



# Annual Report 2013



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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# Important

- I. 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 annual 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.
- II. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have issued standard unqualified audit reports of the Company.
- III. Mr. Zhang Wenhui, the Company’s chairman, Ms. Shi Zhenjuan, the officer in charge of the accounting work, and Ms. Cao Shuo, 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 2013 annual report.
- IV. 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 LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2013 amounted to RMB281.90 million. After deduction of the statutory common reserve of RMB22.35 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 RMB1,619.78 million at the beginning of the year, and less the distribution in 2013 of the 2012 cash dividend of RMB85.63 million, the actual profit distributable to the shareholders for the year amounted to RMB1,793.70 million. According to the profit appropriation policy of the Company, it will be proposed that a cash dividend for 2013 of RMB0.80 (gross tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB114.18 million, representing 40.50% of the available-for-distribution profit attributable to the Company realized in 2013. No transfer from the capital reserve fund to share capital was made for 2013. The appropriation proposal shall be submitted to the 2013 annual general meeting of the Company for consideration and shall be implemented after approval.

- V. 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.
- VI. Did the controlling shareholder of the Company and its related parties misappropriate the Company’s funds for non-operating purposes?  
  
No
- VII. Did the Company provide external guarantees in violation of any specified decision-making procedures?  
  
No

# 1. Definitions and Significant Risks Warning

## I. 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
“TYCOM”	Tianjin Yuanyicheng Commercial Operation Management Company Limited
“TMG”	Tianjin City Metro Group Company Limited
“TSC”	Tianjin Sewage Company

## II. 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 4 “Directors’ Report” for the potential risks that the Company may face



## 2. Company Profile

### I. 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

### II. 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	86-22-23930128	852-22180920	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
Email address	fu_yn@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

### III. 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	<a href="http://www.tjcep.com">http://www.tjcep.com</a>
Email address	<a href="mailto:tjcep@tjcep.com">tjcep@tjcep.com</a>

#### IV. 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	www.sse.com.cn
Place where the annual report of the Company is available for inspection	Office of the Secretary to the Board, 18/F, TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC

#### V. 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

#### VI. CHANGES IN THE COMPANY'S REGISTRATION DURING THE REPORTING PERIOD

(i) **Basic information**

There were no changes in the Company's registration during the reporting period.

(ii) **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.



## 2. Company Profile

### (iii) 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 facilities 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. 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, licensed operation of toll roads, etc.

### (iv) 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.

## VII. OTHER RELEVANT INFORMATION

Certified public accountants engaged by the Company (PRC)	Name	PricewaterhouseCoopers Zhong Tian LLP
	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

### 3. Accounting Data and Financial Indicator Highlights

#### I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE LAST THREE YEARS AS AT THE END OF THE REPORTING PERIOD

##### (i) Major accounting data

*Unit: 0'000 Currency: RMB*

Major accounting data	2013	2012	Increase/decrease	
			for the period as compared to the same period last year (%)	2011
Operating income	174,986	163,732	6.87	156,249
Net profit attributable to the shareholders of the Company	28,190	26,898	4.80	27,579
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	26,849	25,318	6.04	27,823
Net cash flow from operating activities	57,147	49,424	15.63	83,417
			Increase/decrease	
			for the end of the period as compared to the end of the same period last year (%)	As at the end of 2011
	As at the end of 2013	As at the end of 2012		
Net assets attributable to the shareholders of the Company	397,649	378,023	5.19	345,834
Total assets	1,107,375	1,030,699	7.44	908,532



### 3. Accounting Data and Financial Indicator Highlights

#### I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE LAST THREE YEARS AS AT THE END OF THE REPORTING PERIOD (Continued)

##### (ii) Major financial data

Currency: RMB

Major financial indicators	2013	2012	Increase/decrease	
			for the period as compared to the same period last year (%)	2011
Basic earnings per share (RMB/share)	0.20	0.19	5.26	0.19
Diluted earnings per share (RMB/share)	0.20	0.19	5.26	0.19
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.19	0.18	5.56	0.19
Weighted average return on net assets ratio (%)	7.27	7.33	Decreased by 0.06 percentage point	7.73
Weighted average return on net assets ratio after deduction of extraordinary items (%)	6.92	6.91	Increased by 0.01 percentage point	7.80

#### II. 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.

## III. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

	<i>Unit: 0'000 Currency: RMB</i>		
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
<b>Extraordinary items</b>	<b>in 2013</b>	<b>in 2012</b>	<b>in 2011</b>
Profit/loss from disposal of non-current assets	-485	316	-1,366
Government grants recognized in current profit and loss, except for those are related to business operation, in comply with national policy and settled in certain amount which are constantly granted by government	2,291	1,210	676
Other non-operating income and expenses except for the above items	77	587	365
Effect on minority interests	-71	-5	—
Income tax effect	-471	-528	81
Total	<u>1,341</u>	<u>1,580</u>	<u>-244</u>

## IV. ITEMS MEASURED AT FAIR VALUE

Not applicable



### 3. Accounting Data and Financial Indicator Highlights

#### V. PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS

##### Results

*Unit: 0'000 Currency: RMB*

	For the year ended 31st December				
	2013	2012	2011	2010	2009
Turnover	<u>161,468</u>	<u>154,117</u>	<u>149,315</u>	<u>139,482</u>	<u>122,647</u>
Profit before taxation	<u>38,752</u>	<u>37,280</u>	<u>37,603</u>	<u>36,683</u>	<u>33,772</u>
Taxation	<u>(9,916)</u>	<u>(9,825)</u>	<u>(9,615)</u>	<u>(9,167)</u>	<u>(9,132)</u>
Profit after taxation	28,836	27,455	27,988	27,516	24,640
Minority interests	<u>(646)</u>	<u>(557)</u>	<u>(409)</u>	<u>(400)</u>	<u>(342)</u>
Profit attributable to the shareholders of the Company	<u>28,190</u>	<u>26,898</u>	<u>27,579</u>	<u>27,116</u>	<u>24,298</u>
Dividend	<u>11,418</u>	<u>8,563</u>	<u>5,709</u>	<u>15,700</u>	<u>11,418</u>

Note: The results for each of the five years ended 31 December 2013 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

## V. PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

## Assets and Liabilities

Unit: 0'000 Currency: RMB

	As at 31st December				
	2013	2012	2011	2010	2009
Fixed assets	477,516	429,068	383,231	381,261	284,170
Intangible assets	264,848	275,369	280,304	242,778	236,770
Associated company	3,262	3,463	4,067	4,158	4,014
Available-for-sale financial assets	200	400	400	400	400
Long-term receivables	33,361	33,763	33,845	33,629	33,135
Trade receivables due after one year	—	6,879	6,879	6,879	24,179
Other non-current assets	725	851	863	746	323
Net current assets	<u>105,961</u>	<u>69,578</u>	<u>8,936</u>	<u>3,960</u>	<u>1,562</u>
	885,873	819,371	718,525	673,811	584,553
Minority interests	15,805	15,244	14,737	12,560	12,192
Long-term liabilities	<u>472,418</u>	<u>426,104</u>	<u>346,954</u>	<u>316,194</u>	<u>243,002</u>
Net assets	<u><u>397,650</u></u>	<u><u>378,023</u></u>	<u><u>356,834</u></u>	<u><u>345,057</u></u>	<u><u>329,359</u></u>



## 4. Directors' Report

### 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 investment, construction, operation and technical consultation in respect of sewage water treatment facilities, production and sales of recycled water, connection of pipelines network, tap water supply, new energy cooling and heating supply services and toll collection business.

In 2013, under the leadership of the Board, the Group's management closely adhered to the strategic plan of the Group for the "Twelfth Five-Year Plan" period, followed the major strategies and operation plan of the Group and continued to apply the operation philosophy of "technology as the guide, operation as core" to further strengthen its internal control management, strictly implement appraisals against targets and job performance as well as continuously enhance the quality and capacities of its staff in order to increase their working efficiency. While ensuring the product and service quality, the Group strived to reduce costs and expenses to improve its operating efficiency. Aimed at maximizing the value created for the shareholders, the Group continuously enhanced its operation management and technological research and development to further build up the core competitiveness of the Company. In particular:

1. Four sewage water treatment plants including Tianjin Jizhuangzi Sewage Water Treatment Plant obtained the licensed operation right for a period of 30 years and signed the Licensed Operation Agreement on 18 February 2014. The term of the licensed operation commenced from 1 January 2014, which has laid a foundation for the long-term and stable operation of the four sewage water treatment plants including Tianjin Jizhuangzi Sewage Water Treatment Plant by the Company during the next 30 years and the stable and sustainable development of the Company's sewage water treatment business.
2. While endeavoring to ensure the service quality of its operation projects, the Group has effectively conducted price adjustment as agreed in respect of projects in cities such as Hangzhou and Guizhou. The service price adjustment period had commenced, which provided a guarantee for the stable and sustainable operation of those projects.

3. The Group has made a new progress in technology research and development and transformation of technological achievements. The sewage water treatment plant all-process deodorization patented technology has been further promoted, which results in significant increase in income. The Group has also made some achievements in research and development of new technologies for treatment of specific industrial waste water and sludge from sewage water treatment plants. Such technologies have been ready to marketing.
4. The Group has built up its brand in respect of the business of new energy cooling and heating supply services through high quality services, which laid a foundation for its future market expansion.
5. In respect of Jizhuangzi relocation project, the newly-constructed sewage water treatment plant has been commissioned as scheduled, which further consolidated the Group's leading position in the sewage water treatment industry and established a good brand image.

### (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 2013, the Group recorded an income from operations of RMB1,749.86 million, representing an increase of RMB112.54 million or 6.87% as compared to 2012. The increase in income from operations was mainly attributable to the significant increase in income generated from the entrusted operation of sewage water treatment plants, the business of sales of recycled water and pipeline connection business as well as the business of the sewage water treatment plant all-process deodorization engineering as compared to last year. Meanwhile, the Group recognized part of the unrecognized fee income from cooling supply services due to disputes in 2012.

While there was an increase in the income from operations, the costs of operations also increased by RMB106.39 million or 11.19% as compared to the same period last year, which, on one hand, was attributable to the increase in costs of the entrusted operation of the sewage water treatment plants, recycled water pipeline connection and deodorization engineering in line with the increase of income, and on the other hand, was attributable to the fact that the Company provided full-year depreciation in 2013 in respect of its four sewage water treatment plants including Jizhuangzi Sewage Water Treatment Plant, as compared to the three-month depreciation provided in 2012, which resulted in the increase in the amount of depreciation. Meanwhile, there was an increase in labour costs in 2013.

In line with the increase in the income generated from the entrusted operation business and the BT business, business tax and surcharges increased by 34.81% as compared to last year.

## 4. Directors' Report

Finance costs decreased by RMB34.52 million or 16% as compared to last year, which was mainly attributable to the increase in exchange gains during the reporting period as compared to last year. If excluding the effect of exchange gains, finance costs for the year would decrease by approximately RMB5 million as compared to last year.

During the reporting period, the Group, based on prudent considerations, made provision for impairment losses of RMB11.32 million in respect of assets of the urban water supply project in Anguo and made provision for bad debt of RMB7.17 million in respect of trade receivables of the sewage water treatment project in Qujing on case-by-case basis.

As a result of the forgoing, the Group recorded a net profit (attributable to the shareholders of the Company) of RMB281.90 million during the reporting period, representing an increase of RMB12.92 million or 4.80% as compared to 2012.

### 2. Analysis of principal businesses

#### (1) Sewage water treatment business

As at the end of the reporting period, the sewage water processing capacity of the Group was 3,707,500 cubic metres per day, representing a slight decrease as compared to 2012. The sources for generating revenue from sewage water treatment include: (a) 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; (b) 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; (c) entrusted operation by which the Group charged operation service fees by rendering operation services in relation to sewage water treatment. The Group had processed a total of 1,090.11 million cubic metres of sewage water during the reporting period through the above ways, representing an increase of 4.7% as compared to 2012. Income realized amounted to RMB1,315.13 million, representing an increase of 3.56% as compared to 2012.

During the reporting period, the Group's four sewage water treatment plants in the central urban area of Tianjin processed a total of 401.54 million cubic metres of sewage water for the whole year and realized a sewage water treatment service income of RMB774.97 million. Both the volume of water processed and income decreased by 1.34% as compared to 2012, which was mainly attributable to the decrease in upstream water inflow to some sewage water treatment plants.

During the reporting period, the subsidiaries of the Group processed a total of 538.63 million cubic metres of sewage water, representing an increase of 6% as compared to 2012. Income from sewage water treatment services of RMB440.18 million was realized, representing an increase of 3.1% as compared to 2012.

During the reporting period, the Group's entrusted operation projects processed a total of 149.94 million cubic metres of sewage water, representing an increase of 19.2% as compared to 2012, and realized an income of RMB99.99 million, representing an increase of 74.17% as compared to 2012, which was mainly attributable to the substantial increase in water volume and income from entrusted operation for full year of 2013 of Zhangguizhuang Sewage Water Treatment Plant of the Company as compared to five months from August 2012, and the increase in income generated from part of the entrusted operation projects of Guizhou subsidiaries.

(2) *Sewage water treatment plants construction business (including income from deodorization engineering business)*

During the reporting period, income from sewage water treatment plant construction business of the Company was RMB43.50 million, representing an increase of 49.48% as compared to last year, which was mainly attributable to the significant increase in income generated from the deodorization engineering business as compared to the same period last year. During the reporting period, the Company continued to promote the marketing of the sewage water treatment plant all-process deodorization patented technology, which resulted in the increase in number of external contracts and realized a total income of RMB19.90 million, representing an increase of 319% as compared to 2012.

(3) *Recycled water business*

During the reporting period, the sales volume of recycled water was 18.713 million cubic metres, mainly due to the increase in the volume of recycled water used by part of recycled water users and full-year usage of recycled water by users of Xianyanglu Recycled Water Plant in 2013 as compared to four-month usage of recycled water from September in 2012. During the reporting period, the recycled water sales business recorded an income of RMB50.68 million, representing an increase of 57% as compared to 2012, which was mainly attributable to the above increase of water sales volume and the mutual effect of new water price charged in full year of 2013 and nine months from April in 2012.

During the reporting period, the Company vigorously developed the recycled water pipeline connection business and realized a total income of RMB114.21 million, representing an increase of 13% as compared to the corresponding period of 2012.



## 4. Directors' Report

### (4) *Tap water business*

During the reporting period, the Company's tap water business recorded a water supply volume of 42.523 million cubic metres, representing a decrease of 1% as compared to 2012, which was mainly attributable to the slight decrease in volume of water supplied by Qujing Tap Water Plant. Since the city water supply project in Anguo was in arbitration process, no income was recognized in respect of its production of tap water. During the reporting period, the Company recorded sales income of tap water of RMB36.47 million, representing a decrease of 17% as compared to 2012.

### (5) *Cooling and heating supply service business*

During the reporting period, the Tianjin Cultural Centre centralized energy station project recorded a total income from cooling and heating supply service fees for the full year of RMB71.23 million, representing an increase of 37% as compared to 2012, which was mainly attributable to the recognition of part of the unrecognized fee income from cooling supply services due to disputes in 2012.

### (6) *Toll collection business*

For the toll collection business, the Group has since 2010 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 2012.

## (I) Analysis of principal businesses

## 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	174,986	163,732	6.87
Costs of operations	105,758	95,119	11.18
Business tax and surcharges	1,547	1,148	34.76
Administrative expenses	10,878	10,512	3.48
Finance costs	17,781	21,233	-16.26
Net cash flows from operating activities	57,147	49,424	15.63
Net cash flows from investing activities	-16,492	13,565	-221.58
Net cash flows from financing activities	-40,854	-32,192	26.91
Research and development expenses	646	590	9.49

## 2. Income

## (1) Analysis of factors driving changes in business income

For details, please refer to "Analysis of 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

During the reporting period, there were no material changes in or adjustments to the Company's products and services.



## 4. Directors' Report

### (5) Information on major sales customers

Total income from operations from the Group's top five customers was RMB1,163.90 million (2012: RMB1,150.99 million), representing 66% (2012: 70%) of the Group's total income from operations. For details, please refer to the financial statements of the Group.

### 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 change in the amount for the current period as compared to the same period last year		Note
					Percentage of total costs for the same period last year	Percentage of total costs for the same period last year	
Sewage water	Labour	8,772	9.03%	8,454	9.48%	3.77%	
	Energy consumption (electricity charges)	17,560	18.07%	17,657	19.80%	-0.55%	
	Material consumption	4,406	4.53%	4,480	5.02%	-1.66%	
	Repair and maintenance	7,501	7.72%	7,638	8.57%	-1.80%	
	Sludge disposal	5,065	5.21%	5,283	5.93%	-4.12%	
	Depreciation and amortization	27,086	27.87%	23,196	26.02%	16.77%	
	Remaining manufacturing costs	2,848	2.93%	2,650	2.97%	7.45%	
	Sub-total	73,237		69,358			

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	Note
Sewage water plant construction	Project construction costs	2,629	2.71%	2,637	2.96%	-0.30%	
	Sub-total	2,629		2,637			
	Labour	846	0.87%	805	0.90%	5.10%	
Tap water	Energy consumption (electricity charges)	564	0.58%	683	0.77%	-17.48%	
	Material consumption	78	0.08%	79	0.09%	-0.96%	
	Repair and maintenance	182	0.19%	188	0.21%	-3.30%	
	Depreciation and amortization	837	0.86%	920	1.03%	-9.07%	
	Remaining manufacturing costs	180	0.18%	181	0.20%	-0.78%	
	Sub-total	2,687		2,856			
	Labour	985	1.01%	807	0.91%	22.05%	
	Energy consumption (electricity charges)	974	1.00%	675	0.76%	44.29%	Note 1
	Material consumption	731	0.75%	566	0.63%	29.30%	
	Repair and maintenance	1,503	1.55%	1,030	1.16%	45.95%	Note 1
Recycled water	Depreciation and amortization	2,328	2.40%	2,121	2.38%	9.74%	
	Remaining manufacturing costs	281	0.29%	227	0.25%	24.18%	
	Sub-total	6,802		5,425			



## 4. Directors' Report

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		Note	
					Percentage of total costs for the same period last year	Percentage of total costs for the same period last year		
Recycled water pipeline network connection	Project construction costs	4,877	5.02%	4,043	4.53%	20.62%		
	Sub-total	4,877		4,043				
Cooling and heating supply	Labour	361	0.37%	358	0.40%	0.79%		
	Energy consumption (electricity charges)	1,768	1.82%	1,368	1.53%	29.23%	Note 2	
	Material consumption	71	0.07%	58	0.07%	22.95%		
	Repair and maintenance	376	0.39%	303	0.34%	23.87%		
	Depreciation	1,343	1.38%	1,330	1.49%	1.00%		
	Municipal heating network fee	245	0.25%	57	0.06%	326.18%	Note 2	
	Remaining manufacturing costs	32	0.03%	18	0.02%	78.98%		
	Sub-total	4,197		3,493				
	Toll collection	Collection management costs	712	0.73%	712	0.80%	0.00%	
		Sub-total	712		712			
Sales of construction materials	Sales of products	934	0.96%	—	0.00%	N/A	Note 3	
	Sub-total	934		—				
Consulation and others	Labour	592	0.61%	314	0.35%	88.25%	Note 4	
	Other manufacturing costs	514	0.53%	320	0.36%	60.79%		
	Sub-total	1,106		634				
<b>Total</b>		<b>97,179</b>		<b>89,158</b>		<b>9.00%</b>		

Notes:

1. This was mainly attributable to the increase in maintenance expenses and electricity charges as a result of the increase in sales volume of recycled water during the year.
2. Costs of the cooling and heating supply business increased as compared to last year. Since the energy station was in the commissioning stage and did not operate in full load in the previous year, costs such as electricity charges and materials were lower than those in the year. In addition, since the municipal heating network was fully connected in the year, the heating network fee and related repair and maintenance expenses also increased.
3. Tianjin Capital New Materials Company Limited recorded an increase in sales income of pipelines and a year-on-year increase in costs during the year.
4. There were newly-added costs of operations of Tianjin Capital New Materials Company Limited and technology consultation and R&D expenses of Tianjin Kaiying Technology Development Company Limited during the year.

(2) *Information on major suppliers*

In 2013, purchases from the top five suppliers amounted to RMB208.66 million, representing 20% of the total purchases for the year.

4. **Fees**

During the reporting period, administrative expenses slightly increased as compared to last year.

For details of finance costs, and business tax and surcharges, please refer to the "Analysis on the Results of Operations" in the 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	556.95
Capitalized research and development expenses for the period	88.7
Total research and development expenses	645.65
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 (%)	0.37



## 4. Directors' Report

### (2) Explanation

In 2013, the Group focused its R&D efforts on the market demand for industrial waste water treatment and sludge treatment, and actively carried out technology R&D to provide technical reserves for the Company's entering into specific industrial waste water treatment and sludge treatment market. Meanwhile, the Group conducted technical optimization in light of marketing of the sewage water treatment plant all-process deodorization technology to provide technical support for increasing market share.

### 6. Cash flow

Unit: 0'000 Currency: RMB

Item	2013	2012	Increase/ decrease	Percentage change (%)	Details of changes
Net cash flow from operating activities	57,147	49,424	7,723	15.63	During the current period, the Company recovered outstanding construction and management fees carried forward from the previous periods and Jiayuanxing received price compensation for cooling supply of RMB50 million.
Net cash flow from investing activities	-16,492	13,565	-30,057	-221.58	During the current period, the land consolidation reserve compensation received by the Company for the relocation and construction of Jizhuangzi Sewage Water Treatment Plant and Recycled Water Plant decreased, and project investment expenses increased.
Cash flow from financing activities	-40,854	-32,192	-8,662	26.91	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	-198	30,797	-30,995	-100.64	This was attributable to the combined effect of cash flow from the three activities above.

## 7. Miscellaneous

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

There were no material changes in the profit composition or profit source of the Company during the reporting period.

*(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*

In 2013, the development strategy of the Company mainly covered the following three aspects. In respect of businesses, the Company further promoted transformation and upgrading of its business structure to comprehensively transform from traditional water business to diversified environmental service business in accordance with the State's policies. The Company actively promoted the expansion of all-process deodorization business and expanded into business areas such as special industrial waste water treatment, treatment and utilization of sludge. The Company paid more attention on the output of environmental technologies and professional services. In respect of technologies, the Company continued to adhere to the technology guided development strategy and continuously promoted the research and development of proprietary technologies and their industrial applications, and provided continuous support for the research and development of research achievements such as heavy metal detection and biological agents. In respect of management, the Company continued to strengthen cost control, improve the construction of system flow process, enhance risk management, accelerate cultivation of talents, change incentive mechanism, strengthen brand building and social responsibilities as well as improve the flexibility of organizational structure and working mechanism in accordance with the development needs of its businesses, in order to increase its management efficiency and competitiveness.

The Company organized production and operation activities in accordance with the development strategy and operation plan formulated by the Board in early 2013. 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 successfully achieved.



## 4. Directors' Report

### (II) ANALYSIS OF THE INDUSTRY, PRODUCTS OR REGIONAL OPERATIONS

#### 1. Principal businesses by industry

Unit: 0'000 Currency: RMB

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	Note
				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			
Sewage water treatment and sewage water treatment plant construction business	125,865	75,866	39.72	1.37	5.38	Decreased by 2 percentage points			
Recycled water pipeline connection and water supply business	16,489	11,679	29.17	23.52	23.35	Unchanged			
Toll collection business	6,703	712	89.38	Unchanged	Unchanged	Unchanged			
Tap water supply business	3,647	2,687	26.32	-17.33	-5.93	Decreased by 9 percentage points			
Cooling and heating supply business	7,123	4,197	41.08	37.04	20.15	Increased by 8 percentage points	Note 1		
Others	1,642	2,039	-24.18	457.30	221.62	Increased by 91 percentage points	Note 2		

Notes:

1. Significant increase in income generated from the energy supply business as compared to the same period last year was mainly attributable to the recognition during the year of part of the unrecognized fee income from cooling supply services due to disputes in 2012.
2. There was newly added pipeline sales business of Tianjin Capital New Materials Company Limited during the period, which resulted in the increase in gross profit margin.

## 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 (%)	Note
Tianjin	114,155	6.38	
Qijing	7,155	2.81	
Guizhou	2,536	3.61	
Fuyang	4,842	13.70	
Baoying	2,044	Unchanged	
Hangzhou	15,631	1.75	
Wendeng	2,768	11.54	
Xi'an	7,868	3.37	
Anguo	780	-48.69	Note 1
Wuhan	3,484	-13.68	
Hong Kong	205	148.66	Note 2

Notes:

1. Since the city water supply project in Anguo was in arbitration process, no income was recognized in respect of its production of tap water during the year.
2. Income from system integration services provided by the Subsidiary in Hong Kong increased during the year.



## 4. Directors' Report

### (III) 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	Percentage of the amount as at the end of the current period to the total assets	Amount as at the end of previous period	Percentage change in amount as at the end of the current period as compared to the end of the previous period	
				Percentage of the amount as at the end of the previous period to the total assets	Percentage of the amount as at the end of the current period as compared to the end of the previous period
Trade receivables	207,909	18.77%	156,674	15.20%	32.70%
Inventories	5,804	0.52%	9,251	0.901%	-37.26%
Other current assets	654	0.06%	1,235	0.12%	-47.04%
Construction in progress	115,208	10.40%	45,949	4.46%	150.73%
Short-term borrowings	—	—	8,600	0.83%	-100.00%
Other current liabilities	329	0.03%	2,001	0.19%	-83.56%
Long-term borrowings	121,329	10.96%	193,188	18.74%	-37.20%
Debentures payable	138,478	12.51%	69,195	6.71%	100.13%
Other non-current liabilities	136,952	12.37%	84,016	8.15%	63.01%

#### Explanation of changes:

Trade receivables: this was mainly attributable to the increase in sewage water treatment fees due to the Company from TSC.

Inventories: this was mainly attributable to the settlement of some projects during the year.

Other current assets: this was mainly attributable to the decrease in input tax debit balance of Jiayuanxing, a subsidiary.

Construction in progress: this was mainly attributable to the increase in construction project investment in the relocation and construction project of Jizhuangzi Sewage Water Treatment Plant and Recycled Water Plant.

Short-term borrowings: this was attributable to full repayment of short-term borrowings during the reporting period.

Other current liabilities: this was attributable to the repayment of government loan provided for sewage water treatment projects in Haihe river basin during the reporting period.

Long-term borrowings: this was attributable to the repayment of part of long-term borrowings during the reporting period.

Debentures payable: this was attributable to the issuance of the second batch of medium-term notes of RMB700 million by the Company during the reporting period.

Other non-current liabilities: this was mainly attributable to the land consolidation reserve compensation of RMB550 million received for the relocation and construction of Jizhuangzi Sewage Water Treatment Plant and Recycled Water Plant during the reporting period.

### 2. Explanation of changes in assets measured at fair value and major asset measurement attributes

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

## (IV) ANALYSIS OF CORE COMPETITIVENESS

The Company's core competitiveness is mainly reflected in the following four aspects: first, the Company 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 Company owns leading technologies, diversified solutions and integrated service capability; third, the Company 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 Company 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 Company, on one hand, adhered to the technology-guided development philosophy by continuously strengthening research and development of proprietary technology and process in the relevant environmental governance areas, and on the other hand, continued to explore new business areas on the premise of the new energy business gradually matured and its operation capacities stably improved, in order to fully increase its comprehensive competitiveness.



## 4. Directors' Report

### (V) ANALYSIS OF THE INVESTMENT STATUS

#### 1. Overall analysis of external equity investments

During the reporting period, the Company increased the registered capital of Fuyang Capital Water Company Limited, a wholly-owned subsidiary, by RMB18.50 million in cash. After such capital increase, its registered capital is RMB87.50 million. The Company increased the registered capital of Tianjin Capital Environmental Water Company Limited, a wholly-owned subsidiary, by RMB5 million in cash. After such capital increase, its registered capital is RMB10 million.

For details of these two wholly-owned subsidiaries, please refer to “Operations and results of the major subsidiaries in which the Company has controlling interests”.

Save as disclosed above, there were no other external equity investments during the reporting period.

#### 2. Trust arrangement in respect of non-financial corporations and investment in derivatives

##### (1) Trust arrangement

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

##### (2) Trust loan

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

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

During the reporting period, there were no fund raisings of the Company or there were no funds raised in previous periods that were applied during the period.

## 4. Analysis of major subsidiaries and companies in which the Company has invested

## (1) 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; manufacturing, installation, commissioning and operation of equipment for recycled water.	10,000	Limited company	100%	117,006	15,293	3,362
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%	16,556	14,063	721
Tianjin Capital New Materials Company Limited	Tianjin	Manufacturing 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%	635	334	317



## 4. Directors' Report

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
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%	11,437	6,346	347
Qujing Capital Water Company Limited	Qujing, 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%	38,687	19,807	-131

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
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.	8,750	Limited company	100%	21,073	13,026	1,326
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%	73,439	33,361	1,538
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%	5,152	4,993	-520



## 4. Directors' Report

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
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%	14,752	6,847	475
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%	3,884	1,163	17

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
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%	55,846	23,123	-30



## 4. Directors' Report

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 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%	1,865	807	193

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
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%	7,888	2,634	-1,568
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%	27,068	11,265	21



## 4. Directors' Report

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 Capital Environmental Water Company Limited	Jinnan, Tianjin	Development, construction, operation and management of sewage water treatment, municipal sewage water treatment plant, tap water treatment 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; manufacturing and sales of polyacrylamide flocculant and environmental equipment and wholesale and retail of chemical raw materials; sales, installation and maintenance of mechanical and electrical equipment.	1,000	Limited company	100%	960	938	-22

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 Zichuang Engineering Investment Company Limited	Jinghai, Tianjin	Investment in engineering projects.	2,340	Limited company	100%	5,267	2,454	215
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%	4,187	1,561	-48
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%	40,486	8,482	1,556

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

**Tianjin Beifang Rencaigang Company Limited**

As at the end of the reporting period, the Group invested a total of RMB2,000,000 in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. Its principal activities comprise senior executive insurance services, senior executive personnel services (employment agent service, financial guarantee consultation service, personal creditworthiness assessment), enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. During the reporting period, the Group received bonus distribution of RMB300,000 for 2012 from this company.



## 4. Directors' Report

### Tianjin Baotong Light Mass Materials Company Limited

During the year, the liquidation of Tianjin Baotong Light Mass Materials Company Limited was completed. On 26 December 2013, Tianjin Xingye CPA Company Limited (天津市興業有限責任會計師事務所) issued a special audit report on liquidation in respect of the company's liquidation, namely Jin Xing Ye Zhuan Shen Zi (2013) No. 099. According to the report, the Company was allocated liquidated assets of RMB677,000. The Company recorded an investment loss of RMB1,323,000.

### 5. Projects made out of funds other than proceeds from fund-raising

*Unit: 0'000 Currency: RMB*

Project	Project amount	Project progress	Amount invested during the year	Total actual amount invested	Project Income
Jingu Sewage Water Treatment Plant (the "Jinnan Project" in note 9 (c) of the financial statement)	206,559.01	Main works have been completed and it is commissioning	52,320	79,667	Since it has not been completed, no revenue has been realized.

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

### (I) Landscape of competition and development trend of the industry

The 3rd Plenary Session of 18th CPC Central Committee passed the Decision on Major Issues Concerning Comprehensively Deepening Reforms (the “Decision”). As an integrated part of the five-in-one layout plan, the construction of ecological civilization becomes a critical reform. Concepts such as “accelerating the reform on the ecological civilization systems”, “drawing a red line for the ecological protection”, “setting up a lifelong accountability system for the ecological environment damage liability” and “implementing a system of paid use of natural resources and ecological compensation” mentioned in the Decision will bring significant development opportunities for the environment protection industry. With the sound development of water businesses such as sewage water treatment, utilization of recycled water and tap water supply, the market development of emerging business areas such as treatment and utilization of sludge, ecological restoration and air pollution prevention will create significant development space for the business growth of the Company. Currently, the increase in the overall market concentration of the domestic sewage water treatment industry results in the gradual transition of the landscape of competition from fragmentation to concentration. In the process of market consolidation, competitive advantages such as proprietary technology capabilities, nationwide business layout, service brand and operation capacities are becoming more important for an enterprise to strengthen its market position and enhance its profitability.

### (II) Development strategy of the Company

The Company 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. The development strategy of the Company can be summarized as “strategy of transformation and development driven by innovation”, among which “innovation” refers to innovation in three aspects. The first aspect is the technology innovation, which is to establish a unique competitive advantage through the research and development of proprietary technologies in the water environment governance industry to extend industry chain and expand business scope, thus increase sources of profit and obtain higher economic value added. The second aspect is business innovation, which is to actively explore new businesses, make balanced development of upstream, midstream and downstream business segments, promote the overall business transformation and establish a large-scale, efficient and sustainable business structure by leveraging on proprietary technologies and seizing the opportunities arising from



## 4. Directors' Report

the ecological civilization construction. The third aspect is management innovation, which is to provide support on organization and resources for the technological progress and business development through enhancement of operation capacities, continuous optimization of organizational structure, remediation and deployment of resources of the Group and adjustments to management and incentive mechanism according to the business development needs. Among the innovation in such three aspects, the technology innovation is to provide support, the business innovation is to play a key role and the management is to provide guarantee. They are inter-related and jointly constitute the core drivers for the transformation and development.

### (III) Operation plan and strategies

#### 1. Operation plan:

In 2014, the Group's sewage water treatment volume is expected to be 921 million cubic meters (excluding the volume from entrusted operation projects), production volume of tap water is expected to be 39.32 million cubic metres and sales volume of recycled water is expected to be 18 million cubic metres. The capital expenditure of the Group is expected to be RMB1,341 million, which will be mainly used for the finishing works of the newly-constructed sewage water treatment plant and recycled water plant of Jizhuangzi relocation and construction project, the upgrading projects of some subsidiaries, the commercial operation of relocated and newly-constructed Jizhuangzi sewage water treatment plant and recycled water plant as well as the production and sales of flocculant, a kind of water treatment chemicals. In 2014, the Company will implement the following operation strategies:

- (1) While ensuring the quality and quantity, the Company will continue to strictly control costs and expenses, broaden sources of income and reduce expenditures, and strive to increase income of projects;
- (2) While providing high quality services, the Company will strive to create favorable market environment and ensure that adjustment to sewage water treatment service fee can be made according to agreement, and maintain income of projects;
- (3) The Company will strengthen communication to ensure that income from operations can be recognized in its financial statements on a timely basis, and strive to recover trade receivables carried forward from the previous years in order to increase cash inflow from operating activities and improve capital efficiency;
- (4) The Company will continue to promote technology research and development and transformation of technological achievements, and strive to make more breakthroughs in areas such as special industrial waste water treatment and sludge treatment; and

- (5) The Company will put significant efforts to expand sewage water treatment plant entrusted operation projects, sewage water treatment plant all-process deodorization projects and new energy cooling and heating supply projects, to increase income.

2. *Income, fees and cost plans:*

In 2014, assuming no material changes in the existing policy direction conformed by the Group and the operating environment, the range of changes in fee income from sewage water treatment services will not exceed 5% as compared to 2013.

Cost control target:

In 2014, resource and energy expenses and labour costs will continue to increase, and the relocated and newly-constructed Jizhuangzi sewage water treatment plant will adopt the first class A water output standard, which will make the Group facing increasing pressure on business costs. Assuming 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 2014 as compared to 2013. Also, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

3. *Technology research and development investment plans:*

In 2014, the Group will further increase its efforts in technology research and development. Technology research, development and reforms fees to be invested will not be less than RMB6,967,800, 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.

**(IV) 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 2014, the Group plans to invest RMB1.328 billion in engineering projects, which are mainly the expenses for the relocated and newly-constructed Jizhuangzi sewage water treatment plant and recycled water plant as well as the upgrading of sewage water treatment plants of some subsidiaries. In 2014, the amount for fixed asset purchase plan of the Group will be approximately RMB13.42 million.



## 4. Directors' Report

In 2014, the Group will improve the debt structure by direct and indirect financing methods in accordance with the operation requirements, 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 land consolidation compensation amount received for the Jizhuangzi relocation project.

### (V) Risks possibly faced

1. The Company has established systematic and comprehensive risk prevention and control systems according to the relevant policies, rules and regulations, which can effectively avoid the various risks that may affect its operation. In the process of promoting the transformation of the Company's business, since the relevant policies in relation to the emerging environmental protection business area are pending further improvement, the Company will focus its risk control efforts on risks faced in respect of new business development.
2. Foreign exchange risk: The operations and customers of the Group's subsidiaries are located within the PRC and most of their 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 payables. Long-term payables were incurred as a result of the asset transfer agreement signed by the Company and TSC in respect of purchase of foreign bank loans assets denominated mainly in US dollars and Japanese Yen. (Note 6 (14)(d))

As at 31 December 2013, 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 (31 December 2012: RMB4 million) in the net profit of the Group. As at 31 December 2013, a 5% appreciation or depreciation of RMB against Yen, with other factors being constant, would result in an increase or decrease of approximately RMB8 million (2012: RMB10 million) in the net profit of the Group.

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 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 2013, 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 RMB18 million (2012: RMB28 million).

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

- (I) Explanation by the Board and Supervisory Committee on “Qualified Audit Report” provided by accountants

Not applicable

- (II) Analysis and explanation by the Board on the reasons and effects of changes in accounting policies, accounting estimates or determination

Not applicable

- (III) 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

- (I) 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 considered 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:

- (I) 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.



## 4. Directors' Report

- (II) 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.
- (III) The Company shall give priority to dividend distribution in cash.

### II. Dividend distribution policies of the Company:

- (I) 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.
- (II) 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.
- (III) 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.
- (IV) 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:

- (I) 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.
- (II) 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 (II) 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.
- (III) 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 operation condition, 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.



## 4. Directors' Report

The proposal on profit appropriation for 2013 is set out as follows:

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2013 amounted to RMB281.90 million. After deduction of the statutory common reserve of RMB22.35 million drawn in accordance with the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the retained profit of RMB1,619.78 million at the beginning of the year, and less the distribution in 2013 of the 2012 cash dividend of RMB85.63 million, the actual profit distributable to the shareholders for the year amounted to RMB1,793.70 million. According to the profit appropriation policy of the Company, it will be proposed that a cash dividend for 2013 of RMB0.80 (gross tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB114.18 million, representing 40.50% of the available-for-distribution profit attributable to the Company realized in 2013. No transfer from the capital reserve fund to share capital was made for 2013. The appropriation proposal shall be submitted to the 2013 annual general meeting of the Company for consideration and shall be implemented after approval.

- (II) **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

(III) Plan or proposal of profit distribution or transfer of capital reserve fund to share capital of the Company for the past three years (including the reporting period):

*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 the shareholders of the Company in the consolidated financial statements for the bonus distribution year	Percentage to the net profit attributable to the shareholders of the Company in the consolidated financial statements (%)
2013	0	0.80	0	11,417.83	28,189.9	40.50
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

## V. ACTIVE PERFORMANCE OF SOCIAL RESPONSIBILITIES

### (I) Social responsibilities work

The social responsibility report has been disclosed by the Company. Please refer to the website of the SSE (<http://www.sse.com.cn>) on 28 March 2014 for contents in detail.

### (II) Explanation of environmental protection of listed companies and their subsidiaries which are fallen into categories of heavy pollution industries as prescribed by the State's environmental protection authorities

Not applicable



## 5. Major Events

### I. MATERIAL LITIGATION, ARBITRATION AND EVENTS GENERALLY QUESTIONED BY THE MEDIA

Plaintiff	Defendant	Jointly and severally liable parties	Type of proceeding (arbitration)	Basic information of proceeding (arbitration)	Amount involved in proceeding (arbitration)	Whether expected provisions are made for the proceeding (arbitration) and amount thereof	Progress of proceeding (arbitration)	Hearing result and impact of proceeding (arbitration)	Enforcement of award of proceeding (arbitration)
Anguo Capital Water Company Limited	Government of Anguo City	Nil	Arbitration	Requesting for termination of the licensed operation agreement for water supply; requiring for payment of the outstanding water supply service fees and investment compensation	RMB60 million	Based on the principle of prudence, a provision for impairment losses of RMB11.32 million were made for water supply project during the reporting period.	In the process of arbitration	Up to date, no arbitral award has been made.	Nil

### 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

During the reporting period, there were no transactions involving assets and corporate mergers and acquisitions.

### V. COMPANY'S SHARE INCENTIVE SCHEME AND ITS EFFECTS

Not applicable

## VI. MATERIAL CONNECTED TRANSACTIONS

### (i) Connected transactions in the ordinary course of business

#### 1. Connected transactions which have been disclosed in the Company's announcements without subsequent progress or changes to their implementation

- a. On 31 May 2013, Jiayuanxing entered into the cold supply agreement with TLP and TYCOM, the principal terms of which are as follows:

The unit price for provision of cold supply services by Jiayuanxing to TLP is RMB65 per m<sup>2</sup>. The cold supply service area is 363,042 m<sup>2</sup>. The service fees for the cold supply should be RMB23,597,730. The service period for cold supply commenced from 1 June 2013 to 30 September 2013.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TLP is a wholly-owned subsidiary of TMICL, the controlling shareholder of the Company. TMICL owns 40% equity interest in TYCOM.

- b. On 14 June 2013, the Company entered into an agreement with Tianjin Investment Group, pursuant to which the Company should provide project management services to Tianjin Investment Group in respect of the construction project of Jinnan Sludge Treatment Plant (津南污泥處理廠) situated at Da Sun Zhuang, Jinnan District (津南區大孫莊), Tianjin. The service fees were RMB5,130,000. The term of the Agreement was 485 days from the signing date of the agreement.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

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

On 1 August 2013, the Company and Tianjin Investment Group 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 shall continue to provide operation services to Tianjin Investment Group in respect of the Plants.

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 should be RMB4,473,000 provided that the services should meet the service standards as specified under the Operation Agreement. The total annual service fees should be approximately RMB53.676 million.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.



## 5. Major Events

- d. On 14 November 2013, Jiayuanxing, a wholly-owned subsidiary of the Company, entered into the Tianjin Non-residential Customers Heat Supply Agreements with Tianjin Metro Resources Investment Company Limited (“**TM Resources**”) and TLP, respectively, pursuant to which Jiayuanxing should provide heat supply services at the underground transportation hub of Tianjin Cultural Centre of TM Resources and at the commercial area of Tianjin Cultural Centre of TLP. The unit price for provision of heat supply services was RMB36 per m<sup>2</sup>. The heat supply service area of the underground transportation hub of Tianjin Cultural Centre was 60,218 m<sup>2</sup>. The service fees for the heat supply services should be RMB2,167,848. The heat supply service area of the commercial area of Tianjin Cultural Centre was 363,042 m<sup>2</sup>. The service fees for the heat supply services should be RMB13,069,512. The total amount under the above two agreements was RMB15,237,360.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TM Resources is an indirect wholly-owned subsidiary of Tianjin Investment Group. TLP is a wholly-owned subsidiary of TMICL, the controlling shareholder of the Company.

- e. On 20 December 2013, the Company entered into the Sludge Disposal Centre Operation Agreement with Tianjin Investment Group, pursuant to which the Company agreed to operate and maintain the Sludge Disposal Centre of the Zhangguizhuang Sewage Water Treatment Plant for Tianjin Investment Group for a term from 20 December 2013 to 1 August 2014. The total service fees were expected to be not less than RMB5,090,000 and not more than RMB9,000,000.

Connected relationship: Tianjin Investment Group is the ultimate controller of the Company.

### 2. **Connected transactions which have been disclosed in the Company’s announcements with subsequent progress or changes to their implementation**

- (1) On 31 May 2013, Jiayuanxing, a wholly-owned subsidiary of the Company, entered into the Cold Supply Agreement with TMG, pursuant to which Jiayuanxing should provide cold supply services at the underground transportation hub of TMG at the Tianjin Cultural Centre. The unit price for provision of cold supply services was RMB65 per m<sup>2</sup>. The cold supply service area was 60,218 m<sup>2</sup>. The service fees for the cold supply should be RMB3,914,170. The service period for the cold supply was from 1 June 2013 to 30 September 2013.

Since the above underground transportation hub was operated by TM Resources, a wholly-owned subsidiary of TMG, upon arm’s length negotiation, TMG and TM Resources entered into the Supplemental Agreement with Jiayuanxing on 14 November 2013, pursuant to which TM Resources should replace TMG as a party to the above Cold Supply Agreement and TM Resources should settle the service fees payable to Jiayuanxing under the Cold Supply Agreement in an one-off payment. Other terms under the Cold Supply Agreement should remain unchanged.

Connected relationship: Jiayuanxing is a wholly-owned subsidiary of the Company. TMG is a wholly-owned subsidiary of Tianjin Investment Group. TM Resources is an indirect wholly-owned subsidiary of Tianjin Investment Group.

- (2) In July 2010, the Company won the bid for the BT Finance Construction Project (the “Project”) of the Sewage Water Treatment Plant (Phase I) of Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited (“Tianjin Ziya Investment”) in the Ziya Circular Economy Industrial Zone of Tianjin. The Company set up a wholly-owned subsidiary, Tianjin Zichuang Engineering Investment Company Limited (“Tianjin Zichuang”), and entered into the Investment and Construction Agreement in respect of the Project with Tianjin Ziya Investment. On 29 October 2013, Tianjin Zichuang entered into a supplemental agreement with Tianjin Ziya Investment in respect of the increase of the investment amount and the extension of the period of the repurchase resulting from changes to the Project. The total consideration of the repurchase of the Project was increased from RMB76,796,000 to RMB87,232,000.

Connected relationship: TMICL and Tianjin Investment Group owns 21% and 30% equity interest in Tianjin Ziya Investment, respectively.

### 3. Connected transactions which have not been disclosed in the Company’s announcements

*Unit: Yuan Currency: RMB*

		Type of connected transaction	Subject of connected transaction	Pricing principles of connected transaction	Price of connected transaction	Amount of connected transaction	Percentage in similar transactions (%)	Settlement method of connected transaction	Reason for the substantial difference between transaction price and market price
Connected Party	Connected relationship	Other inflows	Note 1	Note 2	2.25	398,579.25	0.21	Monthly payment	2.25 No difference
TECI	Wholly-owned subsidiary of Tianjin Investment Group								

Note 1: In order to obtain steady return of rental income in respect of its owned premises, on 1 April 2013, the Company entered into two tenancy agreements with TECI, pursuant to which TECI should lease part of 4th, 11th and 12th floor of the Company’s building for a rent of RMB2.25 per m<sup>2</sup> per day. The above two agreements were terminated on 28 June 2013. The rental income recorded during the report period was RMB 398,579.25 in total.

Note 2: The terms of the tenancy agreements were determined on arm’s length basis by parties with reference to the open market rates of comparable properties.



## 5. Major Events

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 course of 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

This annual report contains details of the connected transactions and continuing connected transactions of the Company. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

**(ii) Connected transactions in relation to acquisition and disposal of assets**

During the reporting period, there was no connected transaction in relation to acquisition and disposal of assets.

**(iii) Material connected transactions in relation to joint investment**

During the reporting period, there was no connected transaction in relation to joint investment.

**(iv) Amounts due from and to connected parties**

**1. Connected transactions which have been disclosed in the Company's announcements without subsequent progress or changes to their implementation**

Not applicable

**2. Connected transactions which have been disclosed in the Company's announcements with subsequent progress or changes to their implementation**

Not applicable

**3. Connected transactions which have not been disclosed in the Company's announcements**

Not applicable

## VII. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

### (i) Custody, subcontracting and leasing

Not applicable

### (ii) Guarantees

Unit: 0 '000 Currency: RMB

<b>Guarantees provided to external parties by the Company</b>	
<b>(excluding guarantees provided to subsidiaries)</b>	
Total amount of guarantees provided during the reporting period (excluding guarantees provided to subsidiaries)	0
Total balance of guarantees as at the end of the reporting period (A) (excluding guarantees provided to subsidiaries)	0
<b>Guarantees provided to subsidiaries of the Company</b>	
Total amount of guarantees provided to subsidiaries during the reporting period	0
Total balance of guarantees provided to subsidiaries as at the end of the reporting period (B)	79,196
<b>Total amount of guarantees provided by the Company</b>	
<b>(including guarantees provided to subsidiaries)</b>	
Total amount of guarantees (A+B)	79,196
Percentage of the total amount of guarantees to the net assets of the Company (%)	20
Of which:	
Amount of guarantees provided to shareholders, ultimate controller and their connected parties (C)	0
Amount of guarantees provided directly or indirectly to borrowers with a gearing ratio of over 70% (D)	0
Total amount of guarantees exceeding 50% of net assets (E)	0
Total amount of the above three guarantees (C+D+E)	0

### (iii) Other material contracts

Nil

## VIII. PERFORMANCE OF COMMITMENT

Not applicable



## 5. Major Events

### IX. APPOINTMENT AND REMOVAL OF ACCOUNTANTS

Change of accountants:	No
	<b>Present Appointment</b>
Name of the PRC accountant	PricewaterhouseCoopers Zhong Tian LLP
Service years of the PRC accountant	19 years
Name of Hong Kong accountant	PricewaterhouseCoopers
Service years of Hong Kong accountant	19 years

During the reporting period, the Company did not change its accountants. The PRC auditor of the Company is PricewaterhouseCoopers Zhong Tian LLP. 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 19 years.

	Name	Fees
Accountants responsible for auditing of internal control	PricewaterhouseCoopers Zhong Tian LLP	RMB0.8 million
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 MAJOR EVENTS

Nil

## 6. Details of Changes in Shares and Shareholders

### I. CHANGES IN SHARE CAPITAL

#### (i) Changes in shares

Unit: shares

	Before this change		Increase/decrease during this period (+,-)					After this change	
	Number	Percentage	New shares issued	Transfer of			Sub-total	Number	Percentage (%)
		(%)		Bonus issue	surplus to capital	Others			
I. Restricted shares	—	—	—	—	—	—	—	—	—
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal persons shares	—	—	—	—	—	—	—	—	—
3. Shares held by other domestic entities	—	—	—	—	—	—	—	—	—
Including: Shares held by non-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

#### (ii) Changes in restricted shares

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



## 6. Details of Changes in Shares and Shareholders

### II. ISSUE AND LISTING OF SECURITIES

(i) **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.

(ii) **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.

(iii) **Existing internal employee shares**

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

## III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

## (i) Number of shareholders and their shareholdings

Total number of shareholders at the end of the reporting period	104,308, among which 89 are shareholders of H shares	Total number of shareholders as at 20 March 2014	99,672, among which 88 are shareholders of H shares
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Name of shareholder	Nature of the shareholder	Shareholdings of the top ten shareholders				Number of restricted shares held (shares)	Number of shares pledged or frozen (shares)
		Percentage of shareholding (%)	Total number of shares held (shares)	Increase/decrease during the reporting period (shares)			
TMICL	State-owned legal person	51.58	736,207,892	-291,899	0	Pledged 184,420,000	
HKSCC Nominees Limited	Unknown	23.40	334,028,900	870,000	0	Unknown	
Shenyang Railway Coal Group Co., Ltd.	Unknown	0.21	3,000,000	0	0	Unknown	
Liu Lu	Unknown	0.18	2,574,822	2,574,822	0	Unknown	
HO MAN PING	Unknown	0.14	2,014,000	0	0	Unknown	
Guang Fa Securities Co., Ltd.-Client Credit Trading Guarantee Securities Account (廣發證券股份有限公司客戶信用交易擔保證券賬戶)	Unknown	0.11	1,634,917	1,634,917	0	Unknown	
China Galaxy Securities Co., Ltd. -Client Credit Trading Guarantee Securities Account (中國銀河證券股份有限公司客戶信用交易擔保證券賬戶)	Unknown	0.11	1,595,240	1,595,240	0	Unknown	
Guoxin Securities Co., Ltd. -Client Credit Trading Guarantee Securities Account (國信證券股份有限公司客戶信用交易擔保證券賬戶)	Unknown	0.11	1,547,758	1,547,758	0	Unknown	
CITIC WT Securities Co., Ltd. -Client Credit Trading Guarantee Securities Account (中信萬通證券有限責任公司客戶信用交易擔保證券賬戶)	Unknown	0.09	1,339,270	1,339,270	0	Unknown	
Guotai Junan Securities Company Limited - Client Credit Trading Guarantee Securities Account (國泰君安證券股份有限公司客戶信用交易擔保證券賬戶)	Unknown	0.09	1,330,544	1,330,544	0	Unknown	



## 6. Details of Changes in Shares and Shareholders

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

Name of shareholder	Number of the non-restricted circulating shares held (shares)	Type of shares
TMICL	736,207,892	Ordinary RMB Shares
HKSCC Nominees Limited	334,028,900	H shares
Shenyang Railway Coal Group Co., Ltd.	3,000,000	Ordinary RMB Shares
Liu Lu	2,574,822	Ordinary RMB Shares
HO MAN PING	2,014,000	H shares
Guang Fa Securities Co., Ltd.-Client Credit Trading Guarantee Securities Account (廣發證券股份有限公司客戶信用交易擔保證券賬戶)	1,634,917	Ordinary RMB Shares
China Galaxy Securities Co., Ltd. -Client Credit Trading Guarantee Securities Account (中國銀河證券股份有限公司客戶信用交易擔保證券賬戶)	1,595,240	Ordinary RMB Shares
Guoxin Securities Co., Ltd. -Client Credit Trading Guarantee Securities Account (國信證券股份有限公司客戶信用交易擔保證券賬戶)	1,547,758	Ordinary RMB Shares
CITIC WT Securities Co., Ltd. -Client Credit Trading Guarantee Securities Account (中信萬通證券有限公司客戶信用交易擔保證券賬戶)	1,339,270	Ordinary RMB Shares
Guotai Junan Securities Company Limited - Client Credit Trading Guarantee Securities Account (國泰君安證券股份有限公司客戶信用交易擔保證券賬戶)	1,330,544	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.

## IV. INFORMATION OF THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

## (i) 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	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 2012 was RMB2,230 million, and net profit was RMB41 million.
Financial condition	The audited total assets as of 31 December 2012 was RMB23.218 billion, and net assets was RMB5,691 million.
Cash flow and future development strategy	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. Looking forward, the company will continue to explore the positioning of the four core business segments of Tianjing 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.
The shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested during the reporting period	Nil

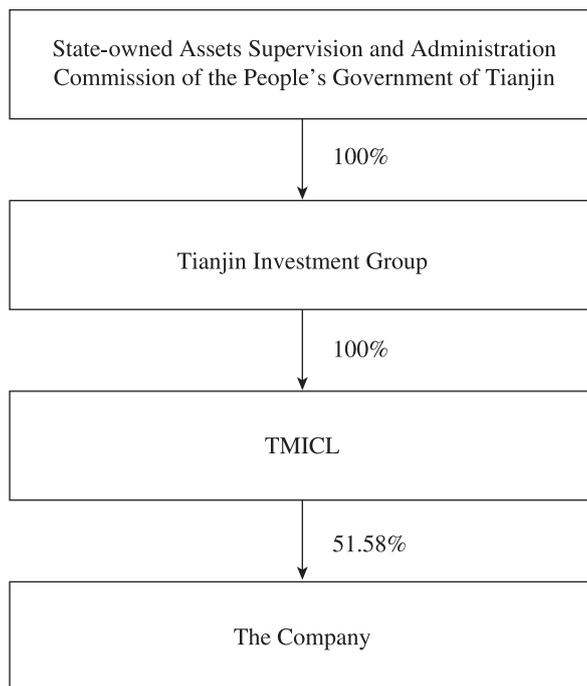


## 6. Details of Changes in Shares and Shareholders

### (ii) Ultimate controller

Name	Tianjin Investment Group
Legal representative	Li Baokun
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, investment, construction, operation and management of urban environmental infrastructure and auxiliary projects such as metro, intercity railway, urban roads and bridges, highways, sewage treatment, water supply, heat supply, waste disposal, parking lots (building), underground pipe network and green land in parks by using its own funds; land consolidation and regional development under the authorisation of the government; protective construction, development and operation of historic architecture; housing building and municipal public project management; 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; construction investment consultation (in accordance with the State regulations for specific projects and operations).
Operating results	The audited operating income for 2012 was RMB9,993 million, and net profit was RMB1,604 million.
Financial condition	The audited total assets as of 31 December 2012 was RMB490.279 billion, and net assets was RMB139.249 billion.
Cash flow and future development strategy	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. 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.
The shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested during the reporting period	Nil

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



### V. 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. Details of Changes in Shares and Shareholders

### VI. SUBSTANTIAL SHAREHOLDERS INTERESTS

- (a) As at 31st December 2013, 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 of the relevant class of securities	Approximate percentage of the total issued share capital of the Company
TMICL	Beneficial Owner	736,207,892 A Shares (L)	67.71%	51.58%
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 2013, had an interest or short position in the shares or underlying shares (including options) of the Company which would fall to be notified 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.

## 7. Directors, Supervisors, Senior Management and Employees

### I. CHANGES IN SHAREHOLDINGS AND THE REMUNERATION

#### (i) 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		Changes in no. of shares for the year	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)
						held at the beginning of the year	No. of shares held at the end of the year				
Zhang Wenhui	Executive Director, Chairman	M	59	18 December 2012	17 December 2015	0	0	—	—	84.78	0
Lin Wenbo	Executive Director, general manager	M	57	18 December 2012	17 December 2015	0	0	—	—	80.30	0
Fu Yana	Executive Director, deputy general manager and secretary to the Board	F	43	18 December 2012	17 December 2015	0	0	—	—	64.79	0
Shi Zhenjuan	Executive Director, Chief accountant	F	44	18 December 2012	17 December 2015	0	0	—	—	64.78	0
An Pindong	Non-executive Director	M	46	18 December 2012	17 December 2015	0	0	—	—	10	0
Chen Yinxing	Non-executive Director	F	40	18 December 2012	17 December 2015	0	0	—	—	10	0
Xie Rong	Independent non-executive Director	M	62	18 December 2012	15 April 2014	0	0	—	—	22	0
Di Xiaofeng	Independent non-executive Director	M	53	18 December 2012	15 April 2014	0	0	—	—	22	0
Lee Kir Ying, Karen	Independent non-executive Director	F	66	18 December 2012	17 December 2015	0	0	—	—	22	0
Zhang Mingqi	Chairman of Supervisory Committee	M	57	18 December 2012	17 December 2015	0	0	—	—	54.80	0
Nie Youzhuang	Supervisor	M	45	18 December 2012	17 December 2015	959 domestic shares	959 domestic shares	—	—	30.70	0
Wu Baolan	Supervisor	F	47	18 December 2012	23 August 2014	0	0	—	—	26.78	0
Li Xiaoshen	Supervisor, party chief deputy secretary of TMICL, chairman of Trade Union	M	55	18 December 2012	17 December 2015	0	0	—	—	0	0
Li Yang	Supervisor	M	45	18 December 2012	17 December 2015	0	0	—	—	55.63	0
Qi Lipin	Supervisor	F	37	18 December 2012	17 December 2015	0	0	—	—	26.08	0
Deng Biao	Deputy general manager	M	48	18 December 2012	17 December 2015	0	0	—	—	55.20	0
Yang Guang	Deputy general manager	M	44	18 December 2012	17 December 2015	0	0	—	—	54.68	0
Zhang Qiang	Deputy general manager	M	51	18 December 2012	17 December 2015	0	0	—	—	54.80	0
Li Yuqing	Chief engineer	M	49	18 December 2012	17 December 2015	0	0	—	—	54.78	0
Lo Wai Keung, Eric	Company secretary (Hong Kong)	M	38	18 December 2012	17 December 2015	0	0	—	—	12.48	0
Tang Fusheng	Deputy general manager	M	41	18 December 2012	17 December 2015	0	0	—	—	54.69	0
Wang Hong	Deputy general manager	M	39	18 December 2012	17 December 2015	0	0	—	—	54.44	0
Zhao Yi	Deputy general manager	M	43	18 December 2012	17 December 2015	0	0	—	—	61.58	0
Zhang Jian	Deputy general manager	M	43	18 December 2012	17 December 2015	0	0	—	—	70.54	0
Total	/	/	/	/	/	959 domestic shares	959 domestic shares	/	/	1,047.83	0



## 7. Directors, Supervisors, Senior Management and Employees

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 a supervisor and the chairman of the Supervisory Committee of the Company from 20 December 2003 to 21 July 2009. He was the party secretary of the Company since October 2006. Mr. Zhang 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.

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.

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



## 7. Directors, Supervisors, Senior Management and Employees

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 Tianjin Zichuang. 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. From February 2011 to February 2013, he was 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 was appointed as the Supervisor on behalf of the Company's shareholders since 19 December 2003 and the general manager of Tianjin Zichuang since February 2013.

Wu Baolan, is now the Supervisor of the Company and the head of the party-masses department of the Company. Ms. Wu joined the Company in December 2000 and was the assistant to the general manager of human resource department of the Company. Ms. Wu was director of office of Tianjin Rijiyuan Company under TMICL from December 2004 to December 2005. 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.

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.

## 7. Directors, Supervisors, Senior Management and Employees

Li Yang, is now the Supervisor and assistant to general manager of the Company, the general manager of the non-local water business division of the Shaanxi region and general manager of Xi'an Capital Water Company Limited. 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 and general manager of Xi'an Capital Water Company Limited 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.

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.



## 7. Directors, Supervisors, Senior Management and Employees

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, general manager of the energy and resources business division of the Company, chairman and general manager of Water Recycling Company, a wholly-owned subsidiary of the Company, chairman of Jiayuanxing, a wholly-owned subsidiary of the Company and the chairman of a wholly-owned subsidiary of the Company in Hong Kong. Mr. Tang successively served as the head, deputy general manager and general manager of the development department of Tianjin Water Recycling Company Limited from August 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 March 2010. He has been the general manager of the energy and resources business division of the Company since the end of 2010, and he has been the chairman of a 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.

Zhang Jian, is now the deputy general manager of the Company, the general manager of the non-local water business division of the Zhejiang region 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 Company. He has been the general manager of the non-local water business division of the Zhejiang region and the general manager of Hangzhou Tianchuang Water Company Limited since December 2009. Mr. Zhang has been the deputy general manager of the Company since January 2012.

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 31 December 2013, 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	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	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 31 December 2013, 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).



## 7. Directors, Supervisors, Senior Management and Employees

### II. POSITIONS HELD BY THE EXISTING AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

#### (i) Positions held at the shareholder's entity

Name	Name of shareholder's entity	Position held	Date of appointment	Date of termination
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	—

#### (ii) Positions held at other entities

Name	Name of other entities	Position held	Date of appointment	Date of termination
Zhao Yi	Hangzhou Tianchuang Water Company Limited	Director, Chairman (legal representative)	22 November 2010	—
Zhao Yi	Qijing 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	General Manager	14 February 2011	—
Li Yang	Xi'an Capital Water Company Limited	Director	5 March 2012	—
Zhang Jian	Hangzhou Tianchuang Water Company Limited	Director	28 January 2008	—
Zhang Jian	Hangzhou Tianchuang Water Company Limited	General Manager	21 December 2009	—
Zhang Wenhui	Tianjin Kaiying Technology Development Company Limited	Executive Director (legal representative)	24 January 2011	—
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	General Manager	14 February 2007	—
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	—
Shi Zhenjuan	Tianjin Water Recycling Company Limited	Director	21 December 2009	—
Lin Wenbo	Tianjin Zichuang Engineering Investment Company Limited	Executive Director (legal representative)	30 July 2010	—
Yang Guang	Anguo Capital Water Company Limited	Executive Director (legal representative)	22 November 2010	—
Yang Guang	Tianjin Jing Hai Capital Water Company Limited	Executive Director (legal representative)	22 November 2010	—
Yang Guang	Tianjin Capital Water Company Limited	Executive Director (legal representative)	22 November 2010	—
Yang Guang	Tianjin Jinning Capital Water Company Limited	Executive Director (legal representative)	22 November 2010	—
Li Yiqing	Tianjin Capital Environmental Water Company Limited	Executive Director (legal representative)	23 July 2013	—
Qi Lipin	Tianjin Zichuang Engineering Investment Company Limited	Supervisor	30 July 2010	—
Qi Lipin	Tianjin Kaiying Technology Development Company Limited	Supervisor	21 December 2009	—
Fu Yana	Tianjin Beifang Rencaigang Company Limited	Director	1 March 2004	—

### III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

<p>The procedures for determining the remuneration of the Directors, Supervisors and senior management</p>	<p>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, and implements an annual income system and year-end award system for completion above the annual operating target. The Supervisors of the Company do not receive remuneration for acting as supervisors.</p>
<p>The basis for determining the remuneration of the Directors, Supervisors and senior management</p>	<p>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 distributed according to the achievement of annual operating targets and performance appraisal results.</p>
<p>The remuneration payable of the Directors, Supervisors and senior management</p>	<p>The remuneration distributed by the Company to the Directors, Supervisors and senior management is in line with the salaries and performance evaluation requirements of the Company and distributed according to the requirements.</p>
<p>Actual remuneration received by all Directors, Supervisors and senior management as at the end of the reporting period (in total)</p>	<p>RMB10.4783 million</p>

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.



## 7. Directors, Supervisors, Senior Management and Employees

### IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

During the reporting period, there were no changes in Directors, Supervisors and senior management of the Company.

### V. 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.

### VI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

#### (i) Employees

Number of on-duty employees of the Company	493
Number of on-duty employees of major subsidiaries	953
Total number of on-duty employees	1,446
Number of retired employees for whom the Company and its major subsidiaries are required to pay charges	0

#### Composition by profession

Category of profession	Number
Corporate Management	148
Market development	52
Technical management	290
Financial management	72
Administration and Party affairs	102
Production	782
Total	1,446

#### Education

Category of education	Number (persons)
Doctor	5
Master	56
Undergraduate (Master's degree)	79
Undergraduate	526
Tertiary	380
Below Tertiary	400
Total	1,446

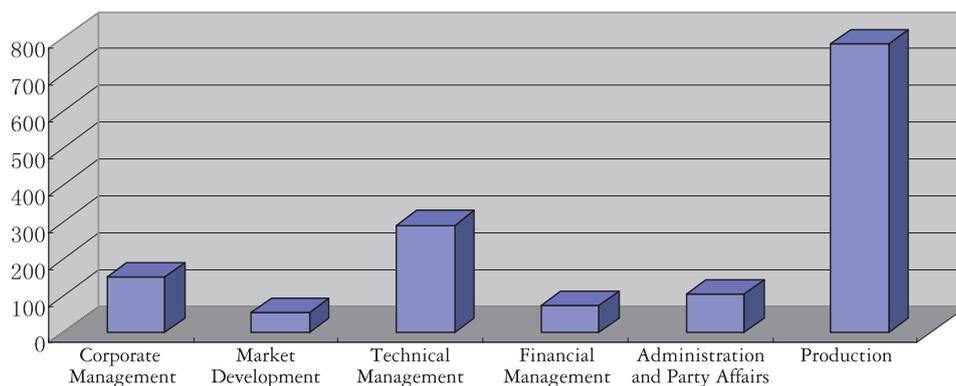
#### (ii) Remuneration policy

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 under annual salary system comprises standard annual job-rank salary and performance-related annual salary. The remuneration of the Company's employees under 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.

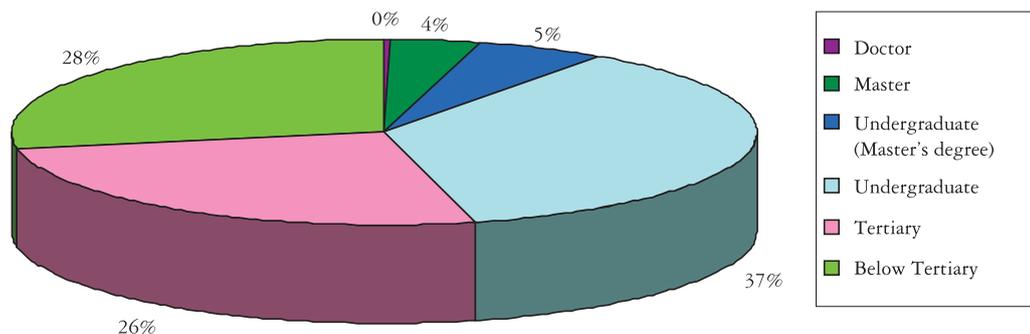
(iii) Training programs

The Company implements an independent training policy under the control of training funds. Each of the Company's departments and units develops the training programs according to the needs of the employees and the enterprise, to ensure the training courses are target-oriented and ensure the employees to grow with the enterprise.

(iv) Chart by profession



(v) Chart by education



## 8. Corporate Governance

### I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT

#### (i) Corporate Governance

During the reporting period, the Company strictly complied with the requirements under the PRC Company Law, Code on Corporate Governance for Listed Companies, the Articles of Association of the Company and the requirements of the relevant laws and regulations of the CSRC, to improve its corporate governance structure and regulate its daily operation.

According to the Articles of Association of the Company and the relevant regulations, the general meeting shall be the highest authority of the Company. The Company shall convene and hold general meetings in strict compliance with the Rules of the Procedures of General Meetings in order to ensure shareholders can exercise their voting rights duly and successfully. Within the scope of authorization by the general meetings, the Board shall be responsible for the overall operation and management of the Company and convene the Board meetings in strict compliance with the Rules of the Procedures of Board Meetings. All Directors shall duly discharge their duties in a diligent way, independently perform their duties and pay sufficient attention to the interests of all medium and small shareholders. Committees of the Board of the Company such as the Audit Committee, Remuneration and Assessment committee, Nomination Committee and Strategy Committee shall perform their work independently according to their respective detailed working rules, and provide support for the scientific decisions of the Board. Managers of the Company shall, with the authorization, and leadership of the Board, be responsible for the daily operation and management of the Company according to the Rules of Procedures of General Managers. Within the scope of authorization by general meetings, the Supervisory Committee shall be responsible for supervision of the legality and compliance of the performance of duties by the Board and managers.

The Company is in compliance with the relevant requirements of regulatory authorities in respect of major governance aspects such as the controlling shareholder and the Company, the Directors and the Board, the Supervisors and the Supervisory Committee, performance appraisal and incentive control mechanism, stakeholders as well as information disclosure and transparency. There is no difference between the actual governance practices of the Company and the requirements of the PRC Company Law and the relevant requirements of the CSRC.

## I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

### (ii) Corporate Governance Report

#### 1. About Corporate Governance Practices

The Company has continuously amended its relevant codes on corporate governances with strict implementation pursuant to the revised corporate governance rules of regulatory bodies. During the reporting period, the Company complied with the Corporate Governance Code.

#### 2. About Securities Transactions by the Directors

The Company has adopted a code of practice in respect of securities transactions by Directors, the standards of which are similar to the “Model Code for Securities Transactions by Directors of Listed Issuers” (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 above for details), and there have been no share transactions during the reporting period. As at the end of the reporting period, none of Directors of the Company held any share of the Company and they did not conduct any share transaction 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 2013 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.



## 8. Corporate Governance

### I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

The Company held 12 Board meetings and one general meeting 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”.

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. Within the scope of authorization by general meetings, all matters that are required to be disclosed shall be submitted to the Board of the Company for its decision and disclosed according to the requirements under the share listing rules of SSE and the Stock Exchange, and matters which are not required to be disclosed are generally decided and implemented by senior management of the Company.

#### Trainings for Directors in 2013

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 Wenbo served as the General Manager of the Company, with their term of office same as that of the sixth Board.

## I. 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

The Remuneration and Assessment Committee consists of three independent non-executive Directors with Ms. Lee Kit Ying, Karen as its chairman. Its primary duties are to propose remuneration plan for the Directors and senior management of the Company to the Board and to assess and evaluate the performance of the Company, 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 2 meetings of the Remuneration and Assessment Committee which mainly discussed the performance of the Company and its evaluation for the year 2012 (including the performance of executive Directors and its evaluation) and discussed and proposed for the adjustment to the salaries of all employees of the Company.

The members of the Nomination Committee of the Company comprised two executive Directors (being the Chairman and General Manager) and three independent non-executive Directors with Mr. Di Xiaofeng as its chairman. The primary duties of the Nomination Committee are to study and propose candidates, selection criteria 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.

During the reporting period, there were no changes in the members of the Board of the Company and the Nomination Committee did not hold meetings in respect of the nomination of Directors. The present Directors were nominated by the Nomination Committee after making full consideration of various factors of the Company, and were elected and approved at general meetings.

The Nomination Committee considers that in terms of sex, age, culture and education background, professional experience, skill and knowledge, the present members of the Board of the Company are generally in line with the Detailed Working Rules of the Nomination Committee and the Board Diversity Policy as well as the present situation and future development plan of the Company.

## 8. Corporate Governance

### I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

The Audit Committee of the Company comprised three independent non-executive Directors, with Mr. Xie Rong as the Chairman. The primary duties of the Audit Committee include reviewing of yearly, half-yearly and quarterly 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.

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 LLP 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, the 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 2013 financial year in accordance with Rule 3.29 of the Listing Rules.

## I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

### 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 conditions and procedures for application for convening or convening by themselves such a general meeting shall be explicitly stated. For details of the regulations, please refer to the Articles of Association of the Company and the Rules of the Procedures of General Meetings.

### 10. About Investor Relationship

During the reporting period, the Company did not make any amendment to its governance rules such as the Articles of Association, the Rules of the Procedures of General Meetings, the Rules of the Procedures of Board Meetings and the Rules of the Procedures of the Meetings of the Supervisory Committee.

### 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 2013, 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 16th meeting of the sixth Board held on 27 March 2014, 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 LLP has audited the internal control of the Company during 2013, and has issued its audited opinion for the Board's self-assessment report on the internal control 2013.



## 8. Corporate Governance

### I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDE INFORMATION REGISTRATION MANAGEMENT (CONTINUED)

PricewaterhouseCoopers Zhong Tian LLP 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 PricewaterhouseCoopers Zhong Tian LLP to provide domestic financial audit and internal control audit services for the Company in 2014, and re-appoint PricewaterhouseCoopers to provide overseas financial audit services for the Company's in 2014.

#### (iii) Insiders Registration Management

The Company has established the “management system for insiders” and “management system for inside information”, 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 2012 Annual Report and the 2013 Interim Report, the Company issued notificationsto 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. Except for this, there were no material events in relation to inside information during the reporting 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.

## II. SHAREHOLDERS' GENERAL MEETINGS

Session	Convening Date	Resolutions considered at the meetings	Resolutions passed
2012 Annual General Meeting	16 May 2013	<p>1. To consider and approve the 2012 annual report of the Company and the summary of the report announced within the PRC and overseas;</p> <p>2. To consider and approve the financial reports of the Company for the year 2012, audited by the PRC and international auditors of the Company;</p> <p>3. To consider and approve the working report of the Board of the Company for the year 2012 and the operating strategy of the Company for the year 2013;</p> <p>4. To consider and approve the final financial accounts of the Company for the year 2012 and the financial budget for the year 2013;</p> <p>5. To consider and approve the proposal in respect of the profit appropriation plan of the Company for the year 2012;</p> <p>6. To consider and approve the proposal in relation to the re-appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the PRC and international auditors of the Company respectively, and to authorize the Board to decide their remunerations;</p> <p>7. To consider and approve the working report of the supervisory committee of the Company for the year 2012;</p> <p>8. To consider and approve the working report of independent Directors of the Company for the year 2012.</p>	All resolutions were considered and approved



## 8. Corporate Governance

### III. PERFORMANCE OF DUTIES BY DIRECTORS

#### (i) Attendance of Directors at the Board meetings and general meetings

Name of Director	Independent non-executive Director?	Number of Board meetings required to attend during the year	Attendance at the Board meetings				Attendance at the general meetings	
			Attending in person (times)	Attending by way of other communication method (times)	Attending by proxies (times)	Absence (times)	Absence for two consecutive meetings in person?	Attending the general meetings (times)
Zhang Wenhui	No	12	12	8	0	0	No	1
Lin Wenbo	No	12	12	8	0	0	No	1
Fu Yana	No	12	12	8	0	0	No	1
Shi Zhenjuan	No	11	12	8	0	0	No	1
An Pindong	No	12	11	11	1	0	No	1
Chen Yinxing	No	12	12	12	0	0	No	1
Xie Rong	Yes	12	12	10	0	0	No	1
Di Xiaofeng	Yes	12	12	11	0	0	No	1
Lee Kit Ying, Karen	Yes	12	12	10	0	0	No	1
Number of Board meetings held during the year (times)								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

### III. PERFORMANCE OF DUTIES BY DIRECTORS (CONTINUED)

#### (ii) Disagreement on the relevant issues 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 at the meeting of the Board and other meetings of the Company held in this year.

### IV. IMPORTANT OPINIONS AND SUGGESTIONS RAISED BY SPECIAL COMMITTEES UNDER THE BOARD WHEN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD

During the reporting period, the Remuneration and Assessment Committee proposed for adjustment to the salaries of the employees of the Company based on the actual situation of the Company, in order to motivate them and enhance the cohesion of the Company.

During the reporting period, the Audit Committee of the Company proposed to re-elect PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the Company's domestic and overseas auditors. The auditors will inspect the financial and internal control systems of the Company, and issue annual audit reports respectively.

### V. 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.



## 8. Corporate Governance

### VI. SITUATION OF NO GUARANTEE OF INDEPENDENCE AND INCAPABILITY ON SELF-OPERATION BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDER WITH RESPECT TO THE MATTERS INCLUDING BUSINESS, STAFFS, ASSETS, ORGANIZATION AND FINANCE

	Independent or not	Description
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. Employees such as the present executive Directors, senior management and secretary to the Board received their salaries from the Company and they have not taken up any position in the entities of the controlling shareholder. Therefore, in terms of personnel and remuneration management, the Company is independent from the controlling shareholder.

	Independent or not	Description
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.



## 8. Corporate Governance

### VII. 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	27,194
Lin Wenbo	27,194
Zhang Jian	27,194
Fu Yana	27,194
Shi Zhenjuan	27,194

Note: Except for Zhang Wenhui and Lin Wenbo, the basic remuneration for the above five persons is less than HK\$1 million.

### I. 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, standardized the organizational structure of its internal control, properly established the functional department, formulated systematic control systems, adopted effective control measures 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 on the systems, guidelines and processes in the “Internal Control Management Manual” each year in accordance with the business development of the Group on the basis of the 11 major business cycles stated in the “Internal Control Management Manual of Tianjin Capital Environmental Protection Group Company Limited”. In 2013, the Company successively completed the issuance and amendment of various key system guidelines including financial management, information disclosure, internal control risk management, administration management and quality management, and revised and improved the description of risk control aspects of almost 100 processes in the 11 major cycles.

In 2013, while making full efforts to the construction of internal control systems and process, the Company formulated, issued and implemented the Internal Control Risk Guideline Manual for the risk management purpose, which organizes and categorizes the key business processes included in existing internal control system according to organizational structure, strategies, human resources and social responsibilities, and specifies the internal control risks which may arise in each business process as the specific basis for the construction of the internal control and the assessment of the internal control for each of departments and entities.

## 9. Internal Control

Please see website of the SSE (<http://www.sse.com.cn>) on 28 March 2014 for details of the Internal Control Self-assessment Report.

### II. EXPLANATION IN RESPECT OF THE INTERNAL CONTROL AUDIT REPORT

PricewaterhouseCoopers Zhong Tian LLP 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 “2013 Internal Control Audit Report” disclosed on the website of the SSE (<http://www.sse.com.cn>) on 28 March 2014.

### III. 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.

## 10. Other Information

### I. 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.

### II. 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.

### III. 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.

### IV. 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.

### V. 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.

### VI. TAX CONCESSION

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

### VII. CHARGE OF ASSETS

For details of charge of assets of the Company, please refer to the financial reports as set out below.

### VIII. AUDIT COMMITTEE

On 31 July, 2001, the Board approved the establishment of the Audit Committee to review and supervise the financial reporting process and internal control of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the audited accounts for the year ended 31 December 2013 with the Directors.

## 11. Financial Accounting Report

For details, please refer to the accounting statements and audited reports for 2013 of the Company.



### Auditor's Report

PwC ZT Shen Zi (2014) No. 10015

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

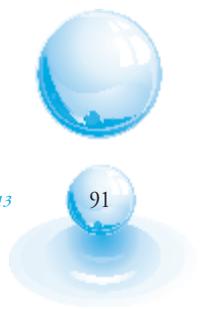
We have audited the accompanying financial statements of Tianjin Capital Environmental Protection Group Company Limited (hereinafter the "Company"), which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated and company income statements, the consolidated 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.



## 12. Report of the Auditors

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(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 2013, 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 LLP**

Shanghai , the People's Republic of China

27 March 2014

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

As at 31 December 2013

(All amounts in RMB thousand unless otherwise stated)

ASSETS	Notes 6	Group		Company	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
<b>CURRENT ASSETS</b>					
Cash and bank balances	(1)	1,002,249	1,000,565	342,090	469,715
Notes receivables		6,300	6,000	—	—
Trade receivables	(2)	2,079,086	1,566,743	1,944,004	1,454,780
Prepayments	(3)	115,655	120,306	33,656	43,815
Dividend receivables		—	—	12,690	6,750
Other receivables	(4)	6,772	10,589	133,554	108,459
Inventories	(5)	58,035	92,509	7,866	11,197
Other current assets		6,540	12,349	80,000	107,700
<b>Total current assets</b>		<b>3,274,637</b>	<b>2,809,061</b>	<b>2,553,860</b>	<b>2,202,416</b>
<b>NON-CURRENT ASSETS</b>					
Long-term receivables	(6)	333,607	406,425	333,607	406,425
Long-term equity investments	(7)	34,621	38,628	1,284,136	1,285,755
Investment properties	(8)	108,609	112,282	85,323	88,491
Fixed assets	(9)	3,088,124	3,281,259	2,825,776	2,992,541
Construction in progress	(9)	1,152,078	459,487	1,042,305	419,507
Intangible assets	(10)	3,074,825	3,191,339	420,570	431,966
Other non-current assets		7,250	8,513	74,609	40,377
<b>Total non-current assets</b>		<b>7,799,114</b>	<b>7,497,933</b>	<b>6,066,326</b>	<b>5,665,062</b>
<b>TOTAL ASSETS</b>		<b>11,073,751</b>	<b>10,306,994</b>	<b>8,620,186</b>	<b>7,867,478</b>



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

As at 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes 6	Group		Company	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
<b>CURRENT LIABILITIES</b>					
Short-term borrowings	(14)	—	86,000	—	66,000
Trade payables	(12)	21,099	20,847	5,042	5,373
Advances	(12)	701,654	601,371	8,082	4,871
Wages payable	(13)	11,122	9,298	6,918	5,882
Taxes payable	(12)	25,591	26,706	17,555	17,954
Dividend payable	(18) (c)	36,566	30,929	36,566	30,929
Other payables	(12)	537,600	511,940	726,791	590,875
Other non-current liabilities due within one year	(14)	878,106	806,181	676,356	619,501
Other current liabilities	(14)	3,287	20,007	—	16,364
<b>Total current liabilities</b>		<b>2,215,025</b>	<b>2,113,279</b>	<b>1,477,310</b>	<b>1,357,749</b>
<b>NON-CURRENT LIABILITIES</b>					
Long-term borrowings	(14)	1,213,286	1,931,876	310,600	863,600
Long-term debentures	(14)	1,384,775	691,950	1,384,775	691,950
Deferred revenue	(15)	396,447	385,661	211,406	201,880
Deferred income tax liabilities	(16)	68,977	60,645	22,674	21,721
Long-term payables	(14)	291,175	350,754	291,175	350,754
Other non-current liabilities	(14)	1,369,522	840,158	1,140,000	735,453
<b>Total non-current liabilities</b>		<b>4,724,182</b>	<b>4,261,044</b>	<b>3,360,630</b>	<b>2,865,358</b>
<b>TOTAL LIABILITIES</b>		<b>6,939,207</b>	<b>6,374,323</b>	<b>4,837,940</b>	<b>4,223,107</b>
<b>SHAREHOLDERS' EQUITY</b>					
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)	373,256	350,905	373,256	350,905
Undistributed profits	(18) (c)	1,793,699	1,619,785	1,600,974	1,485,450
<b>Equity attributable to owners of the parent</b>		<b>3,976,494</b>	<b>3,780,229</b>	<b>3,782,246</b>	<b>3,644,371</b>
Minority Interests	(19)	158,050	152,442	—	—
<b>Total shareholders' equity</b>		<b>4,134,544</b>	<b>3,932,671</b>	<b>3,782,246</b>	<b>3,644,371</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>11,073,751</b>	<b>10,306,994</b>	<b>8,620,186</b>	<b>7,867,478</b>

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

Zhang Wenhui  
Company Representative

Shi Zhenjuan  
Person in charge of  
accounting function

Cao Shuo  
Person in charge of  
accounting department

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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Notes 6	Group		Company	
		2013	2012	2013	2012
<b>Income from operations</b>	(20)	1,749,861	1,637,320	952,663	933,539
Less: Cost for operations	(20)	(1,057,580)	(951,188)	(503,845)	(452,458)
Business tax and surcharges	(21)	(15,474)	(11,478)	(8,261)	(5,953)
Administrative expenses	(22)	(108,784)	(105,118)	(60,745)	(60,647)
Financial expenses - net	(23)	(177,813)	(212,328)	(90,346)	(118,823)
Impairment of assets	(24)	(18,493)	—	(23,119)	—
Add: Investment (loss)/income	(7)	(3,030)	(5,541)	23,916	26,750
Including: Share of loss of an associate		(2,007)	(6,041)	—	—
<b>Operation profit</b>		<b>368,687</b>	<b>351,667</b>	<b>290,263</b>	<b>322,408</b>
Add: Non-operating income	(25)	23,851	25,128	12,426	4,834
Less: Non-operating expenses	(26)	(5,022)	(3,995)	(3,926)	(3,691)
Including: Loss on disposals of non-current assets		(4,857)	(3,818)	(3,926)	(3,691)
<b>Total profit</b>		<b>387,516</b>	<b>372,800</b>	<b>298,763</b>	<b>323,551</b>
Less: Income tax	(27)	(99,159)	(98,249)	(75,254)	(76,311)
<b>Net profit</b>		<b>288,357</b>	<b>274,551</b>	<b>223,509</b>	<b>247,240</b>
Attributable to owners of the parent		281,899	268,981	223,509	247,240
Minority interests		6,458	5,570	—	—
<b>Earnings per share (in Rmb Yuan)</b>	(28)				
– Basic		0.20	0.19		
– Diluted		0.20	0.19		
<b>Other comprehensive income after deduction of impact of income tax</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total comprehensive income</b>		<b>288,357</b>	<b>274,551</b>	<b>223,509</b>	<b>247,240</b>
Attributable to owners of the parent		281,899	268,981	223,509	247,240
Minority interests		6,458	5,570	—	—

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

Zhang Wenhui  
Company Representative

Shi Zhenjuan  
Person in charge of  
accounting function

Cao Shuo  
Person in charge of  
accounting department



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

## Cash Flow Statement

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2013	2012	2013	2012
<b>1. Cash flows from operating activities</b>				
Cash received from sales of goods and rendering of services	1,472,923	1,358,097	550,948	498,113
Cash received relating to other operating activities	16,992	15,607	6,167	9,092
<b>Sub-total of cash inflows</b>	<b>1,489,915</b>	<b>1,373,704</b>	<b>557,115</b>	<b>507,205</b>
Cash paid for goods and services	(565,393)	(579,497)	(259,944)	(255,077)
Cash paid to and on behalf of employees	(187,573)	(165,343)	(94,779)	(90,234)
Payments of taxes and levies	(121,732)	(102,160)	(89,750)	(64,851)
Cash payments relating to other operating activities	(43,744)	(32,468)	(21,264)	(18,864)
<b>Sub-total of cash outflows</b>	<b>(918,442)</b>	<b>(879,468)</b>	<b>(465,737)</b>	<b>(429,026)</b>
<b>Net cash flows from operating activities</b>	<b>571,473</b>	<b>494,236</b>	<b>91,378</b>	<b>78,179</b>
<b>2. Cash flows from investing activities</b>				
Cash received from returns on investments	300	500	19,300	20,000
Net cash received from disposals of fixed assets and intangible assets	3,940	21,093	1,756	337
Cash received from subsidiaries	—	—	182,427	177,959
Other cash received relating to investing activities	577,492	774,715	491,387	670,000
<b>Sub-total of cash inflows</b>	<b>581,732</b>	<b>796,308</b>	<b>694,870</b>	<b>868,296</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(742,981)	(659,754)	(609,761)	(465,559)
Cash paid to acquire equity investments	—	—	(23,500)	—
Cash paid to subsidiaries	—	—	(127,453)	(59,500)
Other Cash paid relating to investing activities	(3,667)	(900)	—	—
<b>Sub-total of cash outflows</b>	<b>(746,648)</b>	<b>(660,654)</b>	<b>(760,714)</b>	<b>(525,059)</b>
<b>Net cash flows from investing activities</b>	<b>(164,916)</b>	<b>135,654</b>	<b>(65,844)</b>	<b>343,237</b>

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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Group		Company	
	2013	2012	2013	2012
<b>3. Cash flows from financing activities</b>				
Cash received from borrowings	136,160	1,451,516	100,000	1,259,200
Cash received from debenture issuance	700,000	—	700,000	—
<b>Sub-total of cash inflows</b>	<b>836,160</b>	<b>1,451,516</b>	<b>800,000</b>	<b>1,259,200</b>
Repayments of amounts borrowed	(950,180)	(1,517,765)	(740,317)	(1,295,864)
Payments for interest expenses	(213,673)	(227,548)	(132,845)	(145,385)
Payments for distribution of dividends or profits	(80,847)	(28,121)	(79,997)	(27,621)
<b>Sub-total of cash outflows</b>	<b>(1,244,700)</b>	<b>(1,773,434)</b>	<b>(953,159)</b>	<b>(1,468,870)</b>
<b>Net cash flows from financing activities</b>	<b>(408,540)</b>	<b>(321,918)</b>	<b>(153,159)</b>	<b>(209,670)</b>
<b>4. Effect of foreign exchange rate changes on cash</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>5. Net (decrease)/increase in cash and bank balances</b>	<b>(1,983)</b>	<b>307,972</b>	<b>(127,625)</b>	<b>211,746</b>
Add: Cash and bank balances at beginning of the year	996,965	688,993	469,715	257,969
<b>6. Cash and bank balances at end of the year (note 6(29) (b))</b>	<b>994,982</b>	<b>996,965</b>	<b>342,090</b>	<b>469,715</b>

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

Zhang Wenhui  
Company Representative

Shi Zhenjuan  
Person in charge of  
accounting function

Cao Shuo  
Person in charge of  
accounting department



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

## Consolidated statement of changes in equity

For the year ended 31 December 2013  
(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 2012	1,427,228	382,311	326,181	1,432,617	147,372	3,715,709
<b>Changes in 2012</b>						
Comprehensive income						
Net profit	—	—	—	268,981	5,570	274,551
Total comprehensive income	—	—	—	268,981	5,570	274,551
Profit appropriation						
Appropriation to statutory common reserves	—	—	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
<b>Changes in 2013</b>						
Comprehensive income						
Net profit	—	—	—	281,899	6,458	288,357
Total comprehensive income	—	—	—	281,899	6,458	288,357
Profit appropriation						
Appropriation to statutory common reserves	—	—	22,351	(22,351)	—	—
Dividend appropriation to shareholders	—	—	—	(85,634)	(850)	(86,484)
Balance at 31 December 2013	1,427,228	382,311	373,256	1,793,699	158,050	4,134,544

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

Zhang Wenhui  
Company Representative

Shi Zhenjuan  
Person in charge of  
accounting function

Cao Shuo  
Person in charge of  
accounting department

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

## Company statement of changes in equity

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Share capital	Capital surplus	General reserve	Undistributed profits	Total shareholders' equity
<b>Balance at 1 January 2012</b>	1,427,228	380,788	326,181	1,320,023	3,454,220
<b>Changes in 2012</b>					
Comprehensive income					
Net profit	—	—	—	247,240	247,240
Total comprehensive income	—	—	—	247,240	247,240
Profit appropriation					
Appropriation to statutory common reserves	—	—	24,724	(24,724)	—
Dividend appropriation to shareholders	—	—	—	(57,089)	(57,089)
<b>Balance at 31 December 2012</b>	1,427,228	380,788	350,905	1,485,450	3,644,371
<b>Changes in 2013</b>					
Comprehensive income					
Net profit	—	—	—	223,509	223,509
Total comprehensive income	—	—	—	223,509	223,509
Profit appropriation					
Appropriation to statutory common reserves	—	—	22,351	(22,351)	—
Dividend appropriation to shareholders	—	—	—	(85,634)	(85,634)
<b>Balance at 31 December 2013</b>	<u>1,427,228</u>	<u>380,788</u>	<u>373,256</u>	<u>1,600,974</u>	<u>3,782,246</u>

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

**Zhang Wenhui**  
Company Representative

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

**Cao Shuo**  
Person in charge of  
accounting department



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

## Notes to the Financial Statements

For the year ended 31 December 2013  
(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

As of 31 December 2013, except for four Tianjin sewage water processing 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 2013  
(All amounts in RMB thousand unless otherwise stated)

## 1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

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

As of 31 December 2013, 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:*

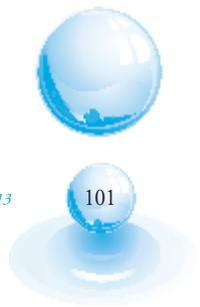
Based on the supplementary agreement reached with TSC on 10 March 2006, the Company is entitled to a pre-determined sewage processing fee from the completion date of construction to the completion date of inspection of the Ji Zhuang Zi, Xian Yang Lu and Bei Cang plants. After the inspection of these 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.



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(a) Processing of sewage water (Continued)

On 18 February 2014, Tianjin Water Authority Bureau, Tianjin Urban-rural Construction and Transportation Commission (“TUCTC”) and the Company signed an agreement to grant concession services right of the above four Tianjin sewage water processing plants to the Company. The concession right period is 30 years, effective from 1 January 2014. Based on the agreement, each sewage water processing plant is guaranteed monthly minimum processing volume that is about 80% of the respective designed processing capacity. The sewage water processing price is set at Rmb1.77 per ton and Rmb1.76 per ton in 2014 and 2015 respectively, which would be repriced based on contract terms every two years from 2014.

(b) Construction and management of sewage water facility

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

(c) Supply of tap water

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

(d) Recycled water and pipeline connection

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

(e) 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 27 March 2014.

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

## 2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group adopted the Basic Standard 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 2013 truly and completely present the financial position as of 31 December 2013 and the operating results, cash flows and other information for the year then ended of the Group and the Company in compliance with the Accounting Standards for Business Enterprises.

## 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### (1) Accounting period

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

### (2) Recording currency

The recording currency is Renminbi (“Rmb”).

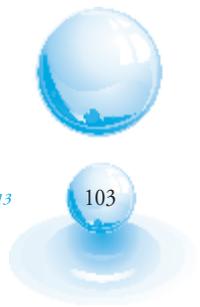
### (3) Preparation of consolidated financial statements

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, the portion of a subsidiary’s net profits and losses for the period and the portion of a subsidiary’s comprehensive income not held by the Company are recognized as minority interests, minority interest income and any consolidated income which belongs to minority stockholders presented separately in the consolidated balance sheet within equity, net profits and accumulated other comprehensive income respectively.



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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 (capital 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.

##### (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.

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

##### (6) Financial instruments

###### (a) Financial assets

The Group's financial assets represent 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.

The objective evidence of impairment is defined as an event which occurs in the subsequent period after the recognition of a financial asset and has an influence on the estimated future cash flows which can be measured reliably.

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.

###### (iii) Derecognition of financial assets

A financial asset is derecognized 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.

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#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

##### (6) Financial instruments (Continued)

###### (b) Financial liabilities

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

##### (7) Receivables

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

###### (a) Receivables that are individually significant and subject to separate impairment assessment

Receivables that are individually significant are subject to separate impairment assessment. If objective evidence indicates that the Group will not be able to collect full amount of receivable under its original conditions, a provision for impairment of the receivable needs to be made.

The criteria used in determining its significance: individually exceeds the amount of Rmb50 million.

The provision made to receivables that are individually significant and subject to separate impairment assessment is determined by the difference between its present value of expected future cash flow and its book value.

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

##### (7) Receivables (Continued)

###### (b) *Receivables that are grouped for impairment assessment*

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.

###### (c) *Receivables that are not individually significant but subject to separate impairment assessment*

The rationale for such receivables to assess impairment separately is the existence of objective evidence that the Group is not able to collect full amount of receivable under its original conditions.

The provision made to receivables is determined by its present value of expected future cash flow and its book value.

##### (8) Inventories

Inventories include raw materials, finished goods, low cost consumables and construction contract costs, 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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#### 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 and the Group is entitled to net proceeds of investees. 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.

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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

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

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

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

Control is the power over the entity that given the Group the right to variable returns from its involvement with the entity and the ability to affect those returns.

Joint control is agreed sharing of control over an arrangement, and a decision relating to any activity under the arrangement can be made only when the parties sharing the control reach the unanimous agreement.

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.

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For the year ended 31 December 2013  
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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Long-term equity investments(Continued)

(d) Impairment of long-term equity investments

The carrying value of investments in subsidiaries, joint ventures and associates are written down to its recoverable amount when its recoverable amount is lower than the carrying value (note 4(15)). When other equity investments which are not quoted in active market and whose fair value 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.

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

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

For the year ended 31 December 2013  
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#### 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:

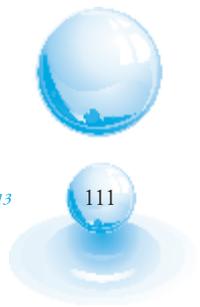
	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings and structures	10-50 years	0%-5%	1.9%-10%
Machinery and equipment	10-20 years	0%-5%	4.8%-10%
Motor vehicles and others	5-10 years	0%-5%	9.5%-20%

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 derecognized 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)).



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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 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.



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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 (note 4(15)).

(15) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, investment properties measured using the cost model and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are 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 are payment or compensation in any form paid to employee to obtain services or terminate employment relationship, mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labor union funds and employee education funds.

(a) Short-term Employee benefits

During the period which employee services are rendered, employees compensation shall be recognized as a liability and shall be recognized in current profits and losses or costs of related assets. Non-monetary benefits are measured at its fair value.

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#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

##### (16) Employee benefits (Continued)

###### (b) Basic Pension Insurance

Employees from the Group have participated in basic pension insurance plan implemented by local labor and social security authorities. The Group needs to pay for basic pension insurance to local pension insurance agents on a monthly basis which the amount is determined by the calculation base and rate regulated by local authorities. After employees' retirement, the local labor and social security authorities are obligated to pay for the basic pension insurance to retired employees. During the accounting period that employee services are rendered, the amount regulated by local labor and social security shall be recognized as a liability, and be recognized in current profits and losses or costs of related assets.

###### (c) Termination Benefit

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, when (1) 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 or (2) when termination costs or expenses are determined, whichever is earlier, 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.

##### (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.



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4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Revenue recognition (Continued)

(b) *Construction contract*

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

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

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

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

(d) *Sales of pipe connection for 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 is capable of being delivered to customers.

(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.

For the year ended 31 December 2013  
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#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

##### (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 grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants relating to income are other government grants other than those relating to 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.

##### (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.



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#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

##### (20) Deferred tax assets and deferred tax liabilities (Continued)

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.

##### (21) Segment information

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

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

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#### 4 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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

##### (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 has assessed the risk of trade and other receivables being impaired and a provision has been made (Note 6, 2(e)).

##### (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.



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

For the year ended 31 December 2013  
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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%
Education surtax	The amount of paid business tax and VAT	3%

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

Name of subsidiaries	Enterprise income tax rate of 2013	Preferential tax policy
Chi Bi Capital Water Co.,Ltd.	12.5%	Income from engaging in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2009 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 commence from 2008 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 commence from 2008 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 Guo shuihan[2011] No.19.
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	15%	High tech enterprises entitle to preferential tax policy from 2013.
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.

13. 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 2013	31 December 2012	31 December 2013	31 December 2012
Cash on hand	167	141	17	12
Cash in bank	1,002,082	100,424	342,073	469,703
	<u>1,002,249</u>	<u>1,000,565</u>	<u>342,090</u>	<u>469,715</u>
Including:				
Special funds for construction in progress (note (a))	78,065	200,466	23,675	139,137
Restricted bank deposits due within one year (note (b))	7,267	3,600	—	—
	<u>7,267</u>	<u>3,600</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 Rmb7,267 thousand (2012: Rmb3,600 thousand).

(c) Cash and bank balances comprise the following for the purposes of the cash flow statement:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Cash and bank balances	1,002,249	1,000,565	342,090	469,715
Less: Restricted bank deposits	(7,267)	(3,600)	—	—
Cash on Cash flow statement (note(6) (29))	<u>994,982</u>	<u>996,965</u>	<u>342,090</u>	<u>469,715</u>

(2) TRADE RECEIVABLES

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Trade receivable	2,086,255	1,566,743	1,944,004	1,454,780
Less: Provision for bad debts	(7,169)	—	—	—
	<u>2,079,086</u>	<u>1,566,743</u>	<u>1,944,004</u>	<u>1,454,780</u>



13. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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For the year ended 31 December 2013  
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

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

	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	948,631	46%	921,093	59%
1 to 2 years	798,902	38%	645,650	41%
2 to 3 years	338,722	16%	—	—
<b>Total</b>	<b>2,086,255</b>	<b>100%</b>	<b>1,566,743</b>	<b>100%</b>

	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	822,179	42%	818,971	56%
1 to 2 years	791,636	41%	635,809	44%
2 to 3 years	330,189	17%	—	—
<b>Total</b>	<b>1,944,004</b>	<b>100%</b>	<b>1,454,780</b>	<b>100%</b>

The average credit period of about 30 days has been granted by the Group. As of 31 December 2013, the ageing of trade receivables which are past due but not impaired is no different than the analysis shown above.

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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

#### 6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

##### (2) TRADE RECEIVABLES (Continued)

(b) Trade receivable is analyzed by categories as follows:

Category	Group							
	31 December 2013				31 December 2012			
	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	1,890,671	91%	—	—	1,421,319	91%	—	—
General credit portfolio	149,284	7%	—	—	104,779	7%	—	—
Trade receivables with amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis	46,300	2%	7,169	100%	40,645	2%	—	—
<b>Total</b>	<b>2,086,255</b>	<b>100%</b>	<b>7,169</b>	<b>100%</b>	<b>1,566,743</b>	<b>100%</b>	<b>—</b>	<b>—</b>

Category	Company							
	31 December 2013				31 December 2012			
	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	1,890,671	97%	—	—	1,421,319	98%	—	—
General credit portfolio	53,333	3%	—	—	33,461	2%	—	—
<b>Total</b>	<b>1,944,004</b>	<b>100%</b>	<b>—</b>	<b>—</b>	<b>1,454,780</b>	<b>100%</b>	<b>—</b>	<b>—</b>



13. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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For the year ended 31 December 2013  
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

- (c) As at 31 December 2013, accounts receivable with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis are analyzed as follows:

	Ending balance	Group and Company Provision for bad debts	Ratio
TSC	1,890,671	—	—
Total	1,890,671	—	—

TSC is a state-owned enterprise owned by Tianjin Government and has good credit history.

On 18 February 2014, Tianjin Water Authority Bureau, TUCTC and the Company signed an agreement of concession services right to grant four sewage water processing plants to the Company. Meanwhile, Tianjin government required TSC and related authorities to work together and settle the outstanding trade receivables. Therefore, management believes that there is no significant impairment risk and no impairment provision is required.

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

	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	143,158	96%	104,779	100%
1 to 2 years	6,126	4%	—	—
Total	149,284	100%	104,779	100%

	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	47,207	89%	33,461	100%
1 to 2 years	6,126	11%	—	—
Total	53,333	100%	33,461	100%

13. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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For the year ended 31 December 2013  
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

- (e) Trade receivables with amounts that are not individually significant but that the related provision for bad debts is provided on the individual basis are analyzed as below:

Trade receivables	Book value	Group Provision for bad debts	% of total balance
Qujing City Water General Company	46,300	7,169	15%

On 31 December 2013, the total amount of trade receivables due from Qujing City Water General Company, in respect of sewage processing fee and tap water fee was Rmb46,300 thousand among which Rmb8,533 thousand was aged over 2 years. According to management's analysis, impairment provision of Rmb7,169 thousand was provided.

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

	31 December 2013	31 December 2012
TICIG	26,838	13,419

- (g) As at 31 December 2013, the trade receivables from the top five debtors are analyzed as below:

	relationship with the Group	amount	ageing	% of total balance
TSC(i)	customer	774,972	Within 1 year	37.15%
		785,510	1 to 2 years	37.65%
		330,189	2 to 3 years	15.83%
Qujing City Water General Company	customer	30,501	Within 1 year	1.46%
		7,266	1 to 2 years	0.35%
		8,533	2 to 3 years	0.41%
TICIG(i)	Ultimate holding company	26,838	Within 1 year	1.29%
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company	17,600	Within 1 year	0.84%
Hangzhou Sewage Company	customer	13,595	Within 1 year	0.65%
Total		1,995,004		95.63%

- (i) The amount of trade receivables from TSC and TICIG accounts for 98.64% out of total amount of the Group's trade receivables, the rest are immaterial.



13. 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)

(h) Trade receivable from related parties is analyzed as follows:

	relationship with the Group	31 December 2013		31 December 2012	
		amount	% of total balance	amount	% of total balance
TICIG	Ultimate holding company	26,838	1.29%	13,419	0.86%
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company	17,600	0.84%	8,197	0.52%
Tianjin Metro Resources Investment Co., Ltd.	Controlled by the same ultimate holding company	3,914	0.19%	—	—
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company	401	0.02%	801	0.05%
Total		<u>48,753</u>	<u>2.34%</u>	<u>22,417</u>	<u>1.43%</u>

(3) PREPAYMENTS

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

	Group			
	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	64,948	56%	85,069	71%
1 to 2 years	49,097	43%	28,809	24%
Over 2 years	1,610	1%	6,428	5%
Total	<u>115,655</u>	<u>100%</u>	<u>120,306</u>	<u>100%</u>

As at 31 December 2013, the prepayments aged over one year with amount of Rmb50,707 thousand (2012: Rmb35,237 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 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	14,703	43.7%	43,576	99.5%
1 to 2 years	18,713	55.6%	144	0.3%
Over 2 years	240	0.7%	95	0.2%
Total	<u>33,656</u>	<u>100%</u>	<u>43,815</u>	<u>100%</u>

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

(3) PREPAYMENTS (Continued)

(b) As at 31 December 2013, 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 Machinery & Electric Equipment Imp.&Exp. Co., Ltd	equipment supplier	7,696	7%	2013	Installation is not yet completed
Tianjin Jianchang Environment Co., Ltd	equipment supplier	7,599	7%	2012	Installation is not yet completed
Zhonghuan TIG Co., Ltd	equipment supplier	5,229	5%	2013	Installation is not yet completed
Degremont water treatment system(Beijing) Co., Ltd	equipment supplier	4,302	4%	2012	Installation is not yet completed
SUMEC Group Corporation	equipment supplier	3,705	3%	2012	Installation is not yet completed
		28,531	26%		

(c) As at 31 December 2013, there were no prepayments to any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2012: Nil). As at 31 December 2013, there were no prepayments to any of the related parties of the Company (31 December 2012: Nil).

(4) OTHER RECEIVABLES

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Project deposits	1,814	3,207	298	2,200
Payment on behalf of others	1,120	1,893	—	38
Receivables from subsidiaries	—	—	130,914	105,034
Others	3,838	5,489	2,342	1,187
Less: provision for bad debts	—	—	—	—
	6,772	10,589	133,554	108,459



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

For the year ended 31 December 2013  
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) OTHER RECEIVABLES (Continued)

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

	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	4,106	61%	4,892	46%
1 to 2 years	845	12%	857	8%
2 to 3 years	806	12%	1,538	15%
Over 3 years	1,015	15%	3,302	31%
	<u>6,772</u>	<u>100%</u>	<u>10,589</u>	<u>100%</u>

	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	132,712	99.37%	920	0.85%
1 to 2 years	45	0.03%	23,923	22.06%
2 to 3 years	500	0.38%	9,828	9.06%
Over 3 years	297	0.22%	73,788	68.03%
	<u>133,554</u>	<u>100%</u>	<u>108,459</u>	<u>100%</u>

(b) As at 31 December 2013, there were no other receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2012: Nil). As at 31 December 2013, there were no other receivables from any of the related parties of the Company (31 December 2012: Nil).

(c) As at 31 December 2013, other receivables from the top five debtors are analyzed as below:

	relationship with the Group	amount	ageing	% of total balance
Xi'an Xingrong investment and development Co., Ltd.	other	825	Within 1 year	12%
Tianjin Construction Wastes Management Station	regulator	500	2 to 3 years	7%
Xianning City Sewage Management Office	customer	300	3 to 4 years	5%
Luodian County Guizhou City Municipal Public Utilities Management Center	other	200	2 to 3 years	3%
Wuchuan County Urban Management Office	other	200	1 to 2 years	3%
		<u>2,025</u>		<u>30%</u>

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

(4) OTHER RECEIVABLES (Continued)

(d) Other receivables are analyzed as below:

Category	Group							
	31 December 2013				31 December 2012			
	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	6,772	100%	—	—	10,589	100%	—	—

Category	Company							
	31 December 2013				31 December 2012			
	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	133,554	100%	—	—	108,459	100%	—	—

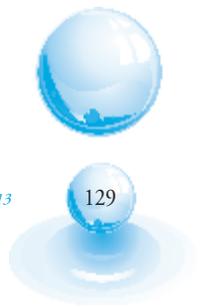
(5) INVENTORIES

Inventories are summarized by categories as follows:

	Group					
	31 December 2013			31 December 2012		
	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	15,144	—	15,144	17,962	—	17,962
Finished goods	393	—	393	—	—	—
Spare parts and low cost consumables	292	—	292	106	—	106
Construction contract costs	42,206	—	42,206	74,441	—	74,441
	<u>58,035</u>	<u>—</u>	<u>58,035</u>	<u>92,509</u>	<u>—</u>	<u>92,509</u>

	Company					
	31 December 2013			31 December 2012		
	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	7,667	—	7,667	11,029	—	11,029
Spare parts and low cost consumables	199	—	199	—	—	—
Work in progress	—	—	—	168	—	168
	<u>7,866</u>	<u>—</u>	<u>7,866</u>	<u>11,197</u>	<u>—</u>	<u>11,197</u>



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(6) LONG-TERM RECEIVABLES

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Receivables from toll road concession (note (a))	333,607	337,631	333,607	337,631
Receivables from TSC (note (b))	—	68,794	—	68,794
	<u>333,607</u>	<u>406,425</u>	<u>333,607</u>	<u>406,425</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 2013, the receivable from TSC in respect of construction of sewage water plants had been settled.

(7) LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Investment in subsidiaries (note (a))	—	—	1,331,755	1,308,255
Less: Impairment provision for long-term investment (note (b))	—	—	(49,619)	(26,500)
	—	—	1,282,136	1,281,755
Investment in an associate (note (c))	32,621	34,628	—	—
Other long-term equity investments (note (d))	2,000	4,000	2,000	4,000
	<u>34,621</u>	<u>38,628</u>	<u>1,284,136</u>	<u>1,285,755</u>

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

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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	Place of operation	Nature of business and business activity	Registered capital	Enterprise type	Legal representative	Institution code
Qijing Capital Water Co., Ltd.	A	Qijing	Qijing	Sewage processing, tap water supply	178,983	Limited Company	Zhao Yi	781687756
Guizhou Capital Water Co., Ltd.	A	Guizhou	Guizhou	Sewage processing	100,000	Limited Company	Zhao Yi	750194086
Baoying Capital Water Co., Ltd.	A	Baoying	Baoying	Sewage processing	53,000	Limited Company	Zhao Yi	776407692
Hangzhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Hangzhou	Sewage processing	257,445	Limited Company	Zhao Yi	785336929
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Tianjin	Production and sales of new types of construction material	37,500	Limited Company	Lin Wenbo	752229932
Fuyang Capital Water Co., Ltd.	B	Fuyang	Fuyang	Sewage processing	87,500	Limited Company	Zhao Yi	783074750
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Hong Kong	Sewage processing	62,987	Limited Company	Tang Fusheng	N/A
Wendeng Capital Water Co., Ltd.	B	Wendeng	Wendeng	Sewage processing	52,000	Limited Company	Zhao Yi	661386940
Tianjin Jing Hai Capital Water Co., Ltd.	B	Tianjin	Tianjin	Sewage processing	12,000	Limited Company	Yang Guang	666139631
Tianjin Water Recycling Co., Ltd.	B	Tianjin	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	Xi'an	Sewage processing	270,000	Limited Company	Zhao Yi	668679180
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	B	Tianjin	Tianjin	Environmental engineering protection and technical consultation	5,000	Limited Company	Zhang Wenhui	673733268
Anguo Capital Water Co., Ltd.	B	Anguo	Anguo	Tap water supply and drain off for urban area and sewage processing	41,000	Limited Company	Yang Guang	681355439
Wuhan Tianchuang Capital Water Co., Ltd.	B	Wuhan	Wuhan	Sewage processing and tap water supply	103,240	Limited Company	Zhao Yi	679132033
Tianjin Capital Water Co., Ltd.	B	Tianjin	Tianjin	Sewage processing	10,000	Limited Company	Li Yuqing	697448664
Tianjin Zichuang Project Investment Co., Ltd.	B	Tianjin	Tianjin	Construction project investment	23,400	Limited Company	Lin Wenbo	55946747X
Tianjin Jinning Capital Water Co., Ltd.	B	Tianjin	Tianjin	Sewage processing	15,000	Limited Company	Yang Guang	559490071
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	B	Tianjin	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



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

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(a) Subsidiaries (Continued)

	Accounting method	Investment cost	Investment cost at beginning of the year	Additions	Investment cost at end of the year	Share holding/ Voting rights (%)	Consolidate financial statement (Y/N)	Minority interest	Provisions of impairment	Cash dividends declared/ Gain on investment in the current year
Qijing Capital Water Co., Ltd.	Cost method	154,918	154,918	—	154,918	87	Y	27,221	—	—
Guizhou Capital Water Co., Ltd. (notes(iii))	Cost method	95,000	95,000	—	95,000	95	Y	5,288	—	4,750
Baoying Capital Water Co., Ltd. (notes(iii))	Cost method	37,100	37,100	—	37,100	70	Y	20,666	—	1,190
Hangzhou Tianchuang Capital Water Co., Ltd.	Cost method	180,212	180,212	—	180,212	70	Y	99,781	—	—
Tianjin Capital New Materials Co., Ltd.	Cost method	26,500	26,500	—	26,500	71	Y	981	(26,500)	—
Fuyang Capital Water Co., Ltd. (notes(ii))	Cost method	87,702	69,202	18,500	87,702	100	Y	—	—	—
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Cost method	62,987	62,987	—	62,987	100	Y	1,846	—	—
Wendeng Capital Water Co., Ltd. (notes(iii))	Cost method	52,000	52,000	—	52,000	100	Y	—	—	4,000
Tianjin Jing Hai Capital Water Co., Ltd.	Cost method	12,000	12,000	—	12,000	100	Y	—	—	—
Tianjin Water Recycling Co., Ltd. (notes(iii))	Cost method	100,436	100,436	—	100,436	100	Y	—	—	15,000
Xi'an Capital Water Co., Ltd.	Cost method	270,000	270,000	—	270,000	100	Y	—	—	—
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	Cost method	5,000	5,000	—	5,000	100	Y	—	—	—
Anguo Capital Water Co., Ltd.	Cost method	41,000	41,000	—	41,000	100	Y	—	(23,119)	—
Wuhan Tianchuang Capital Water Co., Ltd.	Cost method	98,500	98,500	—	98,500	100	Y	2,267	—	—
Tianjin Capital Water Co., Ltd. (notes(ii))	Cost method	5,000	5,000	5,000	10,000	100	Y	—	—	—
Tianjin Zichuang Project Investment Co., Ltd.	Cost method	23,400	23,400	—	23,400	100	Y	—	—	—
Tianjin Jinning Capital Water Co., Ltd.	Cost method	15,000	15,000	—	15,000	100	Y	—	—	—
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	Cost method	60,000	60,000	—	60,000	100	Y	—	—	—
Total		<u>1,331,755</u>	<u>1,308,255</u>	<u>23,500</u>	<u>1,331,755</u>		158,050	<u>(49,619)</u>	<u>24,940</u>	

- (i) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.
- (ii) In 2013, the parent company has invested in Fuyang Capital Water Co., Ltd. in cash of RMB 18.5 million and in Tianjin Capital Water Co., Ltd. in cash of RMB 5 million.
- (iii) In 2013, the cash dividend declared by the subsidiaries was Rmb24.94 million.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Provisions

	31 December 2012	Additions	Decrease	31 December 2013
Tianjin Capital New Materials Co., Ltd. (note(i))	26,500	—	—	26,500
Anguo Capital Water Co., Ltd. (note (ii))	—	23,119	—	23,119
	<u>26,500</u>	<u>23,119</u>	<u>—</u>	<u>49,619</u>

- (i) Full provision has been made for the investment in Tianjin Capital New Materials Co., Ltd. of approximately RMB 26.5million as at 31 December 2013 (31 December 2012: Rmb26.5 million).
- (ii) A new provision has been made for investment in this subsidiary of approximately Rmb23 million as at 31 December 2013(31 December 2012: nil) (note 6(24) (a)).

(c) Investment in an associate

	Registered capital	Interest & voting shares held	31 December 2013			2013	
			Total assets	Total liabilities	Net assets	Revenue	Share of loss
Tianjin international Machinery Co., Ltd.	120,000	27.50%	716,773	575,993	140,780	2,512,282	(2,007)

	Type	Place of registration	Legal Representative	Registered capital	Interest & voting shares held	Code of organisation
Tianjin international Machinery Co., Ltd.	Limited Company	Tianjin	Wang Jinli	120,000	27.50%	77364390-5

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 valve and actuating device; heater exchanger and the whole set of it; environment protection equipment; engineering technical consultation; trading; manufacturing and sale of general equipment.



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(c) Investment in an associate (Continued)

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

	Initial Investment cost	31 December 2012	Share of loss	Cash dividends by the associate	31 December 2013	Share holding/ Voting rights (%)
Tianjin international Machinery Co., Ltd.	33,000	34,628	(2,007)	—	32,621	27.50%

Summarized financial information for Tianjin International Machinery Co., Ltd:

	31 December 2013	31 December 2012
Cash and cash equivalents	152,132	96,256
Other current assets	370,587	306,846
Total current assets	522,719	403,102
Total non-current Assets	194,054	200,170
Trade payables	67,480	96,813
Other current liabilities	508,513	357,738
Total current liabilities	575,993	454,551
Net assets	140,780	148,721
Equity attributable to owners of the parent	117,684	125,204
Adjustment made to reflect fair value of identifiable net assets of associate at acquisition date	—	—
Adjusted equity attributable to owners of the parent	117,684	125,204
Voting shares held by the Group	27.50%	27.50%
Equity held by the Group	32,363	34,431
Long-term investment	32,621	34,628

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(7) LONG-TERM EQUITY INVESTMENTS (Continued)

(c) Investment in an associate (Continued)

	Tianjin international Machinery Co., Ltd.	
	2013	2012
Revenue	2,512,282	2,024,631
Depreciation and amortization	(12,472)	(9,489)
Interest income	3,263	2,702
Interest expense	(17,855)	(19,247)
Total Profit	(4,176)	(858)
Income tax expense	(2,236)	(3,345)
Net Losses	<u>(6,412)</u>	<u>(4,203)</u>
Other comprehensive income	—	—
Total comprehensive income	<u><u>(6,412)</u></u>	<u><u>(4,203)</u></u>

(d) Other long-term equity investments

	Accounting method	Investment cost	31 December 2012	Current year additions/ decrease	31 December 2013	Share holding/ Voting rights	Cash dividends declared in the current year
Tianjin Beifang Rencaigang Company Limited	Cost method	2,000	2,000	—	2,000	6.10%	300
Tianjin Baotong Light Mass Materials Company Limited (note(i))	Cost method	2,000	2,000	(2,000)	—	—	—
			<u>4,000</u>	<u>(2,000)</u>	<u>2,000</u>		<u>300</u>

- (i) On 26 December 2013, equity investment in Tianjin Baotong Light Mass Materials Company Limited was realized for Rmb677 thousand, resulting in an investment loss of Rmb 1,323 thousand.



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For the year ended 31 December 2013  
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(8) INVESTMENT PROPERTIES

Buildings	Group	Company
Cost		
At 1 January 2012, 31 December 2012 and 2013	137,374	110,648
Accumulated depreciation		
1 January 2012	(21,419)	(18,989)
Charge for the year	(3,673)	(3,168)
At 31 December 2012	(25,092)	(22,157)
Charge for the year	(3,673)	(3,168)
At 31 December 2013	(28,765)	(25,325)
Net book value		
At 31 December 2013	108,609	85,323
At 31 December 2012	112,282	88,491

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 2013 was approximately Rmb151 million (2012: Rmb151 million) and its carrying value was approximately Rmb85 million.

13. 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

(a) Group

	Buildings & structure (note (i))	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2012	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
Additions	877	7,376	5,269	13,522
Disposals	(23,746)	(9,200)	(15,755)	(48,701)
At 31 December 2012	2,004,972	2,212,574	239,736	4,457,282
Transfer from construction in progress	—	2,172	186	2,358
Additions	2,257	3,097	5,295	10,649
Disposals	(968)	(34,290)	(18,181)	(53,439)
At 31 December 2013	2,006,261	2,183,553	227,036	4,416,850
Accumulated depreciation				
At 1 January 2012	(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)
Charge for the year	(68,589)	(101,052)	(27,710)	(197,351)
Disposals	92	31,467	13,089	44,648
At 31 December 2013	(704,857)	(525,267)	(98,602)	(1,328,726)
Net book value				
At 31 December 2013	1,301,404	1,658,286	128,434	3,088,124
At 31 December 2012	1,368,612	1,756,892	155,755	3,281,259



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

For the year ended 31 December 2013  
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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 Rmb193 million (2012:Rmb142 million) has been included in cost of operations and Rmb4 million (2012: Rmb6 million) in administrative expenses.
- (iii) As at 31 December 2013, 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 Rmb138 million (cost of Rmb175 million) (31 December 2012: carrying amount of Rmb145 and cost of Rmb178 million) has yet to be or is in the process of being transferred to the Group. As these assets are supported by legal sale and purchase agreements, the Directors believe that the titles will be received in due course without additional significant cost to the Group, if any.

(b) Company

	Buildings & structure	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2012	1,418,286	1,569,921	133,794	3,122,001
Transfer from construction in progress	415,815	480,232	75,997	972,044
Additions	—	526	858	1,384
Disposals	—	(3,196)	(10,035)	(13,231)
At 31 December 2012	1,834,101	2,047,483	200,614	4,082,198
Transfer from construction in progress	—	2,172	186	2,358
Additions	—	119	1,605	1,724
Disposals	(84)	(31,929)	(15,516)	(47,529)
At 31 December 2013	1,834,017	2,017,845	186,889	4,038,751
Accumulated depreciation				
At 1 January 2012	(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)
Charge for the year	(63,724)	(84,617)	(16,824)	(165,165)
Disposals	84	30,363	11,400	41,847
At 31 December 2013	(676,387)	(457,742)	(78,846)	(1,212,975)
Net book value				
At 31 December 2013	1,157,630	1,560,103	108,043	2,825,776
At 31 December 2012	1,221,354	1,643,995	127,192	2,992,541

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

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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

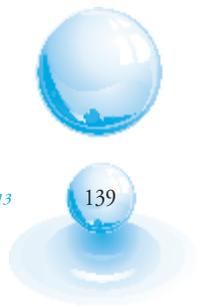
Name	Budgeted amount	31 December 2012	Increase in current year	Transfer to fixed assets	31 December 2013	Proportion of expenditures incurred to budgeted amount	Source of funds
Sewage water processing plants:							
– Jin Nan	2,065,590	417,130	620,386	—	1,037,516	50%	Government grants
Others		2,377	4,770	(2,358)	4,789		Self-raised fund
Total – Company		<u>419,507</u>	<u>625,156</u>	<u>(2,358)</u>	<u>1,042,305</u>		
Water recycling plants:							
– Jin Nan	260,351	39,111	67,723	—	106,834	41%	Government grants
Others		869	2,070	—	2,939		Self-raised fund
Total - Group		<u>459,487</u>	<u>694,949</u>	<u>(2,358)</u>	<u>1,152,078</u>		

In 2013, no borrowing cost has been capitalized (2012: Rmb19 million, at an average interest of 6.55%).

(d) Construction in progress

As at 31 December 2013, the progress of significant projects of construction in progress is analyzed as follows:

	Construction progress	Remark
Sewage water processing plants - Jin Nan	50%	Estimated by percent of occurred cost amount to total project budget
Water recycling plants - Jin Nan	41%	Estimated by percent of occurred cost amount to total project budget



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Construction in progress (Continued)

In year 2012, in order to improve the infrastructure construction of Tianjin, Tianjin Government decided to relocate Tianjin Ji Zhuang Zi 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 funding 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 Ji Zhuang Zi 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 Ji Zhuang Zi sewage water processing plant and water recycling plant will be demolished.

The total compensation fund is about RMB2.33 billion. The Company commenced the construction of Jinnan Project in 2012 and the expected completion date is within 2014. As of 31 December 2013, the fund with total amount of Rmb1.3 billion was received as the compensation for (1) the demolition of Ji Zhuang zi sewage water processing plant and water recycling plant, and (2) the construction of Jinnan sewage water processing plant and water recycling plant. The Group recorded the received fund as other non-current liabilities (note6 (14) (e) (i)).

(10) INTANGIBLE ASSETS

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Concession rights (note (a))	2,641,117	2,745,732	—	—
Land use rights (note (b))	426,349	437,653	414,030	424,835
Technical know-how and computer software(note (c))	7,359	7,954	6,540	7,131
	<u>3,074,825</u>	<u>3,191,339</u>	<u>420,570</u>	<u>431,966</u>

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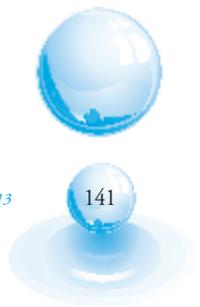
## 6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

### (10) INTANGIBLE ASSETS (Continued)

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

	Group
Cost	
At 1 January 2012	3,218,156
Additions	74,590
Disposals	(1,836)
	3,290,910
At 31 December 2012	3,290,910
Additions	31,501
	3,322,411
At 31 December 2013	3,322,411
Accumulated amortization	
At 1 January 2012	(423,006)
Charge for the year	(122,569)
Disposals	397
	(545,178)
At 31 December 2012	(545,178)
Charge for the year	(124,792)
	(669,970)
At 31 December 2013	(669,970)
Provision of Impairment	
At 31 December 2012	—
Charge for the year(Note6(24) (a))	(11,324)
	(11,324)
At 31 December 2013	(11,324)
Net book value	
At 31 December 2013	2,641,117
At 31 December 2012	2,745,732

- (i) As at 31 December 2013, certain of concession rights with net book value of Rmb221 million (Cost: Rmb302 million) (2012: carrying amount Rmb232 million; cost: Rmb302 million) have been secured against long-term borrowings of Rmb118 million (2012: Rmb133 million) (note 6(14) (a) (i)). Certain of concession rights with net book value Rmb14 million (Cost: Rmb19million) (31 December 2012: carrying amount Rmb14 million; cost: Rmb19 million) have been secured against long-term borrowings of Rmb9 million (2012: Rmb10 million) (note:6(14) (a) (i)).
- (ii) In 2013, there's no newly increased borrowing cost (2012: Nil).
- (iii) The remaining amortization period of concession rights range from 15 to 28 years.



13. 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 1 January 2012	593,529	567,266
Disposals	(10,247)	—
At 31 December 2012 and 2013	<u>583,057</u>	<u>567,266</u>
Accumulated amortization		
At 1 January 2012	(141,745)	(132,080)
Charge for the year	(10,850)	(10,351)
Disposals	7,191	—
At 31 December 2012	(145,404)	(142,431)
Charge for the year	(11,304)	(10,805)
At 31 December 2013	<u>(156,708)</u>	<u>(153,236)</u>
Net book value		
At 31 December 2013	<u>426,349</u>	<u>414,030</u>
At 31 December 2012	<u>437,653</u>	<u>424,835</u>

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

	Group	Company
Cost		
At 1 January 2012	8,307	8,307
Additions	2,752	1,904
At 31 December 2012	11,059	10,211
Additions	307	80
At 31 December 2013	<u>11,366</u>	<u>10,291</u>
Accumulated amortization		
At 1 January 2012	(420)	(420)
Charge for the year	(2,685)	(2,660)
At 31 December 2012	(3,105)	(3,080)
Charge for the year	(902)	(671)
At 31 December 2013	<u>(4,007)</u>	<u>(3,751)</u>
Net book value		
At 31 December 2013	<u>7,539</u>	<u>6,540</u>
At 31 December 2012	<u>7,954</u>	<u>7,131</u>

(d) Amortization of Rmb136 million (2012: Rmb135 million) is included in the 'cost of sales' in the income statement and Rmb1 million (2012: Rmb1 million) in 'administrative expenses' respectively.

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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(11) PROVISION FOR ASSET IMPAIRMENT

	31 December 2012	Increase in current year	Decrease in current year	31 December 2013
Provision for bad debts(note(a))	—	7,169	—	7,169
Provision for impairment of intangible assets (note(b))	—	11,324	—	11,324
	<u>—</u>	<u>18,493</u>	<u>—</u>	<u>18,493</u>

(a) The provision of bad debts is Rmb7,169 thousand (note6 (2) (e)).

(b) The provision of impairment of intangible assets is Rmb11,324 thousand (note6 (24) (a)).

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

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Trade payables (note (a))	21,099	20,847	5,042	5,373
Advances (note (b))	701,654	601,371	8,082	4,871
Other payables (note (c))	537,600	511,940	726,791	590,875
Taxes payable (note (d))	25,591	26,706	17,555	17,954
	<u>1,285,944</u>	<u>1,160,864</u>	<u>757,470</u>	<u>619,073</u>

(a) As at 31 December 2013, the majority of trade payables are aged within one year and mainly for raw materials purchase.

As at 31 December 2013, there were no trade payables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2012: Nil). And there were no trade payables from any of the related parties of the Company (31 December 2012: 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 2013	31 December 2012	31 December 2013	31 December 2012
For pipeline connection service	685,875	580,944	—	—
For heating service	2,441	13,776	—	—
Received from project of Han Gu	3,536	2,261	3,536	2,261
Other advances	9,802	4,390	4,546	2,610
	<u>701,654</u>	<u>601,371</u>	<u>8,082</u>	<u>4,871</u>

As at 31 December 2013, advances of Rmb476 million (31 December 2012: Rmb314 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 2013, there were no advances from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2012: Nil). And there were no advances from any of the related parties of the Group (31 December 2012: Nil).

(c) Other payables comprise:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Construction costs payable	418,701	392,679	332,861	299,271
Payable for purchase of fixed assets and concession rights	32,493	40,935	11,600	10,148
Long-term debenture interests payables(note 6(14) (c))	28,063	7,747	28,063	7,747
Others	58,343	70,579	354,267	273,709
	<u>537,600</u>	<u>511,940</u>	<u>726,791</u>	<u>590,875</u>

As at 31 December 2013, other payables of Rmb112 million (31 December 2012: Rmb137 million) are aged over year, which mainly represent unsettled payables and deposits for upgrade projects.

As at 31 December 2013, there were no other payables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2012: Nil). And there were no other payables from any of the related parties of the Group (31 December 2012: 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

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Income tax payable	19,620	21,763	14,867	15,501
Business tax payable	3,094	2,727	2,092	1,631
Value-added tax payable	63	1,047	—	—
Others	2,814	1,169	596	822
	<u>25,591</u>	<u>26,706</u>	<u>17,555</u>	<u>17,954</u>

(13) EMPLOYEE BENEFITS PAYABLE

(a) Details of Employee benefits payable are set out below:

	31 December 2012	Increase in current year	Decrease in current year	31 December 2013
Wages and salaries, bonuses, allowances and subsidies	3,569	101,593	(100,095)	5,067
Staff welfare	2,568	4,837	(7,369)	36
Social security contributions	216	38,378	(37,087)	1,507
Including:				
Medical insurance	(597)	11,392	(10,314)	481
Basic pensions	863	22,977	(22,974)	866
Unemployment insurance	57	2,592	(2,595)	54
Work injury insurance	(74)	633	(543)	16
Maternity insurance	(33)	784	(661)	90
Housing funds	845	30,119	(30,096)	868
Labor union funds and employee education funds	2,632	4,608	(3,690)	3,550
Others	(532)	9,861	(9,235)	94
	<u>9,298</u>	<u>189,396</u>	<u>(187,572)</u>	<u>11,122</u>

As at 31 December 2013, no defaulted payables are included in the balance of employee benefits payable and the balance is estimated to be used up in 2014.



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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(13) EMPLOYEE BENEFITS PAYABLE (Continued)

(b) Directors' emoluments

The remuneration of every director for the year ended 31 December 2013 is set out below:

Name	Fees	Salaries and other emoluments	Total
<b>Executive Directors:</b>			
Zhang Wenhui	150	698	848
Lin Wenbo(note(i))	100	703	803
Fu Yana	100	548	648
Shi Zhenjuan	100	548	648
<b>Non-executive Directors:</b>			
Xie Rong	220	—	220
Di Xiaofeng	220	—	220
Li Jieying	220	—	220
An Pindong	100	—	100
Chen Yinxing	100	—	100
	<u>1,310</u>	<u>2,497</u>	<u>3,807</u>

(i) The Director is also the Chief Executive.

The remuneration of every director for the year ended 31 December 2012 is set out below:

Name	Fees	Salaries and other emoluments	Total
<b>Executive Directors:</b>			
Zhang Wenhui	150	653	803
Lin Wenbo(note(i))	100	641	741
Fu Yana	100	495	595
Shi Zhenjuan	—	496	496
Zhong Huifang	100	—	100
<b>Non-executive Directors:</b>			
Xie Rong	220	—	220
Di Xiaofeng	220	—	220
Li Jieying	220	—	220
An Pindong	100	—	100
Chen Yinxing	100	—	100
	<u>1,310</u>	<u>2,285</u>	<u>3,595</u>

(i) The Director is also the Chief Executive.

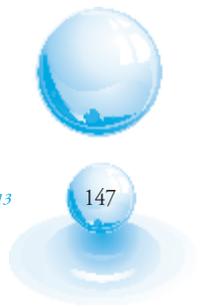
13. Financial statements prepared in accordance with PRC Accounting  
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6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Note	Group		Company	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
Non-current:					
Long-term bank borrowings	(a)	2,067,036	2,710,056	962,600	1,455,100
Less: current portion within one year	(a)	(853,750)	(778,180)	(652,000)	(591,500)
		<u>1,213,286</u>	<u>1,931,876</u>	<u>310,600</u>	<u>863,600</u>
Long-term debenture	(c)	1,384,775	691,950	1,384,775	691,950
Long-term payable	(d)	291,175	350,754	291,175	350,754
Other non-current liabilities	(e)	1,369,522	840,158	1,140,000	735,453
		<u>4,258,758</u>	<u>3,814,738</u>	<u>3,126,550</u>	<u>2,641,757</u>
Current:					
Current portion of long-term bank borrowings	(a)	853,750	778,180	652,000	591,500
Current portion of long-term payable	(d)	24,356	28,001	24,356	28,001
		<u>878,106</u>	<u>806,181</u>	<u>676,356</u>	<u>619,501</u>
Short-term borrowings	(b)	—	86,000	—	66,000
Other current liabilities	(e)	3,287	20,007	—	16,364
		<u>881,393</u>	<u>912,188</u>	<u>676,356</u>	<u>701,865</u>



13. 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)

(a) Long-term bank borrowings

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

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Borrowings from:				
China Construction Bank Industrial and Commercial Bank of China	540,600	608,850	151,600	177,600
State Development Bank	460,376	553,216	20,000	20,000
Agriculture Bank of China	367,500	421,500	218,000	258,000
PingAn Bank	258,060	371,990	200,000	300,000
Tianjin Rural Cooperative Bank	152,000	190,000	152,000	190,000
China Ever bright Bank	99,000	—	99,000	—
Bank of China	86,000	94,000	86,000	94,000
Baoying Rural Credit Cooperatives Union	25,000	30,000	—	—
Bohai Bank	22,500	25,000	—	—
China Minsheng Bank	20,000	20,000	20,000	20,000
Shanghai Bank	20,000	—	—	—
China Merchants Bank	16,000	318,000	16,000	318,000
China CITIC Bank	—	47,500	—	47,500
	—	30,000	—	30,000
	<u>2,067,036</u>	<u>2,710,056</u>	<u>962,600</u>	<u>1,455,100</u>

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

	Note	Group		Company	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
Pledge	(i)	21,000	16,000	—	—
Guarantee	(iii)	180,750	170,680	—	—
Unsecured		652,000	591,500	652,000	591,500
		<u>853,750</u>	<u>778,180</u>	<u>652,000</u>	<u>591,500</u>

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

	Note	Group		Company	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
Pledge	(ii)	106,000	127,000	—	—
Guarantee	(iv)	796,686	941,276	—	—
Unsecured		310,600	863,600	310,600	863,600
		<u>1,213,286</u>	<u>1,931,876</u>	<u>310,600</u>	<u>863,600</u>

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

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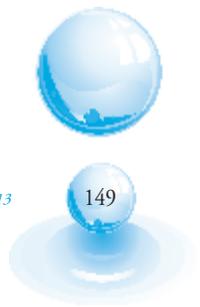
#### 6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

##### (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 2013, the current portion of bank pledge borrowings of Rmb21 million (31 December 2012: Rmb16 million), including Rmb21 million (2012: Rmb15 million) secured by the concession services right of tap water and sewage processing fees of the Company's subsidiary, Qujing Capital Water Co. Ltd. (note 6(10) (a)). The other Rmb9 million (2012: Rmb10 million) were secured by the land and buildings of the Company's subsidiary, Baoying Capital Water Co. Ltd..
- (ii) As at 31 December 2013, non-current portion of bank pledge borrowings of Rmb106 million (31 December 2012: Rmb127 million), including Rmb97 million (2012: Rmb118 million) secured by the concession services right of tap water and sewage processing fees of the Company's subsidiary, Qujing Capital Water Co. Ltd. (note 6(10) (a)). The other Rmb9 million (2012: Rmb10 million) were secured by the land and buildings of the Company's subsidiary, Baoying Capital Water Co. Ltd.
- (iii) As at 31 December 2013, current portion of bank guarantee borrowings of Rmb181 million (2012: Rmb171 million) and Rmb22 million (2012: Rmb21 million) were secured by the guarantee of the Company and TICIG respectively (note9 (5) (b)).
- (iv) As at 31 December 2013, non-current portion of bank guarantee borrowings of Rmb797 million (2012: Rmb941 million) and Rmb249 million (2012: Rmb271 million) were secured by the guarantee of the Company and TICIG respectively (note9 (5) (b)).
- (v) These long term bank borrowings bear a weighted average interest rate of 6.44% in 2013 (2012: 6.41%).
- (vi) These borrowings mature as follows:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Within 1 year	853,750	778,180	652,000	591,500
1 to 2 years	300,230	850,750	68,000	650,000
2 to 5 years	686,956	738,526	226,600	167,600
Over the 5 year	226,100	342,600	16,000	46,000
	<u>2,067,036</u>	<u>2,710,056</u>	<u>962,600</u>	<u>1,455,100</u>



13. 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)

(a) Long-term bank borrowings (Continued)

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

	Grant date	Maturity date	Currency	Rate(%)	Group	
					31 December 2013	31 December 2012
Agriculture Bank of China	2012-04-28	2014-01-27	RMB	6.765%	100,000	—
Agriculture Bank of China	2012-04-28	2014-04-28	RMB	6.765%	100,000	—
China Construction Bank	2012-04-24	2014-01-23	RMB	6.765%	90,000	—
Ping An Bank	2012-08-02	2014-08-02	RMB	6.150%	80,000	—
Ping An Bank	2012-12-05	2014-10-10	RMB	6.150%	72,000	—
					<u>442,000</u>	<u>—</u>

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

	Grant date	Maturity date	Currency	Rate (%)	Group	
					31 December 2013	31 December 2012
China Construction Bank	2008-09-28	2022-09-27	RMB	6.223%	249,000	271,000
State Development Bank	2009-10-12	2019-10-11	RMB	6.550%	126,000	151,000
China Construction Bank	2006-05-26	2018-05-26	RMB	6.550%	97,000	118,000
Tianjin Rural Cooperative Bank	2013-01-04	2016-01-03	RMB	6.150%	97,000	—
Industrial and Commercial Bank of China	2006-11-23	2016-11-22	RMB	6.895%	73,000	103,000
					<u>642,000</u>	<u>643,000</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)

(ix) Bank borrowings which are exposed to interest-rate changes and the contractual repricing dates are as follows:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
6 months or less	797,876	1,049,150	487,000	761,500
6- 12 months	<u>1,269,160</u>	<u>1,660,906</u>	<u>475,600</u>	<u>693,600</u>

(x) As at year end, the Group has the following committed undrawn banking facilities:

	Group	
	31 December 2013	31 December 2012
Floating rate expiring within 1 year	<u>948,500</u>	<u>354,000</u>

(b) Short-term borrowings

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Borrowings from:				
Shanghai Pudong Development Bank	—	16,000	—	16,000
China Minsheng Bank	—	20,000	—	—
China Merchants Bank	—	50,000	—	50,000
	<u>—</u>	<u>86,000</u>	<u>—</u>	<u>66,000</u>

Summary of terms of short-term borrowings:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Guaranteed	—	20,000	—	—
Unsecured	—	66,000	—	66,000
	<u>—</u>	<u>86,000</u>	<u>—</u>	<u>66,000</u>



13. 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)

(c) Long-term debenture

	31 December 2012	Additions	Decrease	31 December 2013
Long-term Debenture				
Par value	700,000	700,000	—	1,400,000
Transaction cost	(8,050)	(10,500)	3,325	(15,225)
	<u>691,950</u>	<u>689,500</u>	<u>3,325</u>	<u>1,384,775</u>
<b>General information on Long-term Debenture</b>	<b>Book Value</b>	<b>Issuing Date</b>	<b>Maturity</b>	<b>Issue amount</b>
Corporate Debenture I(note(i))	700,000	2011-11-16	5 years	700,000
Corporate Debenture II(note(ii))	<u>700,000</u>	<u>2013-05-29</u>	<u>5 years</u>	<u>700,000</u>

Interest accrued of debentures is analyzed as follows:

	31 December 2012	Interest accrued		31 December 2013
		Interest accrued in current year	Interest paid in current year	
Corporate Debenture I(i)	7,747	46,480	(46,480)	7,747
Corporate Debenture II(ii)	—	20,316	—	20,316
	<u>7,747</u>	<u>66,796</u>	<u>(46,480)</u>	<u>28,063</u>

- (i) 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.
- (ii) On 29 May 2013, 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 5.45% per annum. The principal will be repaid on maturity.

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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

	Group and Company			
	31 December 2013		31 December 2012	
	Payable	Unrecognized financial charges	Payable	Unrecognized financial charges
Payable to TSC for assets acquisition	556,716	(241,185)	700,393	(321,638)

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

	Original balance	Effective interest rate	Ending balance	Current portion
TSC    Maturity date    20 March 2041	430,314	5.94%	291,175	24,356

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%.



13. 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)

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

	Group and Company	
	31 December 2013	31 December 2012
JPY	414,506	546,618
US dollar	142,210	153,775
	<u>556,716</u>	<u>700,393</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 2013, the current portion of long-term payable of Rmb24 million was classified as current liabilities.

	Group and Company	
	31 December 2013	31 December 2012
Within 1 year	24,356	28,001
1 to 2 years	23,361	26,721
2 to 5 years	64,931	73,495
Over 5 years	202,883	250,538
	<u>315,531</u>	<u>378,755</u>

For the year ended 31 December 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 (Continued)

(e) Other liabilities

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Non-current:				
– Land compensation fund for Ji Zhuang Zi sewage plant relocation(note(i))	1,140,000	670,000	1,140,000	670,000
– Land compensation fund for Ji Zhuang Zi water recycling plants relocation(note(i))	160,000	80,000	—	—
– Government loan for sewage water processing plants construction (note(ii))	—	65,453	—	65,453
– Compensation fund for providing cooling service (notes(iii))	48,000	—	—	—
– Government loan for water recycling plants construction (note(iv))	10,909	14,092	—	—
– Others	10,613	10,613	—	—
	<u>1,369,522</u>	<u>840,158</u>	<u>1,140,000</u>	<u>735,453</u>
Current:				
– Current portion of government loan for sewage water processing plants construction (note(ii))	—	16,364	—	16,364
– Current portion of government loan for water recycling plants construction (note(iv))	3,182	3,181	—	—
– Others	105	462	—	—
	<u>3,287</u>	<u>20,007</u>	<u>—</u>	<u>16,364</u>

- (i) As of 31 December 2013, the fund with total amount of Rmb1.3 billion was received as the compensation for (1) the demolition of Ji Zhuang Zi sewage water processing plant and water recycling plant, and (2) the construction of Jinnan sewage water processing plant and water recycling plant (note 6 (9) (d)).
- (ii) A loan taken from Tianjin Municipal Engineering Bureau (TMEB) by the Company during 2005 specifically for construction of sewage water processing plants has been paid off in 2013.
- (iii) Compensation fund for providing cooling services is paid to Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd by Tianjin Transportation Committee.
- (iv) 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 (2013: 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	Additions	Recognized in Non-operating revenue	31 December 2013	Relating to assets/relating to income
Sewage water processing plants:					
– Xian Yang Lu (upgrade project)	67,219	5,500	(1,825)	70,894	Relating to assets
– Ji Zhuang Zi (upgrade project)	39,535	3,300	(1,075)	41,760	Relating to assets
– Dong Jiao (upgrade project)	38,439	12,587	(1,280)	49,746	Relating to assets
Water recycling plants in:					
– Dong Jiao	25,131	—	(675)	24,456	Relating to assets
– Bei Chen	21,000	—	(263)	20,737	Relating to assets
Others	10,556	561	(7,304)	3,813	Relating to costs
<b>Total-Company</b>	<b>201,880</b>	<b>21,948</b>	<b>(12,422)</b>	<b>211,406</b>	
Heating and cooling supply service project	104,563	—	(4,308)	100,255	Relating to assets
Water recycling plants :					
– Ji Zhuang Zi (sewage reuse project)	42,057	—	(1,314)	40,743	Relating to assets
– Ji Zhuang Zi (expansion project)	20,400	—	(600)	19,800	Relating to assets
– Xian Yang Lu (water recycling project)	15,171	—	(415)	14,756	Relating to assets
Sewage water processing plants:					
– Bei Shi Qiao (upgrade project)	1,500	6,105	—	7,605	Relating to assets
Others	90	5,639	(3,847)	1,882	Relating to costs
<b>Total-Group</b>	<b>385,661</b>	<b>33,692</b>	<b>(22,906)</b>	<b>396,447</b>	

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

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#### 6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

##### (16) DEFERRED INCOME TAX

###### (a) *Deferred income tax assets*

Deferred income tax assets were recognized for tax loss carry-forwards and impairment losses carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

- (i) The Group did not recognize deferred income tax assets result from deductible temporary difference and Deductible loss carry-forwards are:

	31 December 2013	31 December 2012
Deductible temporary difference (Note6(24))	18,493	—
Deductible loss carry-forwards	75,885	76,750
	94,378	76,750

- (ii) Deferred income tax assets in respect of losses that can be carried forward against future taxable income will expire in the following years:

Year	Ending balance	Beginning balance
2014	11,812	2,706
2015	16,475	11,812
2016	27,553	16,475
2017	18,204	27,553
2018	1,841	18,204
	1,841	18,204

###### (b) *Deferred income tax liabilities*

	31 December 2013		31 December 2012	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	68,977	275,908	60,645	242,580
	68,977	275,908	60,645	242,580



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

(17) SHARE CAPITAL

Movement of the Company's authorized, 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 2012 and 2013	<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.

(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.

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

(18) CAPITAL RESERVES, SURPLUS RESERVES AND DIVIDEND (Continued)

(c) Undistributed profits

	2013		2012	
	Amount	Appropriation/ distribution ratio	Amount	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	1,619,785	—	1,432,617	—
Add: net profit attributable to owners of the parent for the current year	281,899	—	268,981	—
Less: appropriation for statutory surplus reserves	(22,351)	10%	(24,724)	10%
Ordinary share dividends payable	(85,634)	—	(57,089)	—
Undistributed profits at the end of the year	<u>1,793,699</u>		<u>1,619,785</u>	

As at 31 December 2013, undistributed profits include Rmb25,134 thousand subsidiaries' common reserve attributable to the Company (31 December 2012: Rmb17,018 thousand), of which Rmb8,116 thousand has been appropriated for the current year (31 December 2012: Rmb4,573 thousand).

A dividend in respect of year ended 31 December 2013 of Rmb0.6 (gross tax) every 10 shares, total shares of 1,427 million shares on 5 July 2013, amounting to a total dividend of Rmb86 million, was approved at the Annual General Meeting on 16 May 2013 (2012: Rmb0.4 (gross tax) every 10 shares, amounting to a total dividend of Rmb57 million).

On 27 March 2014, the Directors proposed a dividend of Rmb0.8 (gross tax) for every 10 shares held, total shares of 1,427 million, amounting to a total dividend of Rmb 114 million. In 2013, capital reserve will not to be used 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.



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(19) MINORITY INTERESTS

	31 December 2013	2013 Minority interest income	2013 Declared distribution of cash dividend this year
Minority interest			
Hang Zhou Tianchuang Capital Water Co., Ltd.	99,781	4,314	—
Qujing Capital Water Co., Ltd.	27,221	(176)	—
Others	31,048	2,320	850
	<u>158,050</u>	<u>6,458</u>	<u>850</u>

Summarized financial information for each subsidiary listed above are set out below:

*Summarized balance sheet*

	31 December 2013				Net assets
	current assets	non-current assets	current liability	non-current liability	
Hang Zhou Tianchuang Capital Water Co., Ltd.	60,511	672,547	94,839	305,614	332,605
Qujing Capital Water Co., Ltd.	46,817	340,051	87,287	101,510	198,071
	<u>107,328</u>	<u>1,012,598</u>	<u>182,126</u>	<u>407,124</u>	<u>530,676</u>
	31 December 2012				Net assets
	current assets	non-current assets	current liability	non-current liability	
Hang Zhou Tianchuang Capital Water Co., Ltd.	50,408	710,299	88,475	354,007	318,225
Qujing Capital Water Co., Ltd.	45,681	356,440	80,834	121,903	199,384
	<u>96,089</u>	<u>1,066,739</u>	<u>169,309</u>	<u>475,910</u>	<u>517,609</u>

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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(19) MINORITY INTERESTS (Continued)

*Summarized income statement*

	2013			Total comprehensive income
	Revenue	Profit before income tax	Net profit	
Hang Zhou Tianchuang Capital Water Co., Ltd	156,313	17,987	14,381	14,381
Qujing Capital Water Co., Ltd.	71,554	1,839	(1,312)	(1,312)
	<u>227,867</u>	<u>19,826</u>	<u>13,069</u>	<u>13,069</u>
	2012			
	Revenue	Profit before income tax	Net profit	Total comprehensive income
Hang Zhou Tianchuang Capital Water Co., Ltd	153,631	14,762	11,074	11,074
Qujing Capital Water Co., Ltd.	69,600	8,878	6,741	6,741
	<u>223,231</u>	<u>23,640</u>	<u>17,815</u>	<u>17,815</u>

*Summarized cash flows*

	2013			Cash and bank balances at beginning of the year	Cash and bank balances at end of the year
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities		
Hang Zhou Tianchuang Capital Water Co., Ltd	79,567	(612)	(66,919)	33,112	45,148
Qujing Capital Water Co., Ltd.	57,718	(3,160)	(51,874)	3,410	6,094
	<u>137,285</u>	<u>(3,772)</u>	<u>(118,793)</u>	<u>36,522</u>	<u>51,242</u>
	2012				
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and bank balances at beginning of the year	Cash and bank balances at end of the year
Hang Zhou Tianchuang Capital Water Co., Ltd	78,529	(7,311)	(68,833)	30,727	33,112
Qujing Capital Water Co., Ltd.	19,155	(2,319)	(28,436)	15,010	3,410
	<u>97,684</u>	<u>(9,630)</u>	<u>(97,269)</u>	<u>45,737</u>	<u>36,522</u>

Information presented above is the amounts before inter-company netting off.



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(20) INCOME FROM AND COST FOR OPERATIONS

	Group			
	2013		2012	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Income from principal operations	1,614,678	971,793	1,541,166	891,577
Other operating income	135,183	85,787	96,154	59,611
	<u>1,749,861</u>	<u>1,057,580</u>	<u>1,637,320</u>	<u>951,188</u>

	Company			
	2013		2012	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Income from principal operations	855,167	450,255	868,508	421,848
Other operating income	97,496	53,590	65,031	30,610
	<u>952,663</u>	<u>503,845</u>	<u>933,539</u>	<u>452,458</u>

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

The income and cost categorized by the nature of service is analyzed as below:

	Group			
	2013		2012	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Processing of sewage water and construction of related facility	1,258,649	758,655	1,241,607	719,943
Water recycling and connection project	164,889	116,789	133,495	94,681
Heating and cooling service	71,227	41,966	51,976	34,929
Tap water supplying	36,469	26,869	44,115	28,564
Others	83,444	27,514	69,973	13,460
	<u>1,614,678</u>	<u>971,793</u>	<u>1,541,166</u>	<u>891,577</u>

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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

#### 6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

###### (a) Income from and cost of principal operations (Continued)

The income and cost categorized by the area is analyzed as below:

	Group			
	2013	2013	2012	2012
	Income from operations	Cost of operations	Income from operations	Cost of operations
Tianjin area	1,141,553	645,909	1,073,070	567,929
Hangzhou area	156,313	106,196	153,631	106,700
Xi'an area	78,676	59,611	76,113	65,756
Qijing area	71,554	47,147	69,600	44,134
Others	166,582	112,930	168,752	107,058
	<u>1,614,678</u>	<u>971,793</u>	<u>1,541,166</u>	<u>891,577</u>

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

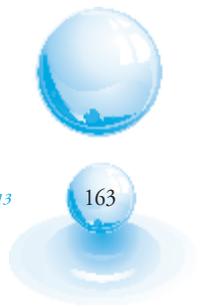
	Group			
	2013	2013	2012	2012
	Income from operations	Cost for operations	Income from operations	Cost for operations
Entrust operation income	99,985	70,323	57,408	41,990
Technical service	19,596	3,320	19,009	3,485
Rental	8,178	5,219	10,529	5,501
Others	7,424	6,925	9,208	8,635
	<u>135,183</u>	<u>85,787</u>	<u>96,154</u>	<u>59,611</u>

###### (c) As at 31 December 2013, the income from the top five customers is analyzed as below:

The total revenue of the Group's top 5 customers is Rmb1,164 million for the year ended 31 December 2013, which account for about 66% of the Group's total revenue (2012: Rmb1,151 million and 70%).

	Revenue	% of total balance
TSC(note(i))	774,972	44%
Hangzhou Sewage Company	156,313	9%
Tianjin Municipal and Highway Management Bureau	82,530	5%
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd.	78,676	4%
Qijing City Water General Company	71,412	4%
	<u>1,163,903</u>	<u>66%</u>

(i) Operating revenue from customer TSC account for about 81% of the Group's total revenue, the rest is immaterial.



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(21) BUSINESS TAX AND SURCHARGES

	Group		Company	
	2013	2012	2013	2012
Business tax	13,439	9,883	7,312	5,328
City construction and maintenance fee	1,114	834	511	282
Education fee surcharge and others	921	761	438	343
	<u>15,474</u>	<u>11,478</u>	<u>8,261</u>	<u>5,953</u>

(22) Administrative expenses

	Group			
	2013		2012	
	Operating Revenue	Administrative expenses	Operating cost	Administrative expenses
Utilities	209,684	1,910	195,089	2,128
Depreciation	196,638	4,386	146,564	5,602
Amortization	136,111	887	134,652	1,452
Employee wages	116,660	60,551	105,173	51,924
Repair and maintenance expenses	64,844	4,625	73,671	3,529
Sewage mud processing fee	50,664	—	53,120	—
Cost of recycling water pipeline connection service	48,766	—	40,428	—
Raw materials and consumables used	45,952	—	53,075	—
Construction cost of sewage water plants	26,290	—	26,368	—
Factory environment, detection and fire prevention fee	17,880	—	18,520	—
Network Maintenance	12,098	—	11,313	—
Toll road management fee	7,120	—	7,120	—
Other taxes	4,887	5,727	5,031	7,338
Travelling, meeting and entertainment expenses	3,363	10,130	3,986	12,145
Office allowance	2,206	2,798	2,345	2,239
Consulting service fee	918	1,585	427	1,038
Auditors' remuneration	—	4,200	—	4,200
Expenses of Board of directors	—	3,175	—	3,957
Others	27,712	8,810	14,695	9,566
	<u>971,793</u>	<u>108,784</u>	<u>891,577</u>	<u>105,118</u>

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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) Administrative expenses (Continued)

	Company			
	2013	2013	2012	2012
	Operating Revenue	Administrative expenses	Operating cost	Administrative expenses
Depreciation	165,821	2,512	128,110	4,212
Utilities	86,501	1,562	87,223	1,797
Employee wages	49,647	36,595	50,423	32,590
Sewage mud processing fee	44,295	—	47,131	—
Repair and maintenance expenses	24,805	2,925	30,338	2,494
Raw materials and consumables used	24,168	—	24,776	—
Construction cost of sewage water plants	11,961	—	15,810	—
Amortization	10,590	887	11,756	1,255
Factory environment, detection and fire prevention fee	8,731	—	7,157	—
Toll road management fee	7,120	—	7,120	—
Network Maintenance	2,820	—	2,630	—
Other taxes	2,584	1,985	2,143	3,417
Office allowance	866	1,317	1,253	1,284
Travelling, meeting and entertainment expenses	837	2,129	776	3,680
Consulting service fee	486	1,482	425	866
Auditors' remuneration	—	4,200	—	4,200
Expenses of Board of directors	—	3,175	—	3,957
Others	9,023	1,976	4,777	895
	<u>450,255</u>	<u>60,745</u>	<u>421,848</u>	<u>60,647</u>



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(23) FINANCIAL EXPENSES - NET

	Group		Company	
	2013	2012	2013	2012
Interest expenses of borrowings	259,295	276,880	178,467	194,179
Less: Capitalized interest	—	(19,251)	—	(18,713)
Net interest expenses	259,295	257,629	178,467	175,466
Less: Interest income	(19,331)	(16,446)	(24,763)	(27,124)
– long-term receivables	(11,480)	(11,507)	(11,480)	(11,507)
– bank deposits	(7,851)	(4,939)	(3,600)	(4,708)
– interests from inter-company loan	—	—	(9,683)	(10,909)
Exchange loss/(gain) (note(a))	(66,790)	(36,845)	(66,790)	(36,845)
Others	4,639	7,990	3,432	7,326
	<u>177,813</u>	<u>212,328</u>	<u>90,346</u>	<u>118,823</u>

- (a) As at 31 December 2013, the long-term payables denominated in Japanese Yen and USD are translated into Rmb at the stipulated exchange rates as at 31 December 2013 and recognized the unrealized exchange gains of about Rmb67 million (31 December 2012: exchange gains of about Rmb37 million).

(24) Impairment of assets

	Group		Company	
	2013	2012	2013	2012
Impairment of intangible assets(note(a))	11,324	—	—	—
Provision for bad debts(note6(2) (c))	7,169	—	—	—
Provision of impairment for long-term investment(note(b))	—	—	23,119	—
	<u>18,493</u>	<u>—</u>	<u>23,119</u>	<u>—</u>

- (a) A provision of Rmb11,324 thousand was provided for the tap water supplying assets of Anguo Capital Water Co., Ltd. (note10).
- (b) A provision of Rmb 23,119 thousand was provided for the long-term investment of the Company (note10).

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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(25) Non-operating income

	Group		Recognized in 2013 extraordinary gain or loss
	2013	2012	
Gains on disposals of non-current assets	6	6,978	6
Government grants(note6(15))	22,906	12,096	22,906
Others	939	6,054	939
	<u>23,851</u>	<u>25,128</u>	<u>23,851</u>

(26) Non-operating expenses

	Group		Recognized in 2013 extraordinary gain or loss
	2013	2012	
Loss on disposals of fixed assets	4,857	3,818	4,857
Others	165	177	165
	<u>5,022</u>	<u>3,995</u>	<u>5,022</u>

(27) INCOME TAX

	Group		Company	
	2013	2012	2013	2012
Current income tax	90,827	86,083	74,301	74,556
Deferred income tax	8,332	12,166	953	1,755
	<u>99,159</u>	<u>98,249</u>	<u>75,254</u>	<u>76,311</u>



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(27) INCOME TAX (Continued)

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

	2013	Group 2012
Total profit	<u>387,516</u>	<u>372,800</u>
Calculated at applicable income tax rates (25%)	96,879	93,200
Effect of different income tax rates applicable to certain subsidiaries	(3,842)	(3,160)
Income not subject to tax	(1,141)	(977)
Expenses not deductible for taxation purposes	6,996	6,032
Utilization of previously deductible tax losses for which no deferred income tax was recognized	(2,326)	(139)
Current year tax losses for which no deferred income tax asset was recognized	<u>2,593</u>	<u>3,293</u>
Income tax expenses	<u><u>99,159</u></u>	<u><u>98,249</u></u>

(28) EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb282 million (2012: Rmb269 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2012: 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.

	2013	Group 2012
Profit attributable to owners of the parent	<u>281,899</u>	<u>268,981</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>0.20</u></u>	<u><u>0.19</u></u>

13. Financial statements prepared in accordance with PRC Accounting  
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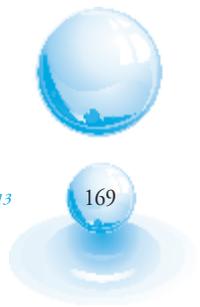
For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Group		Company	
	2013	2012	2013	2012
Net profit	288,357	274,551	223,509	247,240
Adjustments for:				
Provision of impairment	18,493	—	23,119	—
Depreciation of fixed assets and investment properties	201,024	152,166	168,333	132,322
Amortization of intangible assets	136,998	136,104	11,476	13,011
Losses/(Gains) on disposals of fixed assets and intangible assets	4,851	(3,160)	3,926	3,691
Financial expenses-net	192,505	220,784	101,994	127,712
Investment losses/(income)	3,030	5,541	(23,916)	(26,750)
Amortization of deferred revenue	(11,755)	(7,875)	(5,118)	(1,241)
Increase in deferred tax liabilities	8,332	12,166	953	1,755
Decrease/(Increase) in inventories	34,474	(11,940)	3,331	(6,979)
Increase in operating receivables	(439,487)	(489,753)	(414,648)	(428,102)
Increase/(decrease) in operating payables	134,651	205,652	(1,581)	15,520
Net cash flows from operating activities	<u>571,473</u>	<u>494,236</u>	<u>91,378</u>	<u>78,179</u>
Net changes in cash and bank balances				
Cash at end of year	994,982	996,965	342,090	469,715
Less: cash at beginning of year	<u>(996,965)</u>	<u>(688,993)</u>	<u>(469,715)</u>	<u>(257,969)</u>
Net (decrease)/increase in cash and bank balances	<u>(1,983)</u>	<u>307,972</u>	<u>(127,625)</u>	<u>211,746</u>



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	Group		Company	
	2013	2012	2013	2012
Cash				
Including: Cash in hand	167	141	17	12
Cash in bank available at anytime	994,815	996,824	342,073	469,703
Cash and bank balances shown in the cash flow statements	<u>994,982</u>	<u>996,965</u>	<u>342,090</u>	<u>469,715</u>

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

	Group		Company	
	2013	2012	2013	2012
Interest income from bank deposits	7,851	4,939	3,600	4,708
Release of deposit on project bids	2,002	1,010	2,002	1,010
Subsidies received	6,200	3,114	561	2,467
Others	939	6,544	4	907
	<u>16,992</u>	<u>15,607</u>	<u>6,167</u>	<u>9,092</u>

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

	Group		Company	
	2013	2012	2013	2012
Travelling, meeting and entertainment expenses	10,130	12,145	2,129	3,680
Consulting service fee	5,786	5,238	5,682	5,066
Expense of board of directors	3,960	3,957	3,175	3,957
Repair and maintenance expenses	4,625	3,529	2,925	2,494
Others	19,243	7,599	7,353	3,667
	<u>43,744</u>	<u>32,468</u>	<u>21,264</u>	<u>18,864</u>

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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

#### 6 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

	2013	Group	2012
Carrying value of disposals of fixed assets/intangible assets	8,791		17,933
Gains/(losses) on disposals of fixed assets/intangible assets	(4,851)		3,160
	3,940		21,093
	3,940		21,093

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

	Group		Company	
	2013	2012	2013	2012
Land compensation fund received (note6 (14) (e))	550,000	750,000	470,000	670,000
Received of government grants	27,492	24,715	21,387	—
	577,492	774,715	491,387	670,000
	577,492	774,715	491,387	670,000

#### 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).



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

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

7 SEGMENT REPORTING (Continued)

(a) Segment information as at and for the year ended 31 December 2013 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))	788,140	156,313	314,196	164,889	71,227	36,469	218,627	1,749,861
Cost of sales from third parties	(591,090)	(138,508)	(285,746)	(121,657)	(48,972)	(47,717)	(126,648)	(1,360,338)
Interest income (note 6(23))	3,592	419	1,430	2,249	94	12	11,535	19,331
Interest expenses (note 6(23))	(178,246)	(20,684)	(42,636)	(564)	(9,857)	(7,308)	—	(259,295)
Results before share of profits of an associate	197,050	17,805	28,450	43,232	22,255	(11,248)	91,979	389,523
Investment profit from associate	—	—	—	—	—	—	(2,007)	(2,007)
Depreciation	(157,552)	(1,336)	(9,171)	(25,329)	(349)	(706)	(6,581)	(201,024)
Amortization	(10,589)	(36,249)	(66,230)	(710)	(13,288)	(9,044)	(888)	(136,998)
Total profit	197,050	17,805	28,450	43,232	22,255	(11,248)	89,972	387,516
Income tax expense	(66,603)	(3,606)	(5,558)	(8,244)	(4,652)	(1,609)	(8,887)	(99,159)
Net profit	130,447	14,199	22,892	34,988	17,603	(12,857)	81,085	288,357
Segment assets	6,251,521	732,395	1,749,341	1,104,320	403,509	212,992	619,673	11,073,751
Investment in an associate	—	—	—	—	—	—	32,621	32,621
Segment liabilities	4,352,326	354,453	684,237	1,037,580	264,034	71,222	175,355	6,939,207
Long-term equity investment	—	—	—	—	—	—	34,621	34,621
Non-current assets addition other than related to long-term investment	622,497	85	34,649	68,102	364	2,412	9,297	737,406

13. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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7 SEGMENT REPORTING (Continued)

(b) Segment information as at and for the year ended 31 December 2012 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))	801,482	153,631	286,494	133,495	51,976	44,115	166,127	1,637,320
Cost of sales from third parties	<u>(601,340)</u>	<u>(139,176)</u>	<u>(264,979)</u>	<u>(106,446)</u>	<u>(38,278)</u>	<u>(42,770)</u>	<u>(65,490)</u>	<u>(1,258,479)</u>
Interest income (note 6(23))	11,627	499	992	5,297	59	31	11,496	30,001
Interest expenses (note 6(23))	<u>(175,466)</u>	<u>(27,771)</u>	<u>(48,516)</u>	<u>(1,766)</u>	<u>(5,260)</u>	<u>(11,895)</u>	<u>(510)</u>	<u>(271,184)</u>
Results before share of profits of an associate	200,142	14,455	21,515	27,049	13,698	1,345	100,637	378,841
Investment profit from associate	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,041)</u>	<u>(6,041)</u>
Depreciation	<u>(123,741)</u>	<u>—</u>	<u>—</u>	<u>(20,660)</u>	<u>—</u>	<u>—</u>	<u>(7,765)</u>	<u>(152,166)</u>
Amortization	<u>(11,015)</u>	<u>(33,688)</u>	<u>(63,513)</u>	<u>(553)</u>	<u>(13,297)</u>	<u>(12,695)</u>	<u>(1,343)</u>	<u>(136,104)</u>
Total profit	200,142	14,455	21,515	27,049	13,698	1,345	94,596	372,800
Income tax expense	<u>(67,343)</u>	<u>(3,688)</u>	<u>(6,951)</u>	<u>(6,891)</u>	<u>(3,397)</u>	<u>(493)</u>	<u>(9,486)</u>	<u>(98,249)</u>
Net profit	<u>132,799</u>	<u>10,767</u>	<u>14,564</u>	<u>20,158</u>	<u>10,301</u>	<u>852</u>	<u>85,110</u>	<u>274,551</u>
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	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,628</u>	<u>34,628</u>
Segment liabilities	<u>3,846,900</u>	<u>422,482</u>	<u>727,236</u>	<u>856,916</u>	<u>316,586</u>	<u>115,238</u>	<u>88,965</u>	<u>6,374,323</u>
Long-term equity investment	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,628</u>	<u>38,628</u>
Non-current assets addition other than related to long-term investment	<u>576,075</u>	<u>10,619</u>	<u>44,995</u>	<u>55,554</u>	<u>9,772</u>	<u>1,797</u>	<u>16,408</u>	<u>715,220</u>



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

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## 8 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks. The Group's overall risk management program seeks to 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 2013, 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 (2012: 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 Rmb8 million (2012: Rmb10 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.

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, categorized by the maturity dates.

13. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(a) Market risk: (Continued)

(ii) Interest rate risk: (Continued)

	Group				Company		
	Fixed	Floating	Non-interest bearing	Total	Fixed	Floating	Total
At 31 December 2013							
Assets							
Cash and bank balances	7,267	994,982	—	1,002,249	—	342,090	342,090
Long-term receivables	<u>333,607</u>	<u>—</u>	<u>—</u>	<u>333,607</u>	<u>333,607</u>	<u>—</u>	<u>333,607</u>
Liabilities							
Current borrowings	—	856,932	105	857,037	—	652,000	652,000
Non-current borrowings	—	1,224,195	10,613	1,234,808	—	310,600	310,600
Long-term payables due within 1 year	17,166	7,190	—	24,356	17,166	7,190	24,356
Long-term payables	201,881	89,294	—	291,175	201,881	89,294	291,175
Long-term debenture	<u>1,384,775</u>	<u>—</u>	<u>—</u>	<u>1,384,775</u>	<u>1,384,775</u>	<u>—</u>	<u>1,384,775</u>
At 31 December 2012							
Assets							
Cash and bank balances	3,600	996,965	—	1,000,565	—	469,715	469,715
Long-term receivables	<u>337,631</u>	<u>—</u>	<u>—</u>	<u>337,631</u>	<u>337,631</u>	<u>—</u>	<u>337,631</u>
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	<u>691,950</u>	<u>—</u>	<u>—</u>	<u>691,950</u>	<u>691,950</u>	<u>—</u>	<u>691,950</u>



13. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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For the year ended 31 December 2013  
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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(a) Market risk: (Continued)

(ii) Interest rate risk: (Continued)

At 31 December 2013, 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 Rmb18 million (2012: Rmb28 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. As at 31 December 2013, the Company had given guarantees of approximately Rmb792 million (2012: Rmb963 million) to banks of certain subsidiaries in respect of their banking facilities, of which Rmb706 million of the facilities had been drawn by the subsidiaries. The Directors consider the subsidiaries to be financially resourceful to settle their obligations.

13. Financial statements prepared in accordance with PRC Accounting  
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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 analyzed 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 2013					
Cash and bank balances	1,002,249	—	—	—	1,002,249
Trade and other receivables	2,092,158	—	—	—	2,092,158
Long-term receivables	18,813	86,577	74,250	335,220	514,860
Long-term bank borrowings	(959,335)	(368,672)	(1,001,223)	—	(2,329,230)
Long-term payables	(25,096)	(25,504)	(79,563)	(426,553)	(556,716)
Other non-current liabilities	(3,647)	(3,542)	(8,365)	(10,613)	(26,167)
Trade and other payables	(558,699)	—	—	—	(558,699)
Long-term debenture	(84,630)	(84,630)	(1,607,410)	—	(1,776,670)
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)



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

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8 FINANCIAL INSTRUMENT AND RISK (Continued)

(d) Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings, 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 2013	31 December 2012
Total borrowings:	3,792,151	3,976,926
Short-term borrowings	—	86,000
Long-term borrowings	2,067,036	2,710,056
Long-term Debenture	1,384,775	691,950
Long-term Payables	315,531	378,755
Other non-current assets-Government loan and others	24,809	110,165
Less: Cash	(994,982)	(996,965)
Net debt	2,797,169	2,979,961
Total equity	4,134,544	3,932,671
Total capital	6,931,713	6,912,632
Gearing ratio	40%	43%

There is no significant change in gearing ratio of the Group during 2013.

(e) Fair value estimation

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

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9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(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 2012	Increase in current year	Decrease in current year	31 December 2013
TMICL	1,820,000	—	—	1,820,000

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

	31 December 2013		31 December 2012	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
TMICL	51.58%	51.58%	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 associates

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



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

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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
Tianjin Machinery & Electric Equipment Imp.& Exp. Co.,Ltd	Subsidiary of associate

(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) Purchase of Goods, sales of services

Purchase of Goods

Related party	Nature of transaction	2013		2012	
		Amount	% of similar transactions	Amount	% of similar transactions
Tianjin Machinery & Electric Equipment Imp. & Exp. Co.,Ltd	Purchase of equipment	60,150	44.61%	11,408	15.46%

13. 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)

(a) Purchase of Goods, sales of services (Continued)

Sales of services

Related party	Nature of transaction	2013		2012	
		Amount	% of similar transactions	Amount	% of similar transactions
TICIG	Commission income from contract operation	53,676	53.68%	22,365	31.96%
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	32,604	45.77%	35,330	67.97%
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant	10,436	0.83%	7,350	0.59%
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	4,663	6.55%	2,616	5.03%
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Management fee from construction projects	1,430	19.26%	2,800	4%
Tianjin Environment Construction Investment Company Limited	Rental income from TCEP building	943	11.53%	1,851	2.65%
Tianjin Environment Construction Investment Company Limited	Income from heating and cooling supply	—	—	261	0.50%
TICIG	Rental income from TCEP building	—	—	239	0.34%

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.



13. 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) Guarantee:

Guarantor	Guarantee	Amount	Starting Date	Due Date	Completed (Y/N)
TICIG	Xi'an Capital Water Co., Ltd	271,000	28 September 2008	27 September 2022	N

(c) Key management compensation

	2013	2012
Key management compensation	10,479	9,813

(6) Receivables from and payables to related parties

Receivables from related parties

Project name	Trade receivables from related parties	31 December 2013	31 December 2012
Trade receivables	– TICIG	26,838	13,419
Trade receivables	– Tianjin Lecheng Properties Limited	17,600	8,197
Trade receivables	– Tianjin Metro Resources Investment Co., Ltd.	3,914	—
Trade receivables	– Tianjin City Resource Operation Co., Ltd.	401	801
Prepayments	– Tianjin Machinery & Electric Equipment Imp.&Exp. Co.,Ltd	6,465	—

Payables from related parties

Project name	Payables from related parties	31 December 2013	31 December 2012
Other payables	– Tianjin Machinery & Electric Equipment Imp.&Exp. Co.,Ltd	24,958	14,899

The receivables from related parties arise mainly from sale transactions and are due within one year after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties

The payables to related parties arise mainly from purchase transactions and are due within one year after the date of purchase. The payables bear no interest.

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

For the year ended 31 December 2013  
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#### 9 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

##### (7) Commitments

The Group's commitments with related parties at the balance sheet date which were signed but not necessarily shown on balance sheet are as follows:

	31 December 2013	31 December 2012
Guarantee Received		
TICIG	<u>271,000</u>	<u>292,000</u>

##### (8) 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.

#### 10 CONTINGENT EVENTS

In 2013, the Group has decided to terminate the tap water agreement between Anguo Capital Water Co., Ltd and Anguo Government. Since the Group cannot reach an agreement with Anguo Government, the dispute has been submitted to China International Economic and Trade Arbitration Commission. As at the date of the issuance of this report, the arbitration is still in process. Based on management's estimation, a provision of Rmb11,324 thousand was provided for the tap water supplying intangible assets (Note6(24) (a)) and a provision of Rmb23,119 thousand was provided for the long-term investment of the Company (Note7(b)).



13. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises  
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11 COMMITMENTS

(1) Capital commitments

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

	Contracted but not provided for		Authorized but not contracted for	
	31 December 2013 Rmb' million	31 December 2012 Rmb' million	31 December 2013 Rmb' million	31 December 2012 Rmb' million
Sewage water processing plants in:				
– Ji Zhuang Zi (relocation project)	287	330	741	1,318
– Ying Nan	13	—	40	—
– Yong An, Xian Ning	2	—	—	—
Water recycling plants in:				
– Ji Zhuang Zi water recycling plants (relocation project)	81	72	72	150
Others	4	—	6	—
	<u>387</u>	<u>402</u>	<u>859</u>	<u>1,468</u>

(2) Actions taken to deliver on its early commitments

The Group has taken actions to fulfil its early capital commitments and operating commitments by the end of 2012.

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

For the year ended 31 December 2013  
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## (1) EXTRAORDINARY PROFIT AND LOSS STATEMENT

	2013	2012
(losses) / Gains on disposals of non-current assets	(4,851)	3,160
Government grants recognized in current profit and loss, except for those are related to business operation, in comply with national policy and settled in certain amount which are constantly granted by government	22,906	12,096
Other non-operating income and expenses	774	5,877
	<u>18,829</u>	<u>21,133</u>
Effect amount of income tax	(4,707)	(5,283)
Effect amount of minority interest(after tax)	(708)	(51)
	<u>13,414</u>	<u>15,799</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 (%)		Basic/Diluted earnings per share	
	2013	2012	2013	2012
Net profit attribute to the ordinary shareholders of the company	7.28	7.33	0.20	0.19
Net profit exclude extraordinary profit and loss attribute to the ordinary shareholders of the company	6.95	6.91	0.19	0.18



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

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(4) STATEMENT OF THE ABNORMAL CONDITIONS AND THE REASON ON MAIN SUBJECTS OF THE FINANCIAL STATEMENT

(i) Consolidated balance sheet

Item	31 December 2013	31 December 2012	Variance	Percentage	Analysis
<b>Asset</b>					
Account receivables	2,079,086	1,566,743	512,343	33%	Mainly include the Company's sewage water processing service fee in this year.
Inventory	58,035	92,509	(34,474)	37%	Was mainly attributable to the settlements of some construction projects.
Other current assets	6,540	12,349	(5,809)	47%	Was mainly attributable to the decrease in input value-added-tax debit balance.
Construction in progress	1,152,078	459,487	692,591	151%	Was Mainly attributable to commencement of the Ji Zhuang Zi sewage water processing plant project and water recycling plant relocation in this year.
<b>Liability</b>					
Short-term borrowings	—	86,000	(86,000)	100%	Repaid short-term loans.
Other Current Liabilities	3,287	20,007	(16,720)	84%	Repaid government loan for sewage water processing plants construction.
Long-term Borrowings	1,213,286	1,931,876	(718,590)	37%	Repaid some of long-term borrowings.
Long-term Debenture	1,384,775	691,950	692,825	100%	Was mainly attributable to the issuance of Rmb700 million corporate debentures in this year.
Other non-current liabilities	1,369,522	840,158	529,364	63%	Mainly include the land building compensation fund for Ji Zhuang Zi sewage water processing plant and water recycling plant of Rmb550 million received in this year.
	<hr/>	<hr/>	<hr/>	<hr/>	

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

For the year ended 31 December 2013  
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#### (4) STATEMENT OF THE ABNORMAL CONDITIONS AND THE REASON ON MAIN SUBJECTS OF THE FINANCIAL STATEMENT (Continued)

##### (ii) Consolidated income statement

Item	31 December 2013	31 December 2012	Variance	Percentage	Analysis
Business tax and surcharges	(15,474)	(11,478)	(3,996)	35%	Was mainly attributable to the increase of the revenue from contract operation and BT project of Tianjin Zichuang Project Investment Co., Ltd.
Impairment of assets	(18,493)	—	(18,493)	100%	Was mainly attributable to the impairment of intangible assets and bad debt provisions.
Investment loss	(3,030)	(5,541)	2,511	45%	Was mainly attributable to the decrease in the loss made by associates.
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	

##### (iii) Consolidated cash flow statement

Item	31 December 2013	31 December 2012	Variance	Percentage	Analysis
Net cash flows from investing activities	(162,916)	135,654	(297,964)	220%	Was mainly attributable to the decrease in land compensation about Ji Zhuang Zi sewage water processing plant and water recycling plant received in this year, and the increase in investment cost.
Net increase in cash and bank balances	(1,983)	307,972	(309,955)	101%	Was influenced by cash flows generated from operating, financing and investing activities at the same time.
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	



# 14. Independent Auditor's Report



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 190 to 263, which comprise the consolidated and company balance sheets as at 31 December 2013, 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.

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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 2013, 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, 27 March 2014



# 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

## Consolidated Balance Sheet

As at 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2013	2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	4,240,202	3,740,746
Intangible assets	7	2,648,476	2,753,686
Land use rights	8	426,349	437,653
Investment properties	9	108,609	112,282
Investment in an associate	11	32,621	34,628
Available-for-sale financial assets	12	2,000	4,000
Long-term receivables	13	333,607	337,631
Trade receivables due after one year	14	—	68,794
Other non-current assets		7,250	8,513
		<u>7,799,114</u>	<u>7,497,933</u>
<b>Current assets</b>			
Inventories	15	58,035	92,509
Trade receivables	16	2,085,386	1,572,743
Prepayments	17	115,655	120,306
Other receivables	18	6,772	10,589
Other current assets		6,540	12,349
Cash and bank balances	19	1,002,249	1,000,565
		<u>3,274,637</u>	<u>2,809,061</u>
<b>Total assets</b>		<u><u>11,073,751</u></u>	<u><u>10,306,994</u></u>

## 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Balance Sheet

As at 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2013	2012
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	20	1,427,228	1,427,228
Other reserves	21	755,567	733,216
Retained earnings	21	1,793,699	1,619,785
– Proposed final dividend	34	114,178	85,634
– Others		1,679,521	1,534,151
		3,976,494	3,780,229
<b>Non-controlling interests</b>		158,050	152,442
<b>Total equity</b>		4,134,544	3,932,671
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	22	2,910,758	3,064,738
Deferred revenue	24	396,447	385,661
Deferred income tax liabilities	25	68,977	60,645
Other non-current liabilities	23	1,348,000	750,000
		4,724,182	4,261,044
<b>Current liabilities</b>			
Trade payables	26	21,099	20,847
Advances from customers	26	701,654	601,371
Wages payables		11,122	9,298
Income tax payable	26	19,620	21,763
Other taxes payable	26	5,971	4,943
Dividend payable		36,566	30,929
Other payables	26	537,600	511,940
Borrowings	22	881,393	912,188
		2,215,025	2,113,279
<b>Total liabilities</b>		6,939,207	6,374,323
<b>Total equity and liabilities</b>		11,073,751	10,306,994
<b>Net current assets</b>		1,059,612	695,782
<b>Total assets less current liabilities</b>		8,858,726	8,193,715

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

**Zhang Wenhui**  
*Director*

**Lin Wenbo**  
*Director*



# 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

## Balance Sheet-Company

As at 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2013	2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	3,868,081	3,412,048
Intangible assets		6,540	7,131
Land use rights	8	414,030	424,835
Investment properties	9	85,323	88,491
Investments in subsidiaries	10	1,282,136	1,281,755
Available-for-sale financial assets	12	2,000	4,000
Long-term receivables	13	333,607	337,631
Trade receivables due after one year	14	—	68,794
Other non-current assets		74,609	40,377
		<u>6,066,326</u>	<u>5,665,062</u>
<b>Current assets</b>			
Inventories	15	7,866	11,197
Trade receivables	16	1,944,004	1,454,780
Prepayments	17	33,656	43,815
Other receivables	18	146,244	115,209
Other current assets		80,000	107,700
Cash and bank balances	19	342,090	469,715
		<u>2,553,860</u>	<u>2,202,416</u>
<b>Total assets</b>		<u><u>8,620,186</u></u>	<u><u>7,867,478</u></u>

15. Financial Statements prepared in accordance with Hong Kong  
Financial Reporting Standards  
Balance Sheet-Company

As at 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2013	2012
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	20	1,427,228	1,427,228
Other reserves	21	754,044	731,693
Retained earnings	21	1,600,974	1,485,450
– Proposed final dividend	34	114,178	85,634
– Others		1,486,796	1,399,816
<b>Total equity</b>		<b>3,782,246</b>	<b>3,644,371</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	22	1,986,550	1,971,757
Deferred revenue	24	211,406	201,880
Deferred income tax liabilities	25	22,674	21,721
Other non-current liabilities	23	1,140,000	670,000
		<b>3,360,630</b>	<b>2,865,358</b>
<b>Current liabilities</b>			
Trade payables	26	5,042	5,373
Advances from customers	26	8,082	4,871
Wages payables		6,918	5,882
Income tax payable	26	14,867	15,501
Other taxes payable	26	2,688	2,453
Dividend payable		36,566	30,929
Other payables	26	726,791	590,875
Borrowings	22	676,356	701,865
		<b>1,477,310</b>	<b>1,357,749</b>
<b>Total liabilities</b>		<b>4,837,940</b>	<b>4,223,107</b>
<b>Total equity and liabilities</b>		<b>8,620,186</b>	<b>7,867,478</b>
<b>Net current assets</b>		<b>1,076,550</b>	<b>844,667</b>
<b>Total assets less current liabilities</b>		<b>7,142,876</b>	<b>6,509,729</b>

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

Zhang Wenhui  
*Director*

Lin Wenbo  
*Director*



# 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December	
		2013	2012
Revenue	5(a)	1,614,678	1,541,166
Business tax	27	(15,474)	(11,478)
Cost of sales	28	(990,286)	(891,577)
<b>Gross profit</b>		<b>608,918</b>	<b>638,111</b>
Administrative expenses	28	(108,784)	(105,118)
Other income - net	5(b)	48,373	37,043
Other gains - net		18,829	21,133
<b>Operating profit</b>		<b>567,336</b>	<b>591,169</b>
Finance income		86,121	53,291
Finance costs		(263,934)	(265,619)
Finance costs - net	30	(177,813)	(212,328)
Share of loss of an associate	11	(2,007)	(6,041)
<b>Profit before income tax</b>		<b>387,516</b>	<b>372,800</b>
Income tax expense	31	(99,159)	(98,249)
<b>Profit/total comprehensive income for the year</b>		<b>288,357</b>	<b>274,551</b>
Profit and total comprehensive income for the year attributable to:			
Owners of the parent		281,899	268,981
Non-controlling interests		6,458	5,570
		<b>288,357</b>	<b>274,551</b>
<b>Earnings per share for profit attributable to the owners of the parent (in Rmb Yuan)</b>			
– basic	33	0.20	0.19
– diluted	33	0.20	0.19
<b>Proposed final dividends</b>	34	114,178	85,634

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

Zhang Wenhui  
Director

Lin Wenbo  
Director

# 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Statement of Changes in Equity

For the year ended 31 December 2013  
(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 2012		1,427,228	708,492	1,432,617	3,568,337	147,372	3,715,709
<b>Comprehensive income</b>							
– Profit for the year		—	—	268,981	268,981	5,570	274,551
<b>Total comprehensive income</b>		—	—	268,981	268,981	5,570	274,551
<b>Transactions with owners</b>							
– Profit appropriation to statutory common reserves, net	21(a)	—	24,724	(24,724)	—	—	—
– Dividends declared		—	—	(57,089)	(57,089)	(500)	(57,589)
<b>Total transactions with owners</b>		—	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
<b>Comprehensive income</b>							
– Profit for the year		—	—	281,899	281,899	6,458	288,357
<b>Total comprehensive income</b>		—	—	281,899	281,899	6,458	288,357
<b>Transactions with owners</b>							
– Profit appropriation to statutory common reserves, net	21(a)	—	22,351	(22,351)	—	—	—
– Dividends declared		—	—	(85,634)	(85,634)	(850)	(86,484)
<b>Total transactions with owners</b>		—	22,351	(107,985)	(85,634)	(850)	(86,484)
Balance at 31 December 2013		1,427,228	755,567	1,793,699	3,976,494	158,050	4,134,544

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

Zhang Wenhui  
*Director*

Lin Wenbo  
*Director*



# 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

## Consolidated Statements of Cash Flow

For the year ended 31 December 2013  
(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December	
		2013	2012
<b>Cash flows from operating activities</b>			
Cash generated from operations	35	657,730	553,457
PRC income tax paid		(94,108)	(64,160)
Interest received	30	7,851	4,939
Net cash generated from operating activities		<u>571,473</u>	<u>494,236</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(742,981)	(659,754)
Deposits for new project bids		(3,667)	(900)
Land compensation fund received	23(i)	550,000	750,000
Government grant received	24	27,492	24,715
Proceeds from disposal of property, plant and equipment, intangible assets and land use right	35	3,940	21,093
Dividends received		300	500
Net cash (used)/generated in investing activities		<u>(164,916)</u>	<u>135,654</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		136,160	1,451,516
Proceeds from issuance of debenture		700,000	—
Repayment of borrowings		(950,180)	(1,517,765)
Interest paid		(213,673)	(227,548)
Dividends paid to company's shareholders		(80,347)	(27,621)
Dividends paid to non-controlling interests		(500)	(500)
Net cash used in financing activities		<u>(408,540)</u>	<u>(321,918)</u>
Net (decrease)/increase in cash and bank balances		(1,983)	307,972
Cash and bank balances at beginning of the year		<u>996,965</u>	<u>688,993</u>
Cash and bank balances at end of the year	19	<u><u>994,982</u></u>	<u><u>996,965</u></u>

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

Zhang Wenhui  
Director

Lin Wenbo  
Director

# 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2013  
(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

As of 31 December 2013, except for four Tianjin sewage water processing 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 2.8(a)).



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

For the year ended 31 December 2013  
(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.

For the year ended 31 December 2013  
(All amounts in Rmb thousand unless otherwise stated)

## 1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

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

On 18 February 2014, Tianjin Water Authority Bureau, Tianjin Urban-rural Construction and Transportation Commission (“TUCTC”) and the Company signed an agreement to grant concession services right of the above four Tianjin sewage water processing plants to the Company. The concession right period is 30 years, effective from 1 January 2014. Based on the agreement, each sewage water processing plant is guaranteed monthly minimum processing volume that is about 80% of the respective designed processing capacity. The sewage water processing price is set at Rmb1.77 per ton and Rmb1.76 per ton in 2014 and 2015 respectively, which would be repriced based on contract terms every two years from 2014.

### (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

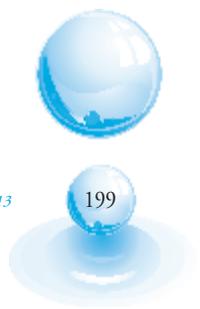
The Group’s recycled water business includes developing, constructing and operating of recycled water projects, production and sale of recycled water and research, development and technical consultation of processing technology and equipment of recycled water.

### (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 2.8(a)).

These consolidated financial statements were approved by the Directors of the Company on 27 March 2014.



# 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2013  
(All amounts in Rmb thousand unless otherwise stated)

## 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.

#### 2.1.1 Changes in accounting policies and disclosures

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

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.

HKFRS 12, ‘Disclosures of interests in other entities’ includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

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 2013 that would be expected to have a material impact on the Group.

For the year ended 31 December 2013  
(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)

##### (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 2013, 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.

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.

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

##### (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.

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

For the year ended 31 December 2013  
(All amounts in Rmb thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (Continued)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(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.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Subsidiaries (Continued)

#### 2.2.1 Consolidation (Continued)

##### (c) Disposal of subsidiaries

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

#### 2.2.2 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.

### 2.3 Associates

An associate is an entity 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.



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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.3 Associates (Continued)

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.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

#### 2.4 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 management operation committee that makes strategic decisions.

#### 2.5 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.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Foreign currency translation (Continued)

#### (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 – net'.

#### (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.



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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.6 Property, plant and equipment

Property, plant and equipment comprise buildings and structures, machinery and equipment, motor vehicles and others.

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, 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%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains – net' in the income statement.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, other costs necessary to bring the property, plant and equipment ready for their intended use and borrowing costs that are eligible for capitalization. Construction in progress is transferred to property, plant and equipment 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.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases is accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

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

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

### 2.8 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.



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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.8 Intangible assets (Continued)

##### (b) *Technical know-how and software*

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

#### 2.9 Land use rights

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

#### 2.10 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.

#### 2.11 Financial assets

##### *2.11.1 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.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.11 Financial assets (Continued)

#### 2.11.1 Classification (Continued)

##### (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 2.15 and 2.16).

##### (c) Available-for-sale financial assets

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

#### 2.11.2 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.

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.

### 2.12 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)

2.13 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)

### 2.13 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.

### 2.14 Inventories

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

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

Except for the inventory of construction contract, cost for raw materials, finished goods and low value 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)

2.15 Trade receivables

Trade receivables are amounts due from customers for tap water and 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 receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.16 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.

2.17 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.

2.18 Trade payables

Trade 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 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)

### 2.20 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.

### 2.21 Government grants

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

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 assets are grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants relating to costs are other government grants other than those relating to assets.

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 assets 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.

### 2.22 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.



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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(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.

(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 liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.22 Current and deferred income tax (Continued)

#### (c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.23 Employee benefits

Employee benefits are payment or compensation in any form paid to employee to obtain services or terminate employment relationship, mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds and employee education funds.

#### (a) *Employee Compensation*

During the period which employee services are rendered, employee compensation shall be recognised as a liability and shall be recognised in current profits and losses or costs of related assets. Non-monetary benefits are measured at its fair value.

#### (b) *Basic Pension Insurance*

Employees from the Group have participated in basic pension insurance plan implemented by local labour and social security authorities. The Group needs to pay for basic pension insurance to local pension insurance agents on a monthly basis which the amount is determined by the calculation base and rate regulated by local authorities. After employees' retirement, the local labour and social security authorities are obligated to pay for the basic pension insurance to retired employees. During the accounting period that employee services are rendered, the amount regulated by local labour and social security shall be recognised as a liability, and be recognised in current profits and losses or costs of related assets.



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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee benefits (Continued)

(c) Termination Benefit

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, (1)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, or (2)when termination costs or expenses are determined, whenever is earlier, a provision for termination benefits for the compensation arising from termination of the employment relationship with employees is recognised, with a corresponding charge to profit or loss.

2.24 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied or services provided, stated net of discounts returns and 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.

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## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.25 Revenue recognition (Continued)

#### (b) Construction contract

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

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

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

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

#### (d) 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 capable of being delivered to customers.

#### (e) Contract operating income

Revenue from contract operating income is recognised under the accrual basis according to the service agreement.

#### (f) Rental income

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



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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.26 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.

#### 2.27 Dividend income

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

#### 2.28 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.

#### 2.29 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

### 3 FINANCIAL RISK MANAGEMENT

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

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### 3 FINANCIAL RISK MANAGEMENT (Continued)

(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 TSC(note 22(d)).

At 31 December 2013, 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 (2012: 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 Rmb8 million (2012: Rmb10 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 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
<b>At 31 December 2013</b>							
<i>Assets</i>							
<i>Cash and bank balances</i>	7,267	994,982	—	1,002,249	—	342,090	342,090
<i>Long-term receivables</i>	333,607	—	—	333,607	333,607	—	333,607
<i>Liabilities</i>							
<i>Current borrowings</i>	—	856,932	105	857,037	—	652,000	652,000
<i>Non-current borrowings</i>	—	1,224,195	10,613	1,234,808	—	310,600	310,600
<i>Long-term payable due within 1 year</i>	17,166	7,190	—	24,356	17,166	7,190	24,356
<i>Long-term payable</i>	201,881	89,294	—	291,175	201,881	89,294	291,175
<i>Long-term debenture</i>	1,384,775	—	—	1,384,775	1,384,775	—	1,384,775
<b>At 31 December 2012</b>							
<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 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 2013, 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 Rmb18 million (2012: Rmb28 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 the bodies with PRC government background. Thus, the management considers that the risk is limited.

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

#### (c) Liquidity risk

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

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



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3 FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
<b>At 31 December 2013</b>					
<i>Cash and bank balance</i>	1,002,249	—	—	—	1,002,249
<i>Trade and other Receivables</i>	2,092,158	—	—	—	2,092,158
<i>Long-term Receivables</i>	18,813	86,577	74,250	335,220	514,860
<i>Long-term bank borrowings</i>	(959,335)	(368,672)	(1,001,223)	—	(2,329,230)
<i>Long-term payable</i>	(25,096)	(25,504)	(79,563)	(426,553)	(556,716)
<i>Other non-current liabilities</i>	(3,647)	(3,542)	(8,365)	(10,613)	(26,167)
<i>Trade and other payables</i>	(558,699)	—	—	—	(558,699)
<i>Long-term debenture</i>	(84,630)	(84,630)	(1,607,410)	—	(1,776,670)
<b>At 31 December 2012</b>					
<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)

(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.

## 15. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Notes to the Consolidated Financial Statements

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### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Capital management (Continued)

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

	As at 31 December	
	2013	2012
Total borrowings (note22)	3,792,151	3,976,926
Less: unrestricted cash (note19)	(994,982)	(996,965)
Net debt	2,797,169	2,979,961
Total equity	4,134,544	3,932,671
Total capital	6,931,713	6,912,632
Gearing ratio	40%	43%

There is no significant change in gearing ratio of the Group during 2013.

#### (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.

### 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.

Accounting estimates and judgements listed below will result in high risk of significant adjustments made to the carrying amount of assets and liabilities in the next accounting period.

- (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.



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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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

5 SEGMENT INFORMATION

An analysis of revenue and contributions to operating profit for the year by principal activities is as follows:

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

	2013	2012
Sales turnover	1,614,678	1,541,166
Other income – net	48,373	37,043
Total revenues	<u>1,663,051</u>	<u>1,578,209</u>

(b) Analysis of other income

	2013		2012	
	Income	Cost	Income	Cost
Contract operation service	99,985	(70,323)	57,408	(41,990)
Technical service	19,596	(3,320)	19,009	(3,485)
Rental	8,178	(5,219)	10,529	(5,501)
Other	6,401	(6,925)	9,708	(8,635)
	<u>134,160</u>	<u>(85,787)</u>	<u>96,654</u>	<u>(59,611)</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.

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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

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

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2013 and 2012 respectively is as follows:

(i) For the year ended 31 December 2013

	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	788,140	156,313	314,196	164,889	71,227	36,469	131,817	1,663,051
Segment expense	(591,090)	(138,508)	(285,746)	(121,657)	(48,972)	(47,717)	(39,838)	(1,273,528)
Results before share of profits of an associate	197,050	17,805	28,450	43,232	22,255	(11,248)	91,979	389,523
Share of (loss)/ profits of an associate (note11)								(2,007)
Profit before tax								387,516
Income tax expense								(99,159)
Profit for the year								<u>288,357</u>
Segment assets	6,251,521	732,395	1,749,341	1,104,320	403,509	212,992	587,052	11,041,130
Investment in an associate (note11)	—	—	—	—	—	—	32,621	32,621
Total assets	6,251,521	732,395	1,749,341	1,104,320	403,509	212,992	619,673	11,073,751
Total liabilities	4,352,326	354,453	684,237	1,037,580	264,034	71,222	175,355	6,939,207
Other information								
- Interest income (note30)	3,592	419	1,430	2,249	94	12	11,535	19,331
- Interest expenses (note30)	(178,246)	(20,684)	(42,636)	(564)	(9,857)	(7,308)	—	(259,295)
- Depreciation	(157,552)	(1,336)	(9,171)	(25,329)	(349)	(706)	(6,581)	(201,024)
- Amortization	(10,589)	(36,249)	(66,230)	(710)	(13,288)	(9,044)	(888)	(136,998)
- Capital expenditures	622,497	85	34,649	68,102	364	2,412	9,297	737,406



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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

(ii) 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

- (iii) Revenue of approximately Rmb775 million (2012: Rmb786 million) is derived from TSC. These revenues are attributable to the Sewage processing and facility construction services segment.

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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 2012	1,592,323	1,681,433	172,971	880,865	4,327,592
Additions	877	7,376	5,269	633,203	646,725
Transfers	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
Additions	2,257	3,097	5,295	694,949	705,598
Transfers(note(c))	—	2,172	186	(2,358)	—
Disposals	(968)	(34,290)	(18,181)	—	(53,439)
At 31 December 2013	2,006,261	2,183,553	227,036	1,152,078	5,568,928
<i>Accumulated depreciation</i>					
At 1 January 2012	(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)
Charge for the year	(68,589)	(101,052)	(27,710)	—	(197,351)
Disposals	92	31,467	13,089	—	44,648
At 31 December 2013	(704,857)	(525,267)	(98,602)	—	(1,328,726)
<i>Net book value</i>					
At 31 December 2013	1,301,404	1,658,286	128,434	1,152,078	4,240,202
At 31 December 2012	1,368,612	1,756,892	155,755	459,487	3,740,746

- (i) All of the Group's buildings, structures and plants are located in the PRC.
- (ii) The Group's depreciation expense of Rmb193 million (2012: Rmb142 million) has been included in cost of sales and Rmb4 million (2012: Rmb6 million) in administrative expenses.
- (iii) As at 31 December 2013, 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 Rmb138 million (cost of Rmb175 million) (31 December 2012: carrying amount of Rmb145 million and cost of Rmb178 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 2012	1,418,286	1,569,921	133,794	806,613	3,928,614
Additions	—	526	858	593,785	595,169
Transfers	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
Additions	—	119	1,605	625,156	626,880
Transfers(note(c))	—	2,172	186	(2,358)	—
Disposals	(84)	(31,929)	(15,516)	—	(47,529)
At 31 December 2013	1,834,017	2,017,845	186,889	1,042,305	5,081,056
<i>Accumulated depreciation</i>					
At 1 January 2012	(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)
Charge for the year	(63,724)	(84,617)	(16,824)	—	(165,165)
Disposals	84	30,363	11,400	—	41,847
At 31 December 2013	(676,387)	(457,742)	(78,846)	—	(1,212,975)
<i>Net book value</i>					
At 31 December 2013	<u>1,157,630</u>	<u>1,560,103</u>	<u>108,043</u>	<u>1,042,305</u>	<u>3,868,081</u>
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>

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6 PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Movement of significant projects of construction in progress

Name	Budgeted amount	31 December 2012	Increase in current year	Transfer to property, plant and equipment	31 December 2013	Proportion of expenditures incurred to budgeted amount	Source of funds
Sewage water processing plants:							
– Jin Nan	2,065,590	417,130	620,386	—	1,037,516	50%	Land compensation
Others		2,377	4,770	(2,358)	4,789		Self-raised fund
<b>Total – Company</b>		<b>419,507</b>	<b>625,156</b>	<b>(2,358)</b>	<b>1,042,305</b>		
Water recycling plants:							
– Jin Nan	260,351	39,111	67,723	—	106,834	41%	land compensation
Others		869	2,070	—	2,939		Self-raised fund
<b>Total – Group</b>		<b>459,487</b>	<b>694,949</b>	<b>(2,358)</b>	<b>1,152,078</b>		

(i) In 2013, no borrowing cost has been capitalized (2012: Rmb19 million, at an average interest of 6.55%).

(d) Construction in progress

As at 31 December 2013, the progress of significant projects of construction in progress is analysed as follows:

	Construction progress	Remark
Sewage water processing plant - Jin Nan	50%	Estimated by percent of cost incurred to total project budget
Water recycling plant - Jin Nan	41%	Estimated by percent of cost incurred to total project budget

In order to improve the infrastructure construction of Tianjin, Tianjin Government decided to relocate Tianjin Ji Zhuang Zi 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 Rmb2.3 billion. Instructed by Tianjin Government, the construction funding 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 Ji Zhuang Zi 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 Ji Zhuang Zi sewage water processing plant and water recycling plant will be demolished.

The total compensation fund is about Rmb2.33 billion. The Group commenced construction of the Jinnan Project in 2012, which is expected to complete within 2014. As of 31 December, 2013, the fund with total amount of Rmb1.3 billion was received as the compensation for (1) the demolition of Ji Zhuang Zi sewage water processing plant and water recycling plant, and (2) the construction of Jinnan Project. The Group recorded the received fund as other non-current liabilities (note 23(i)).

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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
<b>Cost</b>			
At 1 January 2012	3,218,156	8,307	3,226,463
Additions	74,590	2,752	77,342
Disposals	(1,836)	—	(1,836)
At 31 December 2012	3,290,910	11,059	3,301,969
Additions	31,501	307	31,808
At 31 December 2013	3,322,411	11,366	3,333,777
<b>Amortisation</b>			
At 1 January 2012	(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)
Charge for the year	(124,792)	(902)	(125,694)
At 31 December 2013	(669,970)	(4,007)	(673,977)
<b>Impairment</b>			
At 31 December 2012	—	—	—
Charge for the year (note 28(a))	(11,324)	—	(11,324)
At 31 December 2013	(11,324)	—	(11,324)
<b>Net book value</b>			
At 31 December 2013	2,641,117	7,359	2,648,476
At 31 December 2012	2,745,732	7,954	2,753,686

- (i) On 31 December 2013, the concession right with a net book value of Rmb211 million (original amount of Rmb302 million) (2012: Rmb232 million (original amount of Rmb302 million)) has been secured against loan facility of Rmb118 million (2012: Rmb133 million). The concession right with a net book value of Rmb14 million (original amount is Rmb19 million) has been secured against loan facility of Rmb9 million (2012: Rmb10 million) (note 22(a) (i)).
- (ii) In 2013, no borrowing cost has been capitalised in concession right (2012: nil).
- (iii) The remaining amortisation period of concession rights ranges from 15 to 28 years.
- (iv) Amortisation of Rmb125 million (2012: Rmb124 million) is included in the 'cost of sales' in the income statement and Rmb1 million (2012: Rmb1 million) in 'administrative expenses'.

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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
<b>Cost</b>		
At 1 January 2012	593,529	567,266
Disposals	(10,472)	—
At 31 December 2012 and 31 December 2013	<u>583,057</u>	<u>567,266</u>
<b>Amortisation</b>		
At 1 January 2012	(141,745)	(132,080)
Charge for the year	(10,850)	(10,351)
Disposals	7,191	—
At 31 December 2012	(145,404)	(142,431)
Charge for the year	(11,304)	(10,805)
At 31 December 2013	<u>(156,708)</u>	<u>(153,236)</u>
<b>Net book value</b>		
At 31 December 2013	<u>426,349</u>	<u>414,030</u>
At 31 December 2012	<u>437,653</u>	<u>424,835</u>

### 9 INVESTMENT PROPERTIES

	Group	Company
<b>Cost</b>		
At 31 December 2012 and 31 December 2013	<u>137,374</u>	<u>110,648</u>
<b>Accumulated depreciation</b>		
At 1 January 2012	(21,419)	(18,989)
Charge for the year	(3,673)	(3,168)
At 31 December 2012	(25,092)	(22,157)
Charge for the year	(3,673)	(3,168)
At 31 December 2013	<u>(28,765)</u>	<u>(25,325)</u>
<b>Net book value</b>		
At 31 December 2013	<u>108,609</u>	<u>85,323</u>
At 31 December 2012	<u>112,282</u>	<u>88,491</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 2013 based on the Directors' assessment was approximately Rmb151 million (2012: Rmb151 million), and its book value is Rmb85 million.

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10 INVESTMENTS IN SUBSIDIARIES - COMPANY

	31 December 2013	31 December 2012
Subsidiaries	1,331,755	1,308,255
Less: Impairment of subsidiaries (note(iii))	(49,619)	(26,500)
	<u>1,282,136</u>	<u>1,281,755</u>

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
Baoying Capital Water Co., Ltd.	A	Baoying	Sewage processing	53,000	Limited company	Zhao Yi	776407692
Hang Zhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Sewage processing	257,445	Limited company	Zhao Yi	785336929
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Production and sales of new types of construction	37,500	Limited company	Lin Wen Bo	752229932
Fuyang Capital Water Co., Ltd.	B	Fuyang	Sewage processing	87,500	Limited company	Zhao Yi	783074750
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Sewage processing	62,987	Limited company	Tang Fu Sheng	NA
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	Yang Guang	681355439
Wuhan Tianchuang Environmental Protection Co., Ltd.	B	Wuhan	Sewage and tap water processing	103,240	Limited company	Zhao Yi	679132033
Tianjin Capital Water Co., Ltd.	B	Tianjin	Sewage processing	10,000	Limited company	Li Yu Qing	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	Yang Guang	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: Majority controlling subsidiary

B: Wholly-owned subsidiary

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### 10 INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

#### (a) Subsidiaries

	Accounting method	Investment cost	Investment cost at beginning of the year	Additions	Investment cost at end of the year	Share holding/ Voting rights (%)	Consolidate financial statement (Y/N)	Minority interest	Provisions of impairment	Cash dividends declared/ Gain on investment in the current year
Qijing Capital Water Co., Ltd.	Cost method	154,918	154,918	—	154,918	87	Y	27,221	—	—
Guizhou Capital Water Co., Ltd. (note(ii))	Cost method	95,000	95,000	—	95,000	95	Y	5,288	—	4,750
Baoying Capital Water Co., Ltd. (note(ii))	Cost method	37,100	37,100	—	37,100	70	Y	20,666	—	1,190
Hangzhou Tianchuang Capital Water Co., Ltd.	Cost method	180,212	180,212	—	180,212	70	Y	99,781	—	—
Tianjin Capital New Materials Co., Ltd. (note(iii))	Cost method	26,500	26,500	—	26,500	71	Y	981	(26,500)	—
Fuyang Capital Water Co., Ltd.	Cost method	87,702	69,202	18,500	87,702	100	Y	—	—	—
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Cost method	62,987	62,987	—	62,987	100	Y	1,846	—	—
Wendeng Capital Water Co., Ltd. (note(ii))	Cost method	52,000	52,000	—	52,000	100	Y	—	—	4,000
Tianjin Jing Hai Capital Water Co., Ltd.	Cost method	12,000	12,000	—	12,000	100	Y	—	—	—
Tianjin Water Recycling Co., Ltd. (note(ii))	Cost method	100,436	100,436	—	100,436	100	Y	—	—	15,000
Xi'an Capital Water Co., Ltd.	Cost method	270,000	270,000	—	270,000	100	Y	—	—	—
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	Cost method	5,000	5,000	—	5,000	100	Y	—	—	—
Anguo Capital Water Co., Ltd. (note(iv))	Cost method	41,000	41,000	—	41,000	100	Y	—	(23,119)	—
Wuhan Tianchuang Capital Water Co., Ltd.	Cost method	98,500	98,500	—	98,500	100	Y	2,267	—	—
Tianjin Capital Water Co., Ltd.	Cost method	5,000	5,000	5,000	10,000	100	Y	—	—	—
Tianjin Zichuang Project Investment Co., Ltd.	Cost method	23,400	23,400	—	23,400	100	Y	—	—	—
Tianjin Jinning Capital Water Co., Ltd.	Cost method	15,000	15,000	—	15,000	100	Y	—	—	—
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	Cost method	60,000	60,000	—	60,000	100	Y	—	—	—
<b>Total</b>		<b>1,331,755</b>	<b>1,308,255</b>	<b>23,500</b>	<b>1,331,755</b>			<b>158,050</b>	<b>(49,619)</b>	<b>24,940</b>

- (i) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.
- (ii) In 2013, the cash dividend declared by the subsidiaries was Rmb24.94 million.
- (iii) Full provision has been made for investment in this subsidiary of approximately Rmb26.5 million as at 31 December 2013 (31 December 2012: Rmb26.5 million).

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10 INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

(a) Subsidiaries (Continued)

(iv) A new provision has been made for investment in this subsidiary of approximately Rmb23.1 million as at 31 December 2013 (note 39).

(v) Material non-controlling interests

	31 December 2013 Minority interest	2013 Minority interest income	2013 Declared distribution of cash dividend this year
Hang Zhou Tianchuang Capital Water Co., Ltd.	99,781	4,314	—
Qijing Capital Water Co., Ltd.	27,221	(176)	—
Others	31,048	2,320	850
	<u>158,050</u>	<u>6,458</u>	<u>850</u>

Summarised financial information for each subsidiary listed above are set out below:

Summarised balance sheet

	31 December 2013				Net assets
	current assets	non-current assets	current liability	non-current liability	
Hang Zhou Tianchuang Capital Water Co., Ltd.	60,511	672,547	94,839	305,614	332,605
Qijing Capital Water Co., Ltd.	46,817	340,051	87,287	101,510	198,071
	<u>107,328</u>	<u>1,012,598</u>	<u>182,126</u>	<u>407,124</u>	<u>530,676</u>
	31 December 2012				Net assets
	current assets	non-current assets	current liability	non-current liability	
Hang Zhou Tianchuang Capital Water Co., Ltd.	50,408	710,299	88,475	354,007	318,225
Qijing Capital Water Co., Ltd.	45,681	356,440	80,834	121,903	199,384
	<u>96,089</u>	<u>1,066,739</u>	<u>169,309</u>	<u>475,910</u>	<u>517,609</u>

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10 INVESTMENTS IN SUBSIDIARIES - COMPANY (Continued)

(a) Subsidiaries (Continued)

(v) Material non-controlling interests (continued)

Summarised income statement

	2013			Total comprehensive income
	Revenue	Profit before income tax	Net profit	
Hang Zhou Tianchuang Capital Water Co., Ltd	156,313	17,987	14,381	14,381
Qujing Capital Water Co., Ltd.	71,554	1,839	(1,312)	(1,312)
	<u>227,867</u>	<u>19,826</u>	<u>13,069</u>	<u>13,069</u>
	2012			Total comprehensive income
	Revenue	Profit before income tax	Net profit	
Hang Zhou Tianchuang Capital Water Co., Ltd	153,631	14,762	11,074	11,074
Qujing Capital Water Co., Ltd.	69,600	8,878	6,741	6,741
	<u>223,231</u>	<u>23,640</u>	<u>17,815</u>	<u>17,815</u>

Summarised cash flows

	2013				Cash and bank balances at end of the year
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and bank balances at beginning of the year	
Hang Zhou Tianchuang Capital Water Co., Ltd	79,567	(612)	(66,919)	33,112	45,148
Qujing Capital Water Co., Ltd.	57,718	(3,160)	(51,874)	3,410	6,094
	<u>137,285</u>	<u>(3,772)</u>	<u>(118,793)</u>	<u>36,522</u>	<u>51,242</u>
	2012				Cash and bank balances at end of the year
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and bank balances at beginning of the year	
Hang Zhou Tianchuang Capital Water Co., Ltd	78,529	(7,311)	(68,833)	30,727	33,112
Qujing Capital Water Co., Ltd.	19,155	(2,319)	(28,436)	15,010	3,410
	<u>97,684</u>	<u>(9,630)</u>	<u>(97,269)</u>	<u>45,737</u>	<u>36,522</u>



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11 INVESTMENT IN AN ASSOCIATE - GROUP

	2013	2012
Beginning of the year	34,628	40,669
Share of profit/(loss)	<u>(2,007)</u>	<u>(6,041)</u>
End of the year	<u><u>32,621</u></u>	<u><u>34,628</u></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	Revenue	share of (loss)/ profit
2013							
Tianjin International Machinery Co., Ltd.	<u>120,000</u>	<u>27.5%</u>	<u>716,773</u>	<u>575,993</u>	<u>140,780</u>	<u>2,512,282</u>	<u>(2,007)</u>
2012							
Tianjin International Machinery Co., Ltd.	<u>120,000</u>	<u>27.5%</u>	<u>603,272</u>	<u>454,551</u>	<u>148,721</u>	<u>2,024,631</u>	<u>(6,041)</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 valve and actuating device; heater exchanger and the whole set of it; environment protection equipment; engineering technical consultation; trading; manufacturing and sale of general equipment.

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**11 INVESTMENT IN AN ASSOCIATE - GROUP (Continued)**

(c) Summarised financial information for Tianjin International Machinery Co., Ltd

**Summarised balance sheet**

	31 December 2013	31 December 2012
<b>Current</b>		
– Cash and cash equivalents	152,132	96,256
– Other current assets	370,587	306,846
Total current assets	<u>522,719</u>	<u>403,102</u>
Total non-current Assets	<u>194,054</u>	<u>200,170</u>
– Trade payables	67,480	96,813
– Other current liabilities	508,513	357,738
Total current liabilities	<u>575,993</u>	<u>454,551</u>
Net assets	<u><u>140,780</u></u>	<u><u>148,721</u></u>

**Summarised statement of comprehensive income**

	2013	2012
Revenue	2,512,282	2,024,631
Depreciation and amortisation	(12,472)	(9,489)
Interest income	3,263	2,702
Interest expense	(17,855)	(19,247)
<b>Profit or loss from continuing operations</b>	<u>(4,176)</u>	<u>(858)</u>
Income tax expense	(2,236)	(3,345)
<b>Post-tax profit from continuing operations</b>	<u>(6,412)</u>	<u>(4,203)</u>
<b>Total comprehensive income</b>	<u>(6,412)</u>	<u>(4,203)</u>
Dividends received from associate	<u>—</u>	<u>—</u>



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12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Unquoted equity investments	<u>2,000</u>	<u>4,000</u>	<u>2,000</u>	<u>4,000</u>

- (i) On 26 December 2013, equity investment in Tianjin Baotong Light Mass Materials Company Limited was realised for Rmb0.7 million, resulting in an investment loss of Rmb1.3 million.

13 LONG-TERM RECEIVABLES

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Receivables from toll road concession	<u>333,607</u>	<u>337,631</u>	<u>333,607</u>	<u>337,631</u>

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

14 TRADE RECEIVABLES DUE AFTER ONE YEAR

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Receivables from TSC - sewage water plant construction (note16)	<u>—</u>	<u>68,794</u>	<u>—</u>	<u>68,794</u>

As at 31 December 2013, the receivable from TSC in respect of construction of sewage water plants had been settled.

15 INVENTORIES

Inventories are summarised by categories as follows:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Raw materials	15,144	17,962	7,667	11,029
Finished goods	393	—	—	—
Spare parts and low cost consumables	292	106	199	—
Construction contract costs	<u>42,206</u>	<u>74,441</u>	<u>—</u>	<u>168</u>
	<u>58,035</u>	<u>92,509</u>	<u>7,866</u>	<u>11,197</u>

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**16 TRADE RECEIVABLES**

	<b>Group</b> 31 December 2013	31 December 2012	<b>Company</b> 31 December 2013	31 December 2012
Due from TSC for (note(b)):				
– Sewage processing service	1,890,671	1,421,319	1,890,671	1,421,319
– Construction of sewage processing plants	—	68,794	—	68,794
	<u>1,890,671</u>	<u>1,490,113</u>	<u>1,890,671</u>	<u>1,490,113</u>
Less: Non-current portion	—	(68,794)	—	(68,794)
	<u>1,890,671</u>	<u>1,421,319</u>	<u>1,890,671</u>	<u>1,421,319</u>
Receivables from related parties	48,753	22,417	27,239	14,220
Due from others	<u>153,131</u>	<u>129,007</u>	<u>26,094</u>	<u>19,241</u>
	<u>2,092,555</u>	<u>1,572,743</u>	<u>1,944,004</u>	<u>1,454,780</u>
Less: allowance for impairment of trade receivables (note(c)):	(7,169)	—	—	—
	<u><u>2,085,386</u></u>	<u><u>1,572,743</u></u>	<u><u>1,944,004</u></u>	<u><u>1,454,780</u></u>

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

	<b>Group</b>			
	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	954,931	46%	927,093	59%
1 to 2 years	798,902	38%	645,650	41%
2 to 3 years	<u>338,722</u>	<u>16%</u>	<u>—</u>	<u>—</u>
Total	<u><u>2,092,555</u></u>	<u><u>100%</u></u>	<u><u>1,572,743</u></u>	<u><u>100%</u></u>

	<b>Company</b>			
	31 December 2013		31 December 2012	
	amount	% of total balance	amount	% of total balance
Within 1 year	822,179	42%	818,971	56%
1 to 2 years	791,636	41%	635,809	44%
2 to 3 years	<u>330,189</u>	<u>17%</u>	<u>—</u>	<u>—</u>
Total	<u><u>1,944,004</u></u>	<u><u>100%</u></u>	<u><u>1,454,780</u></u>	<u><u>100%</u></u>

The average credit period of the Group is about 30 days. Up to 31 December 2013, the ageing of trade receivables which are due but not yet impaired has no material difference with the ageing analysis as above.



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16 TRADE RECEIVABLES (Continued)

- (b) TSC is a state-owned enterprise owned by Tianjin Government and has good credit history.

On 18 February 2014, Tianjin Water Authority Bureau, TUCTC and the Company signed an agreement to grant concession services right of four sewage water processing plants to the Company. Meanwhile, Tianjin Government required TSC and relevant government authorities to work together and settle the outstanding trade receivables. Therefore, management believes that there is no significant impairment risk and no impairment provision is required.

- (c) Movements on the Group's allowance for impairment of trade receivables are as follows:

	2013	2012
At 1 January	—	—
Provision for impairment of receivables	(7,169)	—
At 31 December	<u>(7,169)</u>	<u>—</u>

On 31 December 2013, the total amount of trade receivables due from Qujing City Water General Company, in respect of sewage processing fee and tap water fee was Rmb46.3 million among which Rmb8.5 million was over 2 years. According to management's analysis, impairment provision of Rmb7.2 million was provided.

17 PREPAYMENTS

The ageing of prepayments is analysed below:

	Group			
	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	64,948	56%	85,069	71%
1 to 2 years	49,097	43%	28,809	24%
Over 2 years	1,610	1%	6,428	5%
	<u>115,655</u>	<u>100%</u>	<u>120,306</u>	<u>100%</u>

As at 31 December 2013, the prepayments aged over one year with amount of Rmb51 million (2012:Rmb35 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.

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### 17 PREPAYMENTS (Continued)

	Company			
	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	14,703	43.7%	43,576	99.5%
1 to 2 years	18,713	55.6%	144	0.3%
Over 2 years	240	0.7%	95	0.2%
	<u>33,656</u>	<u>100%</u>	<u>43,815</u>	<u>100%</u>

### 18 OTHER RECEIVABLES

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Project deposits	1,814	3,207	298	2,200
Payment on behalf of others	1,120	1,893	—	38
Receivables from subsidiaries	—	—	130,914	105,034
Others	3,838	5,489	15,032	7,937
	<u>6,772</u>	<u>10,589</u>	<u>146,244</u>	<u>115,209</u>

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

	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	4,106	61%	4,892	46%
1 to 2 years	845	12%	857	8%
2 to 3 years	806	12%	1,538	15%
Over 3 years	1,015	15%	3,302	31%
	<u>6,772</u>	<u>100%</u>	<u>10,589</u>	<u>100%</u>

The ageing of the Company's other receivables is analysed below:

	31 December 2013		31 December 2012	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	145,402	99.43%	7,670	6.66%
1 to 2 years	45	0.03%	23,923	20.76%
2 to 3 years	500	0.34%	9,828	8.53%
Over 3 years	297	0.20%	73,788	64.05%
	<u>146,244</u>	<u>100%</u>	<u>115,209</u>	<u>100%</u>



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19 CASH AND BANK BALANCES

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Cash on hand	167	141	17	12
Cash in bank	1,002,082	1,000,424	342,073	469,703
	<u>1,002,249</u>	<u>1,000,565</u>	<u>342,090</u>	<u>469,715</u>
Including:				
Specific funds for construction in progress (note (a))	78,065	200,466	23,675	139,137
Restricted bank deposits due within 1 year (note (b))	<u>7,267</u>	<u>3,600</u>	<u>—</u>	<u>—</u>

- (a) The specific funds for construction in progress represent the unutilised balances of the specific 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:

	31 December	Group
	2013	31 December 2012
Cash and bank balances	1,002,249	1,000,565
Restricted bank deposits	<u>(7,267)</u>	<u>(3,600)</u>
	<u>994,982</u>	<u>996,965</u>

20 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 2012 and 2013	<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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## 21 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 2012	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 reserves, net (note (ii))	—	24,724	24,724	(24,724)	—
Dividends declared for 2011	—	—	—	(57,089)	(57,089)
<b>Balance at 31 December 2012</b>	<b>382,311</b>	<b>350,905</b>	<b>733,216</b>	<b>1,619,785</b>	<b>2,353,001</b>
Profit for the year	—	—	—	281,899	281,899
Profit appropriation to statutory common reserve, net (note (ii))	—	22,351	22,351	(22,351)	—
Dividends declared for 2012	—	—	—	(85,634)	(85,634)
<b>Balance at 31 December 2013</b>	<b>382,311</b>	<b>373,256</b>	<b>755,567</b>	<b>1,793,699</b>	<b>2,549,266</b>

### (b) Company

	Capital reserve (note(i))	General reserve	Subtotal	Retained earnings	Total
Balance at 1 January 2012	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)
<b>Balance at 31 December 2012</b>	<b>380,788</b>	<b>350,905</b>	<b>731,693</b>	<b>1,485,450</b>	<b>2,217,143</b>
Profit for the year	—	—	—	223,509	223,509
Profit appropriation to statutory common reserves, net (note (ii))	—	22,351	22,351	(22,351)	—
Dividends declared for 2012	—	—	—	(85,634)	(85,634)
<b>Balance at 31 December 2013</b>	<b>380,788</b>	<b>373,256</b>	<b>754,044</b>	<b>1,600,974</b>	<b>2,355,018</b>

- (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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22 BORROWINGS

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
<i>Non-current:</i>				
Long-term bank borrowings(note(a))	2,067,036	2,710,056	962,600	1,455,100
Less: Current portion(note(a))	(853,750)	(778,180)	(652,000)	(591,500)
	<u>1,213,286</u>	<u>1,931,876</u>	<u>310,600</u>	<u>863,600</u>
Long-term debenture (note(c))	1,384,775	691,950	1,384,775	691,950
Long-term payable (note(d))	291,175	350,754	291,175	350,754
Other non-current liabilities (note(e))	21,522	90,158	—	65,453
	<u>2,910,758</u>	<u>3,064,738</u>	<u>1,986,550</u>	<u>1,971,757</u>
<i>Current:</i>				
Current portion of long-term bank borrowings (note(a))	853,750	778,180	652,000	591,500
Current portion of long-term payable (note(d))	24,356	28,001	24,356	28,001
	<u>878,106</u>	<u>806,181</u>	<u>676,356</u>	<u>619,501</u>
Short-term bank borrowings (note(b))	—	86,000	—	66,000
Other current liabilities (note(e))	3,287	20,007	—	16,364
	<u>881,393</u>	<u>912,188</u>	<u>676,356</u>	<u>701,865</u>

(a) Long-term bank borrowings

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

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Borrowings from:				
China Construction Bank	540,600	608,850	151,600	177,600
Industrial and Commercial Bank of China	460,376	553,216	20,000	20,000
State Development Bank	367,500	421,500	218,000	258,000
Agriculture Bank of China	258,060	371,990	200,000	300,000
PingAn Bank	152,000	190,000	152,000	190,000
Tianjin Rural Cooperative Bank	99,000	—	99,000	—
China Ever bright Bank	86,000	94,000	86,000	94,000
Bank of China	25,000	30,000	—	—
Baoying Rural Credit Cooperatives Union	22,500	25,000	—	—
Bohai Bank	20,000	20,000	20,000	20,000
China Minsheng Bank	20,000	—	—	—
Shanghai Bank	16,000	318,000	16,000	318,000
China Merchants Bank	—	47,500	—	47,500
China CITIC Bank	—	30,000	—	30,000
	<u>2,067,036</u>	<u>2,710,056</u>	<u>962,600</u>	<u>1,455,100</u>

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### 22 BORROWINGS (Continued)

#### (a) Long-term bank borrowings (Continued)

Summary of terms of long-term bank borrowings:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Pledge (note(i))	127,000	143,000	—	—
Guarantee (note(ii))	977,436	1,111,956	—	—
Unsecured	962,600	1,455,100	962,600	1,455,100
	<u>2,067,036</u>	<u>2,710,056</u>	<u>962,600</u>	<u>1,455,100</u>

- (i) As at 31 December 2013, bank pledge borrowings included Rmb118 million (31 December 2012: Rmb133 million) secured by the concession services right of tap water and sewage processing fees of the Company's subsidiary, Qijing Capital Water Co., Ltd. (note 7), and Rmb9 million (31 December 2012: Rmb10 million) secured by the land and buildings of the Company's subsidiary, Baoying Capital Water Co., Ltd..
- (ii) As at 31 December 2013, bank guarantee borrowings of Rmb706 million (31 December 2012: Rmb820 million) were secured by the guarantee of the Company for its subsidiaries. The remaining bank guarantee borrowings of Rmb271 million (31 December 2012: Rmb292million) were secured by the guarantee of TICIG for the subsidiary, Xi'an Capital Water Co., Ltd (note 37 (5) (c)).
- (iii) These long term bank borrowings bear a weighted average interest rate of 6.44% as at 31 December 2013 (31 December 2012: 6.41%).
- (iv) These borrowings mature as follows:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Within 1 year	853,750	778,180	652,000	591,500
In the 2 year	300,230	850,750	68,000	650,000
In the 2 to 5 year	686,956	738,526	226,600	167,600
Over the 5 year	226,100	342,600	16,000	46,000
	<u>2,067,036</u>	<u>2,710,056</u>	<u>962,600</u>	<u>1,455,100</u>



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22 BORROWINGS (Continued)

(a) Long-term bank borrowings (Continued)

(v) Bank borrowings which are exposed to interest-rate changes and the contractual repricing dates are as follows:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
6 months or less	797,876	1,049,150	487,000	761,500
6- 12 months	<u>1,269,160</u>	<u>1,660,906</u>	<u>475,600</u>	<u>693,600</u>

(vi) The carrying amounts of long-term bank borrowings approximate their fair values as at 31 December 2013 because they bear interest at prevailing market rates throughout their maturity period.

(b) Short-term bank borrowings

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Borrowings from:				
Shanghai Pudong Development Bank	—	16,000	—	16,000
China Minsheng Bank	—	20,000	—	—
China Merchants Bank	—	50,000	—	50,000
	<u>—</u>	<u>86,000</u>	<u>—</u>	<u>66,000</u>

Summary of terms of short-term bank borrowings:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Guarantee	—	20,000	—	—
Unsecured	—	66,000	—	66,000
	<u>—</u>	<u>86,000</u>	<u>—</u>	<u>66,000</u>

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22 **BORROWINGS** (Continued)

(c) **Long-term debenture**

	31 December 2012	Additions	Amortization	31 December 2013
Long-term Debenture				
Par value	700,000	700,000	—	1,400,000
Transaction cost	(8,050)	(10,500)	3,325	(15,225)
	<u>691,950</u>	<u>689,500</u>	<u>3,325</u>	<u>1,384,775</u>

Long term debenture is analysed as follows:

	Par Value	Issue Date	Duration	Issue Amount
Corporate debenture I(i)	700,000	16 November 2011	5 Years	700,000
Corporate debenture II(ii)	700,000	29 May 2013	5 Years	700,000

Interest accrued of debentures is analysed as follows:

	31 December 2012	Interest accrued		31 December 2013
		Interest accrued in current year	Interest paid in current year	
Corporate debenture I(i)	7,747	46,480	(46,480)	7,747
Corporate debenture II(ii)	—	20,316	—	20,316
	<u>7,747</u>	<u>66,796</u>	<u>(46,480)</u>	<u>28,063</u>

- (i) 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.
- (ii) On 29 May 2013, 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 5.45% per annum. The principal will be repaid on maturity.

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

	Group and Company			
	31 December 2013		31 December 2012	
	Payable	Unrecognised financing charges	Payable	Unrecognised financing charges
Payable to TSC for assets acquisition	<u>556,716</u>	<u>(241,185)</u>	<u>700,393</u>	<u>(321,638)</u>



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22 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	430,314	5.94%	291,175	24,356

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 unrecognised 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	
	31 December 2013	31 December 2012
JPY	414,506	546,618
US dollar	142,210	153,775
	556,716	700,393

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 2013, the current portion of long-term payable of Rmb24 million was classified as current liabilities.

	Group and Company	
	31 December 2013	31 December 2012
Within 1 year	24,356	28,001
In the 1 to 2 year	23,361	26,721
In the 2 to 5 year	64,931	73,495
After the 5 year	202,883	250,538
	315,531	378,755

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22 BORROWINGS (Continued)

(e) Other liabilities

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
<i>Non-current:</i>				
– Government loan for sewage water processing plants construction (note(i))	—	65,453	—	65,453
– Government loan for water recycling plants construction (note(ii))	10,909	14,092	—	—
– Others	10,613	10,613	—	—
	<u>21,522</u>	<u>90,158</u>	<u>—</u>	<u>65,453</u>
<i>Current:</i>				
– Current portion of government loan for sewage water processing plants construction	—	16,364	—	16,364
– Current portion of government loan for water recycling plants construction (note(ii))	3,182	3,181	—	—
– Others	105	462	—	—
	<u>3,287</u>	<u>20,007</u>	<u>—</u>	<u>16,364</u>

- (i) A loan, taken from Tianjin Municipal Engineering Bureau (TMEB) by the Company during 2005 specifically for construction of sewage water processing plants, has been repaid in 2013.
- (ii) A loan was taken from TMEB by Tianjin Water Recycling Co., Ltd, the subsidiary of the Company during 2003 specifically for construction of water recycling plants. The current portion of the long-term loan is Rmb3 million (2013: 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	
	31 December 2013	31 December 2012
Floating rate expiring within 1 year	<u>948,500</u>	<u>354,000</u>



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23 OTHER NON-CURRENT LIABILITIES

	Group 31 December 2013	2012	Company 31 December 2013	2012
– Land compensation fund for Ji Zhuang Zi sewage water processing plant (note(i))	1,140,000	670,000	1,140,000	670,000
– Land compensation fund for Ji Zhuang Zi water recycling plant (note(i))	160,000	80,000	—	—
– Cooling compensation (note(ii))	48,000	—	—	—
	<u>1,348,000</u>	<u>750,000</u>	<u>1,140,000</u>	<u>670,000</u>

(i) As at 31 December 2013, the fund with total amount of Rmb1.3 billion was received as the compensation for (1) the demolition of Ji Zhuang Zi sewage water processing plant and water recycling plant, and (2) the construction of Jinnan Project (note 6(d)).

(ii) As at 31 December 2013, Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd, a subsidiary, had received compensation from TUCTC for reducing the rate of providing cooling services. It will be recognised as revenue in throughout the concession period.

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:

	31 December 2012	Additions	Recognised in Other gains-net	31 December 2013	Relating to assets/ Relating to costs
Sewage water processing plants(note6(c)):					
– Xian Yang Lu (upgrade project)	67,219	5,500	(1,825)	70,894	Relating to assets
– Ji Zhuang Zi (upgrade project)	39,535	3,300	(1,075)	41,760	Relating to assets
– Dong Jiao (upgrade project)	38,439	12,587	(1,280)	49,746	Relating to assets
Water recycling plants in:					
– Dong Jiao	25,131	—	(675)	24,456	Relating to assets
– Bei Chen	21,000	—	(263)	20,737	Relating to assets
Others	10,556	561	(7,304)	3,813	Relating to costs
Total-Company	<u>201,880</u>	<u>21,948</u>	<u>(12,422)</u>	<u>211,406</u>	
Heating and cooling supply service project:	104,563	—	(4,308)	100,255	Relating to assets
Water recycling plants :					
– Ji Zhuang Zi (sewage reuse project)	42,057	—	(1,314)	40,743	Relating to assets
– Ji Zhuang Zi (expansion project)	20,400	—	(600)	19,800	Relating to assets
– Xian Yang Lu (water recycling project)	15,171	—	(415)	14,756	Relating to assets
Sewage water processing plants:					
– Bei Shi Qiao (upgrade project)	1,500	6,105	—	7,605	Relating to assets
Others	90	5,639	(3,847)	1,882	Relating to costs
Total-Group	<u>385,661</u>	<u>33,692</u>	<u>(22,906)</u>	<u>396,447</u>	

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25 DEFERRED INCOME TAX LIABILITIES

	31 December 2013		31 December 2012	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>68,977</u>	<u>275,908</u>	<u>60,645</u>	<u>242,580</u>

- (a) Deferred income tax liabilities were recognised on temporary differences arising between the tax bases of concession right and their carrying amounts, which will be recovered within the concession period. The remaining concession period was over 12 months.
- (b) The movement in deferred income tax liabilities during the year is as follows:

	Accelerated tax depreciation
<b>Deferred tax liabilities</b>	
At 1 January 2012	48,479
Charged to the income statement	<u>12,166</u>
At 31 December 2012	60,645
Charged to the income statement	<u>8,332</u>
<b>At 31 December 2013</b>	<u><u>68,977</u></u>

Deferred income tax assets were recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of Rmb19 million (2012: Rmb19 million) in respect of losses amounting to Rmb76 million (2012: Rmb77 million) that can be carried forward against future taxable income. Losses amounting to Rmb12 million and Rmb16 million will expire in 2014 and 2015 respectively.

Deferred income tax assets were recognised for impairment loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of Rmb4.6 million (2012: nil) in respect of losses amounting to Rmb18.5 million (note28) (2012: nil) that can be carried forward against future taxable income.



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26 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND TAX PAYABLES

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Trade payables (note (a))	21,099	20,847	5,042	5,373
Advances from customers (note (b))	701,654	601,371	8,082	4,871
Other payables (note (c))	537,600	511,940	726,791	590,875
Tax payables (note (d))	25,591	26,706	17,555	17,954
	<u>1,285,944</u>	<u>1,160,864</u>	<u>757,470</u>	<u>619,073</u>

(a) As at 31 December 2013, the majority of trade payables are aged within one year.

(b) Advances from customers comprise:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
For pipeline connection services	685,875	580,944	—	—
For heating supply service	2,441	13,776	—	—
For project Han Gu	3,536	2,261	3,536	2,261
Other advances	9,802	4,390	4,546	2,610
	<u>701,654</u>	<u>601,371</u>	<u>8,082</u>	<u>4,871</u>

As at 31 December 2013, advances of Rmb476 million (31 December 2012: Rmb 314millions) 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.

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**26 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND TAX PAYABLES**  
(Continued)

(c) Other payables comprise:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Construction costs payable	418,701	392,679	332,861	299,271
Payable for purchase of property, plant and equipment and concession rights	32,493	40,935	11,600	10,148
Interest payable for long term debenture (note 22(c))	28,063	7,747	28,063	7,747
Others	58,343	70,579	354,267	273,709
	<u>537,600</u>	<u>511,940</u>	<u>726,791</u>	<u>590,875</u>

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

As at 31 December 2013, other payables of Rmb112 million (31 December 2011:Rmb137 million) are aged over one year, which mainly represent unsettled payables and deposits for upgrade projects.

(d) Tax payables comprise:

	Group		Company	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Income Tax Payables	19,620	21,763	14,867	15,501
Business Tax Payables	3,094	2,727	2,092	1,631
VAT Payables	63	1,047	—	—
Others	2,814	1,169	596	822
	<u>25,591</u>	<u>26,706</u>	<u>17,555</u>	<u>17,954</u>

**27 BUSINESS TAX**

	Group	
	2013	2012
Business tax	13,439	9,883
City construction and maintenance fee	1,114	834
Education fee surcharge and others	921	761
	<u>15,474</u>	<u>11,478</u>



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28 EXPENSE BY NATURE

Expenses included in cost of sales and administrative expenses are analysed as follows:

	2013	2012
Utilities	211,594	197,217
Depreciation of property, plant and equipment and investment properties	201,024	152,166
Employee benefit expense (note 29)	177,211	157,097
Amortisation of intangible assets and land use rights	136,998	136,104
Repair and maintenance expenses	69,469	77,200
Sewage mud processing fee	50,664	53,120
Cost of recycling water pipeline connection service	48,766	40,428
Raw materials and consumables used	45,952	53,075
Construction cost of sewage water plants	26,290	26,368
Factory environment, detection and fire prevention fee	17,880	18,520
Travel, meeting and business entertainment expenses	13,493	16,131
Network maintenance fee	12,098	11,313
Impairment of intangible assets (note(a))	11,324	—
Other taxes	10,614	12,369
Allowance for impairment of trade receivables (note16)	7,169	—
Toll road management fee	7,120	7,120
Office allowance	5,004	4,584
Auditors' remuneration	4,200	4,200
Expenses of board of directors	3,175	3,957
Consulting service fee	2,503	1,465
Others	36,522	24,261
	<u>1,099,070</u>	<u>996,695</u>

(a) A provision of Rmb11 million was made in respect of the intangible assets of Anguo Capital Water Co., Ltd..

29 EMPLOYEE BENEFIT EXPENSE

(a) The analysis of employee benefits is as follows:

	2013	2012
Wages and salaries	121,238	105,979
Social security costs	30,664	20,316
Pension costs – defined contribution plans	16,447	13,981
Other benefits	8,862	16,821
	<u>177,211</u>	<u>157,097</u>

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### 29 EMPLOYEE BENEFIT EXPENSE (Continued)

#### (b) Directors' emoluments

The remuneration of every director and senior management for the year ended 31 December 2013 is set out below:

Name	Fees	Salaries and other emoluments	Total
<b>Executive Directors:</b>			
Zhang Wenhui	150	698	848
Lin Wenbo (note(i))	100	703	803
Fu Yana	100	548	648
Shi Zhenjuan	100	548	648
<b>Non-executive Directors:</b>			
Xie Rong	220	—	220
Di Xiaofeng	220	—	220
Li Jieying	220	—	220
An Pindong	100	—	100
Chen Yinxing	100	—	100
	1,310	2,497	3,807
	1,310	2,497	3,807

(i) The Director is also the Chief Executive.

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
<b>Executive Directors:</b>			
Zhang Wenhui	150	653	803
Lin Wenbo (note(i))	100	641	741
Fu Yana	100	495	595
Shi Zhenjuan	—	496	496
Zhong Huifang	100	—	100
<b>Non-executive Directors:</b>			
Xie Rong	220	—	220
Di Xiaofeng	220	—	220
Li Jieying	220	—	220
An Pindong	100	—	100
Chen Yinxing	100	—	100
	1,310	2,285	3,595
	1,310	2,285	3,595

(i) The Director is also the Chief Executive.



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29 EMPLOYEE BENEFIT EXPENSE (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2012: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2012: two) individuals during the year are as follows:

	2013	2012
Salaries and other emoluments	<u>679</u>	<u>989</u>

The emoluments fell within the following bands:

	2013	2012
Emolument bands (in HK dollar) HK\$500,000 – HK\$1,000,000	<u>1</u>	<u>2</u>

30 FINANCE COSTS – NET

	2013	Group 2012
Interest expenses of borrowings	259,295	276,880
Less: Capitalised interest	<u>—</u>	<u>(19,251)</u>
Net interest expenses	259,295	257,629
Less: Interest income	(19,331)	(16,446)
– long-term receivables	(11,480)	(11,507)
– bank deposits	(7,851)	(4,939)
Exchange gains (note(a))	(66,790)	(36,845)
Others	<u>4,639</u>	<u>7,990</u>
	<u>177,813</u>	<u>212,328</u>

- (a) Exchange gains of the long-term payables denominated in Japanese Yen and USD were about Rmb67 million (31 December 2012: about Rmb37 million).

31 INCOME TAX EXPENSE

	Group 2013	2012
Current income tax	90,827	86,083
Deferred income tax	<u>8,332</u>	<u>12,166</u>
	<u>99,159</u>	<u>98,249</u>

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### 31 INCOME TAX EXPENSE (Continued)

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

	2013	2012
Profit before income tax	387,516	372,800
Calculated at applicable income tax rates (25%)	96,879	93,200
Effect of different income tax rate applicable to certain subsidiaries	(3,842)	(3,160)
Income not subject to tax	(1,141)	(977)
Expenses not deductible for taxation purposes	6,996	6,032
Utilisation of previously deductible tax losses for which no deferred income tax assets was recognised	(2,326)	(139)
Current year tax losses for which no deferred income tax asset was recognised	2,593	3,293
Income tax expense	99,159	98,249

### 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 Rmb224 million (2012: Rmb247 million).

### 33 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb282 million (2012: Rmb269 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2012: 1,427 million shares).

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

	2013	2012
Profit attributable to owners of the parent	281,899	268,981
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (Rmb Yuan)	0.20	0.19



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34 DIVIDENDS

A dividend in respect of the year ended 31 December 2012 of Rmb0.06 (gross including tax) per share, total shares of 1,427 million shares on 5 July 2013, amounting to a total dividend of Rmb86 million, was approved at the Annual General Meeting on 16 May 2013 (2012: Rmb0.04 (gross including tax) per share, amounting to a total dividend of Rmb57 million).

The dividends paid in 2013 and 2012 were Rmb80 million and Rmb28 million respectively.

A dividend in respect of the year ended 31 December 2013 of Rmb0.08(gross including tax) per share, amounting to a total dividend of Rmb114 million, is to be approved at the annual general meeting. These financial statements do not reflect this dividend payable.

35 CASH GENERATED FROM OPERATIONS

	2013	2012
Profit for the year	288,357	274,551
Adjustments for:		
– Taxation	99,159	98,249
– Amortisation of deferred revenue	(11,755)	(7,875)
– Depreciation and amortisation	338,022	288,270
– Share of loss of an associate	2,007	6,041
– Investment loss/(income) from available-for- sale financial assets	1,023	(500)
– Loss/(Gain) on disposal of property, plant and equipment, intangible assets and land use right	4,851	(3,160)
– Impairment of assets	18,493	—
– Interest income	(7,851)	(4,939)
– Interest expense-net	192,505	220,784
Changes in working capital		
– Decrease/(Increase) in inventories	34,474	(11,940)
– Increase in trade receivables, other receivables and prepayments	(445,296)	(485,235)
– Increase in trade payables, advance from customers and other payables	143,741	179,211
Cash generated from operations	<u>657,730</u>	<u>553,457</u>

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2013	2012
Net book amount	8,791	17,933
(Loss) /Gain on disposal of property, plant and equipment, intangible assets and land use rights(note (i))	<u>(4,851)</u>	<u>3,160</u>
Proceeds from sale of property, plant and equipment, intangible assets and land use right	<u>3,940</u>	<u>21,093</u>

- (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	
	31 December 2013 Rmb 'million	31 December 2012 Rmb 'million	31 December 2013 Rmb 'million	31 December 2012 Rmb 'million
Sewage water processing plants in:				
– Jinnan project	287	330	741	1,318
– Ying Nan (upgrade project)	13	—	40	—
– Yong An	2	—	—	—
Water recycling plants in:				
– Jinnan project	81	72	72	150
Others	4	—	6	—
	<u>387</u>	<u>402</u>	<u>859</u>	<u>1,468</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 2012	Increase in current year	Decrease in current year	31 December 2013
TMICL	<u>1,820,000</u>	<u>—</u>	<u>—</u>	<u>1,820,000</u>

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2013		31 December 2012	
	Shareholding (%)	Voting rights (%)	Shareholding (%)	Voting rights (%)
TMICL	<u>51.58%</u>	<u>51.58%</u>	<u>51.60%</u>	<u>51.60%</u>



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37 RELATED PARTY TRANSACTIONS (Continued)

(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

Tianjin Ziya Recycling Economy Industry Investment &  
Development Co., Ltd.  
Tianjin Environment Construction Investment Company Limited  
Tianjin Lecheng Properties Limited  
Tianjin City Resource Operation Co., Ltd.  
Tianjin Environment Construction Investment Company Limited  
Tianjin Metro Resources Investment Co.,Ltd  
Tianjin City Infrastructure Construction Project Management &  
Consultant Co., Ltd.  
Tianjin Haihe Construction Developing Investment Co.,Ltd.  
Tianjin Machinery &Electric Equipment Imp.&Exp. Co.,Ltd

Relationship with the Group

Controlled by the same ultimate parent company  
Subsidiary of associate

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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) Purchase of goods and Sales of services

Purchase of goods

Related party	Nature of transaction	2013	2012
Tianjin Machinery & Electric Equipment Imp. & Exp. Co., Ltd	Purchase of equipment	60,150	11,408

Sales of services

Related party	Nature of transaction	2013	2012
TICIG (note(i))	Commission income from contract operation	53,676	22,365
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	32,604	35,330
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Construction revenue from sewage water processing plant	10,436	7,350
Tianjin Metro Resources Investment Co., Ltd	Income from heating and cooling supply	4,663	2,616
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd. (note(i))	Management fee from construction projects	1,430	2,800
Tianjin Environment Construction Investment Company Limited (note(i))	Rental income from TCEP building	943	1,851
Tianjin Environment Construction Investment Company Limited	Income from heating and cooling supply	—	261
TICIG (note(i))	Rental income from TCEP building	—	239

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.

(i) Related parties listed above are continuing connected transactions under the Listing Rule 14A of the Main Board of The Stock Exchange of Hong Kong.

(b) Guarantee:

Guarantor	Guarantee	Amount	Starting Date	Due Date	Completed (Y/N)
TICIG	Xi'an Capital Water Co., Ltd	271,000	28 September 2008	27 September 2022	N

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37 RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(c) Key management compensation:

	31 December 2013	31 December 2012
Key management compensation	<u>10,479</u>	<u>9,813</u>

(6) Year-end balances arising from sales/purchases of services/goods

	31 December 2013	31 December 2012
Receivables from related parties		
– TICIG	26,838	13,419
– Tianjin Lecheng Properties Limited	17,600	8,197
– Tianjin Machinery & Electric Equipment Imp.&Exp. Co.,Ltd	6,465	—
– Tianjin Metro Resources Investment Co.,Ltd	3,914	—
– Tianjin City Resource Operation Co., Ltd.	400	801
Payables to related parties		
– Tianjin Machinery & Electric Equipment Imp.&Exp. Co.,Ltd	<u>24,958</u>	<u>14,899</u>

The receivables from related parties arise mainly from sale transactions and are due within one year after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties.

The payables to related parties arise mainly from purchase transactions and are due within one year after the date of purchase. The payables bear no interest.

(7) Commitments

The Group's commitments with related parties at the balance sheet date are as follows:

	31 December 2013	31 December 2012
Guarantee Received		
TICIG	<u>271,000</u>	<u>292,000</u>

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### 37 RELATED PARTY TRANSACTIONS (Continued)

#### (8) 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 2013, the Company had given guarantees of approximately Rmb792 million (2012: Rmb963 million) to banks of certain subsidiaries in respect of their banking facilities, of which Rmb706 million of the facilities had been drawn by the subsidiaries.

The Directors consider the subsidiaries to be financially resourceful to settle their obligations.

### 39 CONTINGENT EVENT

In 2013, the Group decided to terminate the tap water concession agreement between Anguo Capital Water Co., Ltd (a subsidiary) and Anguo Government. Since the Group cannot reach an agreement with Anguo Government on the terms of the termination, the dispute has been submitted to China International Economic and Trade Arbitration Commission. As at the date of approval of the financial statements, the arbitration is still in process. Based on management’s estimate, a provision of Rmb11 million was made against the relevant intangible assets (Note 28). In the balance sheet of the Company, a provision of Rmb23 million was made in respect of investment in this subsidiary (Note10).



## 16. List of Documents Available for Inspection

- (i) The financial statements signed and sealed by the legal representative, the chief accountant and the officer-in-charge of the accounting department of the Company.
- (ii) Original of the report of the auditors sealed by the certified public accountants, signed and sealed by the auditors.
- (iii) Originals of all documents and announcements of the Company publicly disclosed in newspapers designated by the CSRC during the reporting period.
- (iv) The annual report released in other stock markets.