))	100	495	595
Shi Zhenjuan(note(i)¬e(v))	—	496	496
Zhong Huifang (note(ii))¬e(v))	100	—	100
Non-executive Directors:			
Xie Rong	220	—	220
Di Xiaofeng	220	—	220
Li Jieying	220	—	220
An Pindong	100	—	100
Chen Yinxing	100	—	100
Senior Managements:			
Li Yang	—	505	505
Li Yuqing	—	497	497
Zhang Mingqi	—	496	496
Deng Biao	—	495	495
Yang Guang	—	495	495
Zhang Qiang	—	492	492
Nie Youzhuang	—	280	280
Wu Baolan	—	248	248
Qi Lipin	—	239	239
Lu Weiqiang	—	127	127
Tang Fusheng	—	495	495
Wang Hong	—	495	495
Zhao Yi	—	494	494
Zhang Jian(note(iii))	—	652	652
Li Xiaoshen(note(i))	—	208	208
	<u>1,310</u>	<u>8,503</u>	<u>9,813</u>

(i) Appointed on December 2012.

(ii) Resigned on December 2012.

(iii) Appointed on January 2012.

(iv) The Director is also the Chief Executive.

(v) The Directors are also the Chief Executives.

(vi) None of the directors or chief executives of the Company received emoluments in excess of HK\$1,000,000 during the year.



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29 EMPLOYEE BENEFIT EXPENSE (Continued)

(b) Directors' and senior managements' emoluments (Continued)

The remuneration of every director and senior management for the year ended 31 December 2011 is set out below:

Name	Fees	Salaries and other emoluments	Total
Executive Directors:			
Zhang Wenhui	150	592	742
Lin Wenbo	150	524	674
Fu Yana	100	455	555
Zhong Huifang	100	141	241
Non-executive Directors:			
Xie Rong	220	—	220
Di Xiaofeng	220	—	220
Li Jieying	220	—	220
An Pindong	100	—	100
Chen Yinxing	100	—	100
Senior Managements:			
Shi Zhenjuan	—	525	525
Li Yang	—	280	280
Li Yuqing	—	464	464
Zhang Mingqi	—	414	414
Deng Biao	—	432	432
Yang Guang	—	453	453
Zhang Qiang	—	412	412
Nie Youzhuang	—	237	237
Wu Baolan	—	195	195
Qi Lipin	—	206	206
Lu Weiqiang	—	132	132
Tang Fusheng	—	455	455
Wang Hong	—	414	414
Zhao Yi	—	360	360
	1,360	6,691	8,051

- (c) The five individuals whose emoluments were the highest in the Group for the year are reflected in the analysis presented above.

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30 FINANCE COSTS – NET

	2012	Group	2011
Interest expenses of borrowings	290,435		238,355
Less: Capitalised interest	(19,251)		(19,147)
	271,184		219,208
Net interest expenses	271,184		219,208
Less: Interest income	(30,001)		(23,963)
– long-term receivables	(11,507)		(11,433)
– bank deposits	(18,494)		(12,530)
Exchange gains (note(a))	(36,845)		(5,814)
Others	7,990		6,984
	212,328		196,415

(a) As at 31 December 2012, the long-term payables denominated in Japanese Yen and USD are translated into RMB at the stipulated exchange rates as at 31 December 2012 and an exchange gain of about Rmb37 million was recognised (31 December 2011: exchange gain of about Rmb6 million).

31 INCOME TAX EXPENSE

	2012	Group	2011
Current income tax	86,083		86,102
Deferred income tax	12,166		10,052
	98,249		96,154

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

	2012		2011
Profit before income tax	372,800		376,034
Calculated at applicable income tax rates (25%)	93,200		94,009
Effect of different income tax rate applicable to certain subsidiaries	(3,160)		(2,432)
Income not subject to tax	(977)		(1,214)
Expenses not deductible for taxation purposes	6,032		2,326
Utilisation of previously deductible tax losses for which no deferred income tax assets was recognised	(139)		(3,379)
Current year tax losses for which no deferred income tax asset was recognised	3,293		6,844
	98,249		96,154

32 PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The profit attributable to equity holders of the Company for the year is dealt with in the financial statements of the Company to the extent of approximately Rmb247 million (2011: Rmb242 million).



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33 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb269 million (2011: Rmb276 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2011: 1,427 million shares).

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

	2012	2011
Profit attributable to owners of the parent	<u>268,981</u>	<u>275,786</u>
Weighted average number of ordinary shares in issue (million shares)	<u>1,427</u>	<u>1,427</u>
Basic and diluted earnings per share (Rmb Yuan)	<u><u>0.19</u></u>	<u><u>0.19</u></u>

34 DIVIDENDS

A dividend in respect of year ended 31 December 2011 of Rmb0.04 (gross tax) per share, total shares of 1,427 million shares on 3 July 2011, amounting to a total dividend of Rmb57 million, was approved at the Annual General Meeting on 11 May 2012 (2011: Rmb0.11 (gross tax) per share, amounting to a total dividend of Rmb157 million).

The dividends paid in 2012 and 2011 were Rmb28 million and Rmb157 million respectively.

A dividend in respect of the year ended 31 December 2012 of Rmb0.06 per share, amounting to a total dividend of Rmb86 million, is to be approved at the annual general meeting. These financial statements do not reflect this dividend payable.

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35 CASH GENERATED FROM OPERATIONS

	2012	Group 2011
Profit for the year	274,551	279,880
Adjustments for:		
– Taxation	98,249	96,154
– Amortisation of deferred revenue	(7,875)	(2,968)
– Depreciation and amortisation	288,270	257,265
– Share of loss /(profits) of an associate	6,041	(186)
– Investment income from available-for- sale financial assets	(500)	(200)
– (Gain) /Loss on disposal of property, plant and equipment, intangible assets and land use right	(3,160)	13,661
– Interest income	(18,494)	(12,530)
– Interest expense-net	234,339	219,208
Changes in working capital		
– Increase in inventories	(11,940)	(48,093)
– Increase in trade receivables, other receivables and prepayments	(485,235)	(33,051)
– Increase in trade payables, advance from customers and other payables	179,211	147,522
Cash generated from operations	553,457	916,662

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2012	2011
Net book amount	17,933	14,469
Gain/(Loss) on disposal of property, plant and equipment, intangible assets and land use rights(note (i))	3,160	(13,661)
Proceeds from sale of property, plant and equipment, intangible assets and land use right	21,093	808

- (i) Gain/(Loss) on disposal of property, plant and equipment, intangible assets and land use right is included in *Other gains – net* in consolidated statement of comprehensive income.



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36 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	
	2012 Rmb 'million	2011 Rmb 'million	2012 Rmb 'million	2011 Rmb 'million
Sewage water processing plants in:				
– Ji Zhuang Zi (upgrade project)	—	21	—	15
– Xian Yang Lu (upgrade project)	—	9	—	31
– Bei Cang (upgrade project)	—	10	—	25
– Dong Jiao (upgrade project)	—	18	—	63
– Ning He project	—	16	—	9
– Baoying project	—	16	—	—
– Hang Zhou project	—	4	—	5
– Ji Zhuang Zi relocation project	330	—	1,318	—
Water recycling plants in:				
– Ji Zhuang Zi relocation project	72	—	150	—
– Ji Zhuang Zi (expansion project)	—	—	—	16
	<u>402</u>	<u>94</u>	<u>1,468</u>	<u>164</u>

37 RELATED PARTY TRANSACTIONS

(1) Information of the parent of the Company

(a) General information of the parent company

	Type	Place of registration	Legal representative	Nature of business	Code of organisation
TMICL	Limited Company	Tianjin, the PRC	Xiong Guang Yu	Development and management of municipal infrastructures	70042249

The Company's ultimate controlling party is TICIG

(b) Registered capital and changes in registered capital of the parent company

	31 December 2011	Increase in current year	Decrease in current year	31 December 2012
TMICL	<u>1,820,000</u>	<u>—</u>	<u>—</u>	<u>1,820,000</u>

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37 RELATED PARTY TRANSACTIONS (Continued)

(1) **Information of the parent of the Company** (Continued)

(c) *The percentages of share holding and voting rights in the Company held by the parent company*

	31 December 2012		31 December 2011	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
TMICL	51.60%	51.60%	51.60%	51.60%

(2) **Information of subsidiaries**

The general information and other related information of the subsidiaries is set out in note 10.

(3) **Information of associates**

The general information and other related information of associates is set out in note 11.

(4) **Information of other related parties**

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



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37 RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions

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

(a) Income:

Related party	Nature of transaction	2012	2011
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	35,330	404
TICIG	Commission income from contract operation	22,365	—
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant	7,350	48,535
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects	2,800	4,400
Tianjin Subway Group Limited company	Income from heating and cooling supply	2,616	76
Tianjin Environment Construction Investment Company Limited	Rental income from TCEP building	1,851	1,238
Tianjin Environment Construction Investment Company Limited	Income from heating and cooling supply	261	87
TICIG	Rental income from TCEP building	239	2,014
Tianjin City Resource Operation Co., Ltd.	Rental income from TCEP building	—	344

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 heating and cooling supply with related parties is based on the reference price stipulated by government. Other transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

(b) Key management compensation:

	2012	2011
Key management compensation	9,813	7,067

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37 RELATED PARTY TRANSACTIONS (Continued)

(6) Trade receivables

	2012	2011
Trade receivables from related parties		
– TICIG	13,419	—
– Tianjin Lecheng Properties Limited	8,197	404
– Tianjin City Resource Operation Co., Ltd.	801	801
– Tianjin Subway Group Limited company	—	76
	<u> </u>	<u> </u>

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

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

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

38 FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2012, the Company had given guarantees of approximately Rmb963 million (2011: Rmb762 million) to banks of certain subsidiaries in respect of their banking facilities, of which Rmb840 million of the facilities had been drawn by the subsidiaries.

The Directors consider the subsidiaries to be financially resourceful to settle their obligations.



17. List of Documents Available for Inspection

1. The financial statements signed and sealed by the legal representative of the Company, the officer-in-charge of the accounting work and the officer-in-charge of the Accounting Department (the chief accountant).
2. Original of the report of the auditors sealed by the certified public accountants, signed and sealed by the auditors.
3. Originals of all documents and announcements of the Company publicly disclosed in newspapers designated by the CSRC during the reporting period.
4. The annual report released in other stock markets.