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

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1065)**

## **ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014**

### **§ 1 IMPORTANT**

1.1 The board of directors (the “**Board**”), supervisory committee (the “**Supervisory Committee**”), directors (the “**Directors**”), supervisors (the “**Supervisors**”) and senior management of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) confirm that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of its contents.

This results announcement is the summary of the 2014 annual report of the Company. For detailed information, please read the 2014 annual report of the Company carefully.

- 1.2 PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the 2014 financial reports of the Company and have issued standard unqualified audit reports.
- 1.3 Mr. Liu Yujun, the Company’s chairman, Ms. Cao Shuo, the officer in charge of the accounting work, and Mr. Liu Tao, the officer in charge of the accounting department (the chief accountant), have declared that they are responsible for the truthfulness and completeness of the financial reports contained in the 2014 annual report.

## § 2 COMPANY PROFILE

### 2.1 Basic information

Short form of the A shares	創業環保
Stock code of the A shares	600874
Stock exchange for listing of the A shares	Shanghai Stock Exchange
Short form of the H shares	Tianjin Capital
Stock code of the H shares	1065
Stock exchange for listing of the H shares	The Stock Exchange of Hong Kong Limited

### 2.2 Contact person and method

	<b>Company Secretary to the Board</b>	<b>Company Secretary in Hong Kong</b>	<b>Securities Affairs Representative</b>
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Correspondence address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, The People's Republic of China (the "PRC")	22/F, Worldwide House, Central, Hong Kong	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
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### § 3 ACCOUNTING DATA AND FINANCIAL INDICATORS

(For each of the three years ended 31 December 2014 as prepared in accordance with the PRC Accounting Standards For Business Enterprises)

#### 3.1 Major accounting data

		<i>Unit: 0'000 Currency: RMB</i>		
<b>Major accounting data</b>	<b>2014</b>	<b>2013</b>	<b>Increase/decrease for the period as compared to the same period last year (%)</b>	<b>2012</b>
Operating income	182,808	174,986	4.47	163,732
Net profit attributable to the shareholders of the Company	30,817	28,190	9.32	26,898
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	29,128	26,849	8.49	25,318
Net cash flow from operating activities	60,937	57,147	6.63	49,424
			<b>Increase/decrease as at the end of the period as compared to the end of the same period last year (%)</b>	
	<b>As at the end of 2014</b>	<b>As at the end of 2013</b>		<b>As at the end of 2012</b>
Net assets attributable to the shareholders of the Company	417,048	397,649	4.88	378,023
Total assets	1,085,948	1,107,375	-1.93	1,030,699

### 3.2 Major financial indicators

*Currency: RMB*

Major financial indicators	2014	2013	Increase/decrease for the period as compared to the same period last year (%)	2012
Basic earnings per share (RMB/share)	0.22	0.20	10.00	0.19
Diluted earnings per share (RMB/share)	0.22	0.20	10.00	0.19
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.20	0.19	5.26	0.18
Weighted average return on net assets ratio (%)	7.57	7.27	Increased by 0.30 percentage point	7.33
Weighted average return on net assets ratio after deduction of extraordinary items (%)	7.15	6.92	Increased by 0.23 percentage point	6.91

### 3.3 Extraordinary items

*Unit: 0'000 Currency: RMB*

Extraordinary items	Amount in 2014	Amount in 2013	Amount in 2012
Profit/loss from disposal of non-current assets	-181	-485	316
Government grants recognized in current profit and loss, except for those closely related to business operation, in compliance with national policy and settled in certain amount which are constantly granted by government	2,317	2,291	1,210
Other non-operating income and expenses except for the above items	105	77	587
Effect on minority interests	8	-71	-5
Income tax effect	-560	-471	-528
Total	<u>1,689</u>	<u>1,341</u>	<u>1,580</u>

## § 4 DIRECTORS' REPORT

### 4.1 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

In 2014, under the leadership of the Board, the Company's management closely adhered to the strategic plan of the Company and its subsidiaries (the "Group") for the "Twelfth Five-Year Plan" period, followed the major strategies and operation plan of the Group in 2014, and continued to propel risk control firmly, continued to improve the abilities to implement internal control and to withstand risks, continued to increase efforts on technological research and development and the achievements transformation, and continued to improve the core competitiveness of the Company. The Company's management also continued to focus on safety production and quality services, continued to improve the operation and management level of the Company, continued to expand the licensed operation projects of sewage water treatment plants and new energy cooling and heating supply projects, increased market shares, tried to promote and finalize licensed operation right of sewage water projects in Tianjin area and the trade receivables issues, and facilitated the stable and sustainable development of the Company. In particular:

1. Steady progress of water operation: During the reporting period, the Company has obtained licensed operation right for upgrading sewage water treatment projects of its subsidiaries in Guiyang, Fuyang, Wendeng and Xi'an on basis of its quality services. With the newly constructed Jingu Sewage Water Treatment Plants, which were arised from the relocation and construction project of Tianjin Jizhuangzi Sewage Water Treatment Plant, achieving target operation, the scale of the Company's sewage water treatment licensed operation was further expanded and the sewage water treatment business of the Company was strengthened. The Company has completed price adjustment in respect of sewage water treatment projects of Fuyang and Hangzhou subsidiaries as planned, which provided a guarantee for the revenue generated from sewage water treatment projects. Four sewage water treatment plants in Tianjin were granted licensed operation right, and for the trade receivables before the signing of licensed operation agreements, the Company has communicated well with Tianjin Sewage Company ("TSC"), who has provided a repayment scheme pursuant to which, the first payment of RMB500 million was received on 6 March 2015 and the remaining will be credited into the Company's accounts prior to 15 June 2015 as scheduled, to ensure the stable and sustainable development of the Company.

2. New progress in technology research and development and transformation of technological achievements: During the reporting period, the Company further explored whole-process deodorization business and industrial waste water treatment business for sewage water treatment plants. Meanwhile, its proprietary treatment process of extracting carbon source locally and adding strengthened sewage denitrification and treatment process of sludge anaerobic digestion for sewage water treatment plants, as well as biological bacterium-strengthened municipal sewage water ammonia nitrogen removing technology and heavy metal fast testing equipment and other research achievements have been ready for marketing, which are very competitive and thus offer new profit growth engines for the Company.
3. Expansion of new energy heating and cooling service business: During the reporting period, the Company won the bid of licensed operation projects of energy stations 1 and 2 at Heiniucheng Road, Tianjin, and won another bid of licensed operation project of energy station 2 in Houtai scenic area of Tianjin in February 2015. The Company has made substantial progress with business expansion, with preliminary work of those projects underway at present.
4. Development of water service business industry chain: During the reporting period, production line of flocculant, the Company's water treatment medicament, was put into operation, and the products were sold within the Group. The Company has undertaken one sludge treatment operation project with capacity of 300 tons per day and one construction and management project of sludge treatment plant.

## **(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 2014, the Group recorded an income from operations of RMB1,828.08 million, representing an increase of RMB78.22 million or 4.47% as compared to 2013. The increase in income from operations was mainly attributable to the increase in the income generated from sewage water treatment and sales of tap water and recycled water as compared to last year, as well as the additional income generated from the entrusted operation of Zhangguizhuang sludge treatment project. While there was an increase in the income from operations, the costs of operations also increased by RMB27.20 million or 2.57% as compared to the same period last year, mainly due to an increase in costs of the tap water business and entrusted operation in line with the increase of income, as well as an increase in the costs of recycled water sales.

Finance costs increased by RMB9.813 million or 5.52% as compared to last year, which was mainly attributable to the relative increase in reduction of exchange gains during the reporting period as compared to last year. If the effect of exchange gains was excluded, finance costs for the year would decrease by approximately RMB29.03 million as compared to last year, mainly due to the decrease in principal of loans and the replacement of certain high-cost loans during the reporting period.

During the reporting period, the Group, based on prudent considerations, made provision for impairment losses of RMB6.90 million in respect of the assets of the urban waste water project in Anguo and made provision for impairment losses of RMB17.01 million in respect of the assets of Jinning sewage water treatment project.

As a result of the forgoing, the Group recorded a net profit (attributable to the shareholders of the Company) of RMB308.17 million during the reporting period, representing an increase of RMB26.27 million or 9.32% as compared to 2013.

## **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 3,822,500 cubic metres per day, representing a slight increase as compared to last year, mainly due to the increase of entrusted operation projects undertaken by the Group. The sources for generating revenue from sewage water treatment include licensed operation and entrusted operation, of which the sewage water processing capacity from licensed operation accounts for 80.6% of the total sewage water processing capacity of the Group, and the remaining is the processing capacity from entrusted operation. The Group processed a total of 1,174.58 million cubic metres of sewage water during the reporting period, representing an increase of 9.4% as compared to last year, and realized a sewage water treatment service income of RMB1,373.18 million, representing an increase of 4.41% as compared to last year, details of which are set out below:

- a. The Group's four sewage water treatment plants in the central urban area of Tianjin processed a total of 446.82 million cubic metres of sewage water for the whole year and realized a sewage water treatment service income of RMB788.90 million, representing an increase of 1.8% as compared to 2013.

- b. The subsidiaries of the Group processed a total of 537.52 million cubic metres of sewage water, representing an increase of 2.95% as compared to 2013. Income from sewage water treatment services of RMB478.31 million was realized, representing an increase of 8.66% as compared to 2013, mainly due to the new recycled water usage projects secured by Fuyang Company and the upward adjustment to the unit price of sewage water treatment service fees charged by Yingdong Sewage Water Treatment Plant.
  - c. The Group's entrusted operation projects processed a total of 190.24 million cubic metres of sewage water, representing an increase of 26.88% as compared to 2013, and realized an income of RMB105.96 million, representing an increase of 5.97% as compared to 2013.
- (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 Group was RMB33.59 million, representing a decrease of 22.78% as compared to last year, which was mainly attributable to the decrease in income as a result of the completion of Ziya BT project by Tianjin Zichuang Engineering Investment Company Limited. During the reporting period, the Group 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 RMB21.92 million, representing an increase of 10.15% as compared to 2013.

(3) Recycled water business

During the reporting period, the Group's sales volume of recycled water was 20.41 million cubic metres, representing an increase of 9.1% as compared to 2013, and recorded an income of RMB55.69 million, representing an increase of 9.89% as compared to 2013, which was mainly attributable to the increase in the volume of recycled water by users of Xianyanglu Recycled Water Plant.

During the reporting period, the recycled water pipeline connection business realized a total income of RMB109.04 million, representing a decrease of 4.53% as compared to the corresponding period of 2013.



(4) Tap water business

During the reporting period, the Group's tap water business recorded a water sales volume of 38.18 million cubic metres, representing an increase of 3.33% as compared to 2013, and realized an income of RMB61.52 million, representing an increase of 68.69% as compared to 2013. This was mainly attributable to the fact that the sales price of tap water in Qujing included water resource fees. Since the tap water project in Anguo was in arbitration process and the tap water plant was transferred to the local water authority bureau for management, no income was recognized in 2014.

(5) New energy cooling and heating supply service business

During the reporting period, the Group's Tianjin Cultural Centre centralized energy station project recorded a total income from cooling and heating supply service fees for the full year of RMB67.57 million, representing a decrease of 5.14% as compared to 2013, which was mainly attributable to the recognition of part of the unrecognized fee income from cooling supply services due to disputes in the previous years.

(6) Toll collection business

For the toll collection business, the Group has since 2010 recognized income based on the amount received according to the "Entrusted Toll Collection Agreement" pursuant 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 2013.

## (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 current period	Amount for the same period last year	Percentage change (%)
Income from operations	182,808	174,986	4.47
Costs of operations	108,478	105,758	2.57
Administrative expenses	10,342	10,878	-4.93
Finance costs	18,763	17,781	5.52
Non-operating income	80,088	2,385	3,258 (note 1)
Non-operating expenses	77,847	502	15,407 (note 2)
Net cash flows from operating activities	60,937	57,147	6.63
Net cash flows from investing activities	-32,949	-16,492	-99.79 (note 3)
Net cash flows from financing activities	-45,997	-40,854	-12.59
Research and development expenses	675	646	-4.45

#### Explanation of changes:

Note 1: It is mainly attributable to the carry-forward of compensation for the relocation and construction of Jizhuangzi Sewage Water Treatment Plant and Recycled Water Plant for the period.

Note 2: It is mainly attributable to the carry-forward of the loss for the relocation and construction of Jizhuangzi Sewage Water Treatment Plant and Recycled Water Plant for the period.

Note 3: Net cash flows from investing activities for the period changed by a larger margin than last period, which is mainly attributable to the receipt of RMB300 million as compensation payment for the relocation and construction of Jizhuangzi Sewage Water Treatment Plant and Recycled Water Plant for the period, as compared to RMB550 million for the same period last year, as well as the increase in project investment expenses for the period.

## 2. Income

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

During the reporting period, there was no material change in the Company's principal business structure and source of operating income. For details of income from operations, 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.

### ***(5) Information on major sales customers***

Total income from operations from the Group's top five customers was RMB1,201 million (2013: RMB1,164 million), representing 65% (2013: 66%) of the Group's total income from operations .

### 3. Costs

#### (1) Costs analysis

Unit: 0'000    Currency: RMB

By industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount for the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period	Explanation
						last year (%)	
Sewage water treatment	Labour	8,733	8.92	8,772	9.03	-0.44	
	Energy consumption (electricity charges)	18,645	19.04	17,560	18.07	6.18	
	Material consumption	3,849	3.93	4,406	4.53	-12.64	
	Repair and maintenance	8,469	8.65	7,501	7.72	12.90	
	Sludge disposal	4,149	4.24	5,065	5.21	-18.08	
	Depreciation and amortization	23,464	23.96	27,086	27.87	-13.37	
	Remaining manufacturing costs	2,797	2.86	2,848	2.93	-1.79	
	Sub-total	70,106		73,237			
Sewage water treatment plant construction	Project construction costs	2,856	2.92	2,629	2.71	8.63	

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	Explanation
						last year (%)	
Tap water supply	Labour	753	0.77	846	0.87	-10.99	
	Energy consumption (electricity charges)	588	0.60	564	0.58	4.26	
	Material consumption	87	0.09	78	0.08	11.54	
	Repair and maintenance	47	0.05	182	0.19	-74.18	Note 1
	Depreciation and amortization	1,030	1.05	837	0.86	23.06	
	Water resource fees	2,316	2.36	0			Note 2
	Remaining manufacturing costs	140	0.14	180	0.19	-22.22	
	Sub-total	4,961		2,687			
Recycled water supply	Labour	1,157	1.18	985	1.01	17.46	
	Energy consumption (electricity charges)	851	0.87	974	1.00	-12.63	
	Material consumption	716	0.73	731	0.75	-2.05	
	Repair and maintenance	1,221	1.25	1,503	1.55	-18.76	
	Depreciation and amortization	5,120	5.23	2,328	2.40	119.93	Note 3
	Remaining manufacturing costs	365	0.37	281	0.29	29.89	
Sub-total	9,430		6,802				
Recycled water pipeline connection	Project construction costs	3,536	3.61	4,877	5.02	-27.50	

		Costs by industry				Percentage change in the amount for the current period as compared to the same period	
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 (%)	last year (%)	Explanation
Cooling and heating supply	Labour	481	0.49	361	0.37	33.24	Note 4
	Energy consumption (electricity charges)	1,641	1.68	1,768	1.82	-7.18	
	Material consumption	72	0.07	71	0.07	1.41	
	Repair and maintenance	172	0.18	272	0.28	-36.76	Note 5
	Depreciation	1,348	1.38	1,343	1.38	0.37	
	Municipal heating network fee	190	0.19	245	0.25	-22.45	
	Remaining manufacturing costs	138	0.14	136	0.14	1.47	
	Sub-total	4,042		4,196			
Toll collection	Collection management costs	712	0.73	712	0.73	0	
	Sub-total	712		712			
Others	Sales of products	496	0.51	934	0.96	-46.90	Note 6
	Labour	807	0.82	592	0.61	36.32	Note 7
	Remaining costs	984	1.00	513	0.53	91.81	Note 8
	Sub-total	2,287		2,039			
<b>Total</b>		97,930		97,179		0.77%	

Notes:

1. It is mainly due to two civil maintenance works conducted by Qijing Tap Water Plant for the same period last year.
2. Water resource fees were added to both revenue and cost from tap water business of Qijing Capital Water Company Limited for 2014.
3. During the reporting period, Dong Jiao Recycled Water Plant and Bei Chen Recycled Water withdrew their depreciation cost in arrears.
4. It is mainly due to the increase in staff employed and expenses incurred in cooling and heating supply business during the reporting period.
5. It is mainly due to stable operation of equipment as compared to the same period last year as well as the corresponding decrease in maintenance expenses.
6. It is mainly due to the decrease in sales cost of Tianjin Capital New Materials Company Limited with a decrease in its revenue.
7. It is mainly due to the increase in staff cost of Tianjin Capital Environmental Water Company Limited and Tianjin Kaiying Technology Development Company Limited during the reporting period.
8. It is mainly due to the increase in consultation business cost and technological R&D cost of Tianjin Kaiying Technology Development Company Limited during the reporting period.

**(2) Information on major suppliers**

In 2014, purchases from the top five suppliers amounted to RMB206.70 million, representing 19% of the total purchases for the year.

**4. Fees**

During the reporting period, the Group's administrative expenses decreased slightly as compared to last year.

## 5. Research and development expenses

### (1) Research and development expenses

Unit: 0'000 Currency: RMB

Expensed research and development expenses for the period	547.70
Capitalized research and development expenses for the period	127.02
Total research and development expenses	674.72
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

### (2) Explanation

In 2014, the Group continued to focus on its technological R&D based on the market demand for sewage water treatment and sludge treatment, and its self-developed R&D results in relation to sewage water treatment plants, such as carbon source in situ extraction and enhanced sewage denitrification process and sludge anaerobic digestion process, ammonia nitrogen removal technology of municipal wastewater with biological bacteria and heavy metal rapid detection equipment, met the conditions to enter into the market and were highly competitive, while the Group further expanded its sewage water treatment plant all-process deodorization business and industrial water treatment business.



## 6. Cash flow

Unit: 0'000 Currency: RMB

Item	2014	2013	Increase/ decrease	Percentage change (%)	Details of changes
Net cash flow from investing activities	-32,949	-16,492	-16,457	-99.79	The Company received RMB300 million as compensation payment for the relocation and construction of Jizhuangzi Sewage Treatment Water Plant and Recycled Water Plant for the period, as compared to RMB550 million for the same period last year, and the project investment expenses increased for the period.
Net increase in cash flow	-18,009	-198	-17,811	-8,995.45	This was mainly due to the effect of investing activities.

## 7. Miscellaneous

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

There were no material changes in the business structure or profit source of the Group 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 2014, the development strategy implemented by the Group mainly covered the following three aspects. In respect of businesses, the Group further promoted transformation and upgrading of the business structure to comprehensively transform from traditional water business to diversified environmental service business in accordance with the State's policies. Not only did the Group continue to promote the expansion of all-process deodorization business, but also it made significant progress on the energy station business sector which mainly comprises geothermal pump system. In addition, the Company actively expanded into the industrial waste water and sludge treatment and utilization business. In respect of technologies, the Group adhered to the technology guided development strategy and continuously promoted the research and development of proprietary technologies and their industrial applications, including basically laying a foundation for the marketing of research achievements such as heavy metal detection, on-site extraction technology for sludge carbon source and biological agents. The Group also further improved the R&D and reserves of relevant processes and technologies in view of the sewage discharge standards of urban sewage water treatment plants. In respect of management, the Group focused on strengthening cost control by enhancing operational cost control through the reform of production setups and centralized procurement, and enhancing management cost control through informationalization process monitoring, thus improving the management efficiency.

The Company organized production and operation activities in accordance with the development strategy and operation plan formulated by the Board in early 2014. 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.

## (II) ANALYSIS OF THE INDUSTRY 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 (%)
Sewage water treatment and sewage water treatment plant construction business	130,080	72,962	43.91	3.35	-3.80	Increased by 4.19 percentage points
Recycled water supply and pipeline connection	16,473	12,966	21.29	-0.09	11.02	Decreased by 7.88 percentage points
Toll collection business	6,703	712	89.38	Unchanged	Unchanged	Unchanged
Tap water supply business	6,152	4,961	19.36	68.67 (note 1)	84.61 (note 1)	Decreased by 6.96 percentage points
Cooling and heating supply business	6,757	4,042	40.18	-5.14	-3.68	Decreased by 0.9 percentage point
Others	948	2,287	-141.24	-42.24 (note 2)	12.15	Decreased by 117.06 percentage points

#### Explanation of principal businesses by industry:

Note 1: During the reporting period, the increase in income from tap water business was mainly due to the fact that Qujing Capital Water Company Limited's income from and cost for tap water business included water resource fees since January 2014. All of the Group's income from tap water business for the period was derived from Qujing Capital Water Company Limited, and Anguo Capital Water Company Limited recognized no income due to arbitration.

Note 2: During the reporting period, other income was mainly derived from sales of goods by Tianjin Kaiying Technology Development Company Limited. Other income for the same period last year was mainly derived from sales of pipeline by Tianjin Capital New Materials Company Limited. The decrease in income in the current period was due to unstable market demand.

## 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 (%)
Tianjin	113,650	-0.44
Qijing	9,976	39.42 (note 1)
Guizhou	2,827	11.46
Fuyang	6,742	39.25 (note 2)
Baoying	2,044	0.00
Hangzhou	16,365	4.70
Wendeng	2,779	0.39
Xi'an	8,189	4.08
Anguo	846	8.43
Wuhan	3,631	4.21
Hong Kong	65	-68.10 (note 3)

### Explanation of changes:

Note 1: The increase in Qijing's income was mainly due to the fact that Qijing Capital Water Company Limited's income from tap water business included water resource fees and the unit price increased since January 2014.

Note 2: Fuyang Capital Water Company Limited secured new recycled water usage projects and an upward adjustment to prices of recycled water of Yingdong Water Plant during the reporting period.

Note 3: Income from system integration services provided by Tianjin Capital Environmental Protection (Hong Kong) Company Limited decreased during the reporting period.

### (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 the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of the previous period (%)	Explanation
Bills receivables	0	0.00	630	0.06	-100.00	The decrease in amount as at the end of the period was because subsidiaries have collected bills receivables.
Inventories	1,439	0.13	5,804	0.52	-75.21	The decrease in amount as at the end of the period was due to the settlement in full of BT construction projects of Tianjin Zichuang Engineering Investment Company Limited during the reporting period.
Other current assets	6,225	0.57	654	0.06	851.83	The increase in balance as at the end of the period was due to the transfer of relevant assets of Anguo Capital Water Company Limited to "other current assets" for accounting, in accordance with the interlocutory judgment of "Judgement in respect of the termination of the relevant agreements for Anguo Capital Water Company Limited's tap water supply and sewage water projects, and completion of transfer before July 2014" made by China International Economic and Trade Arbitration Commission in respect of Anguo projects on 18 April 2014.

Items	Amount as at the end of the current period	Percentage of	Amount as at the end of the previous period	Percentage of	Percentage change in amount as at the end of the current period as compared to the end of the previous period (%)	Explanation
		the amount as at the end of the current period to the total assets (%)		the amount as at the end of the previous period to the total assets (%)		
Fixed assets	48,853	4.50	308,812	27.89	-84.18	This was mainly due to the fact that four sewage water plants in Tianjin commenced to conduct licensed operation from 1 January 2014 and relevant assets were transferred to intangible assets for accounting. Therefore, balance of fixed assets decreased and balance of intangible assets increased as at the end of the period.
Intangible assets	632,196	58.22	307,483	27.77	105.60	For the same reason as above.
Construction in progress	413	0.04	115,208	10.40	-99.64	This was mainly due to the fact that Jingu Sewage Water Plant and Recycled Water Plant were put into operation as well as the provision for amortisation of their fixed assets.
Short-term borrowings	5,000	0.46	—	0.00	N/A	This was due to the new short-term borrowings raised by the Company.
Trade payables	5,432	0.50	2,110	0.19	157.44	This was mainly due to operating costs and material costs, etc. payable to water plants.
Dividends payable	6,034	0.56	3,657	0.33	65.00	This was mainly due to the provision of dividend payable for 2013.
Non-current liabilities due within one year	30,422	2.80	87,811	7.93	-65.36	This was mainly due to a decrease in long-term borrowings due within one year.

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 the previous period	Percentage of the amount as at the end of the previous period to the total assets (%)	Percentage change in amount as at the end of the current period as compared to the end of the previous period (%)	Explanation
Deferred revenue	120,920	11.13	39,645	3.58	205.01	This was mainly due to the fact that Jingu Sewage Water Plant and Recycled Water Plant were put into operation as well as the carry-forward of the net relocation and construction compensation payment to “deferred revenue” from “other non-current liabilities” for accounting.
Other non-current liabilities	5,373	0.49	136,952	12.37	-96.08	For the same reason as above.

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

There were no material 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 continuous R&D capabilities, 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 a professional operation and management team and the best operation and management practical experience in the water treatment industry, and possesses sound corporate governance structure, prudent risk control systems and the ability to respond to emergencies. During the reporting period, the Company not only solidified its competitive strengths in the sewage water treatment business, but also continuously strengthened the R&D activities in environmental protection technologies and further improved its competitiveness in the new energy business sector.

## **(V) ANALYSIS OF THE INVESTMENT**

### **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 RMB19.60 million in cash. After such capital increase, the registered capital of Fuyang Capital Water Company Limited is RMB107.10 million. The Company increased the registered capital of Wendeng Capital Water Company Limited, a wholly-owned subsidiary, by RMB9.4 million in cash. After such capital increase, the registered capital of Wendeng Capital Water Company Limited is RMB61.40 million. The Company increased the registered capital of Xi'an Capital Water Company Limited, a wholly-owned subsidiary, by RMB64.00 million in cash. After such capital increase, the registered capital of Xi'an Capital Water Company Limited is RMB334.00 million.

For details of these three 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**

The Company did not have any trust arrangement, entrusted loans, other wealth management and derivative investments during the reporting period.

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

#### ***(1) Overall use of proceeds from fund-raising***

Not applicable

#### ***(2) Utilisation of the proceeds in the committed projects***

Not applicable

#### ***(3) Utilisation of the proceeds in the altered projects***

Not applicable



#### 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%	124,279	18,945	3,652 (note 1)
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%	20,938	14,554	759

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 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%	469	175	-159
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%	10,718	6,590	269

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
Qijing Capital Water Company Limited	Qijing, Yunnan	Centralized water supply (limited to branch operation); development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities; research, development and promotion of environmental protection technology ; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	17,898	Limited company	86.55%	40,139	21,528	1,721
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.	10,710	Limited company	100%	32,901	17,071	2,085

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
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%	68,666	35,410	2,140
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%	4,791	4,644	-340
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.	6,140	Limited company	100%	16,813	7,939	352

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 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%	3,939	1,177	14
Xi'an 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.	33,400	Limited company	100%	60,111	29,167	-167

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%	2,419	1,207	400

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%	6,077	1,106	-1,477
Wuhan Tianchuang Environmental Protection Company Limited	Wuhan, Hubei	Investment and development, construction, operation, management and consultancy services of municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities and water recycling facilities; production, supply and sales of equipment and materials relating to water and environmental protection; research, development and promotion of environmental protection technology.	10,324	Limited company	100%	26,103	10,983	-248

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 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%	927	870	-68
Tianjin Zichuang Engineering Investment Company Limited	Jinghai, Tianjin	Investment in engineering projects.	2,340	Limited company	100%	2,744	2,462	8



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 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%	2,426	-360	-1,921
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%	39,992	10,098	1,616

Note 1: Tianjin Water Recycling Company Limited recorded operating income of RMB166.05 million, operating profit of RMB44.66 million and net profit of RMB36.52 million in 2014.

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

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, and personal creditworthiness assessment), enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation.

## 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	140,291	The main works have been completed and the plant has commenced operation.	28,704.23	108,371.23	The plant recorded revenue of RMB76,847,600 during the reporting period

### 4.2. Discussion and analysis on the Company's future development by the Board

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

The central economic work conference held in 2014 pointed out that the fact that environment carrying capacity has reached or was near its upper limit is one of the nine characteristics of the “new norms”. The new Environmental Protection Law has been officially implemented in 2015. Recently, the PRC National Development and Reform Commission, the Ministry of Finance and MOHURD jointly released the “Notice on Relevant Issues Concerning the Determination and Adjustment of the Charging Rates for Sewage Water Treatment (關於制定和調整污水處理收費標準等有關問題的通知)”, which requires the reasonable determination of and adjustment to charging rates. The afore-said policy changes will further promote the creation of ecological civilization in the PRC and drive the development of sewage water treatment industry and extended industries. Meanwhile, the reform and innovation of the investment and financing regime against the background of new norms and the risk control over high leverage and bubbilization will lead to higher requirements for the investment and financing capabilities of environmental protection companies. In addition, the general trend that the competition landscape of the environmental protection industry gradually transforms from fragmentation to centralization remains unchanged and the change in cross-sector competition is notable. Therefore, opportunities and challenges co-exist in the future development of the industry. For enterprises, requirements for comprehensive competitiveness including technology research and development, operational services, investment and financing, market network, industry integration and brand value will certainly be higher and higher.

## **(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 its strategic positioning as a provider of integrated water and environment solutions, in order to achieve the triple-winner situation among enterprise, society and staff. The Company will continue to promote the implementation of the “innovation-driven transformation and development strategy”. The strategy implementation highlights for 2015 include the following three aspects. The first one is technical innovation. The Company intends to develop research results with proprietary intellectual property rights through continuous R&D activities in environment technologies, which will support the Company to extend toward industry chains with higher added values and expand into new business sectors and build up environment services capability with special environment technologies and products. The second one is business innovation. The Company intends to focus on the upgrading and reconstruction of urban sewage water treatment plants to consolidate its water business, and propel the business structure transformation by actively expanding into new businesses such as treatment and utilization of industrial sewage and sludge, new energy and environment restoration. The last one is management innovation. The Company will continue to promote operational cost reduction, management cost control and financing cost optimization, and improve the corporate efficiency. The Company will also actively conduct strategic research, and plan business model innovation and development path innovation on the pre-condition of risk prevention and control, so as to adapt to the new industry development trend under the “new norms”.

## **(III) Operation plan and strategies**

1. In 2015, the Group’s sewage water treatment volume is expected to be 955.28 million cubic meters (excluding the volume from entrusted operation projects), production volume of tap water is expected to be 37.89 million cubic metres and sales volume of recycled water is expected to be 18.3 million cubic metres. The capital expenditure of the Group is expected to be RMB688 million, which will be mainly used for the upgrading projects of sewage water treatment plants of its subsidiaries, and construction of newly successfully bidding energy station projects. In 2015, the Company will implement the following operation strategies:
  - (1) To expand its water business scale: With a focus on the upgrading of its existing projects, the Company will consolidate the business scale of investment operation projects, attach great importance to quality projects and stock up for projects. The Company will actively expand the entrusted operation projects on sewage water treatment, to achieve the aim of increase by 10% as compared to the previous year.

- (2) To endeavor to expand the sale scale of recycled water: Taking advantage of the recycled water industry policies in Tianjin and the favorable opportunities to enhance the construction of pipelines network, the Company will actively participate in the construction of recycled water pipelines network, in order to expand the sale scale of recycled water and enhance the capacity utilization in the future.
- (3) To expand the scale of heating and cooling supply business: The Company will closely pay attention to the market dynamics of the Tianjin region, strengthen its efforts on project development, capture market shares and stock up for projects, to achieve a substantial increase in the scale of heating and cooling supply business.
- (4) To continue to expand the industrial scale of the technical research and development achievements: The Company will shorten the time-to-market of the products in order to realize science leading development.
- (5) To continue to strengthen its efforts on technical consultation of water business industry chain, production and sales of chemicals, and construction and management services.
- (6) To foster the sludge treatment business: The Company will actively explore the development path and business model of sludge treatment industrialization to foster sludge treatment business through sludge entrusted operation projects and construction and management projects.

Under the guidance of the above operation strategies, the Company will focus on the following work based on safe and quality operation in 2015:

- (1) The Company will continue to stringently control the cost and expenses of each business to enhance its revenue.
- (2) The Company will strive to market expansion of each business.
- (3) The Company will complete the adjustment to service price of Tianjin Jingu Sewage Water Treatment Plant.
- (4) The Company will complete a capital increase of Tianjin Kaiying Technology Development Company Limited, expand the market for carbon source on-site extraction technology, biological bacterium bioaugmentation in sewage water technology, production and sales of fast detection of heavy metal in the sewage water treatment plants, to achieve the growth of revenue generated from Tianjin Kaiying Technology Development Company Limited.

- (5) The Company will complete the work of registering new companies for power station projects and accelerate preliminary work of Heiniucheng Road No. 1 and 2 Power Stations and Houtai No.2 Power Station and conduct project construction as planned.
- (6) The Company will complete capital increase and construction of each subsidiary as planned based on the project upgrading requirements of each subsidiary.

2. Income, expense and cost plans:

In 2015, assuming no material changes in the State's 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 10% as compared to 2014.

Cost control target:

In 2015, resource and energy expenses and labour costs will continue to increase, and the new environmental law will impose tougher provisions on the industry and the operation cost of each water plant will increase. Assuming no material changes in the existing State's 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 15% in 2015 as compared to 2014. 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 2015, the Group will invest no less than RMB2.51 million in technology research, development and reforms, and will continue to conduct research and development on the new technical processes and application technology in the areas of sewage water treatment and sludge treatment etc..

**(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 2015, the Group plans to invest RMB688 million in engineering projects, which are mainly the expenses for the upgrading of sewage water treatment plants of some subsidiaries. In 2015, the amount for fixed asset purchase plan of the Group will be approximately RMB5.56 million.

In 2015, funding demand of relevant projects will be obtained through existing channels of the Group and financed by the outstanding sewage water treatment service fees due in the prior years. The Company will improve the debt structure and raise capital for development through direct financing methods, and enhance capital cooperation in joint projects through timely introduction of strategic investors and financial investors.

## (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 future development, the Company will attach greater importance to risks in respect of new business development while actively maintaining the licensed operation agreements for existing projects.
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.

As at 31 December 2014, 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 2013: RMB4 million) in the net profit of the Group. As at 31 December 2014, a 5% appreciation or depreciation of RMB against Yen, with other factors being constant, would result in an increase or decrease of approximately RMB7 million (2013: RMB8 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 2014, 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 RMB15 million (2013: RMB18 million).

#### **4.3 The Board's proposal on the profit appropriation or transfer of capital reserve fund to share capital**

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2014 amounted to RMB308.17 million. After deduction of the statutory common reserve of RMB21.81 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 RMB1,793.70 million at the beginning of the year, and less the distribution in 2014 of the 2013 cash dividend of RMB114.18 million, the actual profit distributable to the shareholders for the year amounted to RMB1,965.88 million. According to the profit appropriation policy of the Company, it will be proposed that a cash dividend for 2014 of RMB0.7 (gross tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB99.906 million, representing 32.42% of the available-for-distribution profit attributable to the Company realized in 2014. No transfer from the capital reserve fund to share capital was made for 2014. The appropriation proposal shall be submitted to the 2014 annual general meeting of the Company for consideration and shall be implemented after approval.

Pursuant to the Corporate Income Tax Law of the PRC and its implementing regulations, which came into force on 1 January 2008, and other relevant rules, the Company is required to withhold corporate income tax at the rate of 10% before distributing the dividend to non-resident enterprise (as defined in the Corporate Income Tax Law of the PRC) shareholders whose names appear on the H share register of members of the Company. Any H shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders, thus, the Company will distribute the dividend to such non-individual shareholders after withholding the 10% corporate income tax. The 10% corporate income tax will not be withheld from the dividend payable to any natural person shareholders whose names appear on the H share register of members of the Company.

Any natural person investor whose H shares are registered under the name of any such non-individual shareholders and who does not wish to have any corporate income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her name and duly lodge all transfer documents with the relevant H share certificates with the Company's H share registrar for registration. All investors should consider the above contents carefully. The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment the 10% corporate income tax; and the dividend will only be payable to the shareholders whose names appear on the H share register of members of the Company. The Company assumes no responsibility or liability whatsoever for confirming the identity of the shareholders of the Company and for any claims arising from any delay in or inaccurate determination of the identity of shareholders of the Company or any disputes over the withholding mechanism.

## § 5 FINANCIAL ACCOUNTING REPORT

### 5.1 Financial information extracted from the consolidated financial statements of the Group prepared in accordance with Hong Kong Financial Reporting Standards

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(All amounts in Rmb thousand unless otherwise stated)

		For the year ended 31 December	
	Note	2014	2013
Revenue	2(a)	1,671,132	1,614,678
Business tax expense and surcharge		(16,219)	(15,474)
Cost of sales	3	(1,003,207)	(990,286)
<b>Gross profit</b>		651,706	608,918
Administrative expenses	3	(103,415)	(108,784)
Other income	2(b)	51,469	48,373
Other gains– net		22,404	18,829
<b>Operating profit</b>		622,164	567,336
Finance income		46,607	86,121
Finance costs		(234,233)	(263,934)
Finance costs-net	4	(187,626)	(177,813)
Share of loss of an associate		(1,274)	(2,007)
<b>Profit before income tax</b>		433,264	387,516
Income tax expense	5	(115,552)	(99,159)
<b>Profit/total comprehensive income for the year</b>		317,712	288,357
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		308,168	281,899
Non-controlling interests		9,544	6,458
		317,712	288,357
<b>Earnings per share for profit attributable to the owners of the Company (in Rmb Yuan)</b>			
– basic	6	0.22	0.20
– diluted	6	0.22	0.20
<b>Proposed final dividends</b>	7	99,906	114,178



**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2014**

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

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2014</b>	<b>2013</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		492,661	4,240,202
Intangible assets		6,306,097	2,648,476
Land use rights		15,866	426,349
Investment properties		104,936	108,609
Investment in an associate		31,347	32,621
Available-for-sale financial assets		2,000	2,000
Long-term receivables		326,147	333,607
Other non-current assets		8,461	7,250
		<u>7,287,515</u>	<u>7,799,114</u>
<b>Current assets</b>			
Inventories		14,392	58,035
Trade receivables	8	2,563,114	2,085,386
Prepayments		106,412	115,655
Other receivables		5,707	6,772
Other current assets		62,250	6,540
Restricted Cash		5,200	7,267
Cash and cash equivalents		814,892	994,982
		<u>3,571,967</u>	<u>3,274,637</u>
<b>Total assets</b>		<u><u>10,859,482</u></u>	<u><u>11,073,751</u></u>

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2014</b>	<b>2013</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		1,427,228	1,427,228
Other reserves		777,374	755,567
Retained earnings		1,965,882	1,793,699
– Proposed final dividend		99,906	114,178
– Others		1,865,976	1,679,521
		<u>4,170,484</u>	<u>3,976,494</u>
<b>Non-controlling interests</b>		<u>167,496</u>	<u>158,050</u>
<b>Total equity</b>		<u>4,337,980</u>	<u>4,134,544</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		3,223,722	2,910,758
Deferred revenue		1,209,201	396,447
Deferred income tax liabilities		86,778	68,977
Other non-current liabilities		46,000	1,348,000
		<u>4,565,701</u>	<u>4,724,182</u>
<b>Current liabilities</b>			
Trade payables	9	54,319	21,099
Advances from customers		776,190	701,654
Wages payables		13,650	11,122
Taxes payable		26,400	25,591
Dividend payable		60,337	36,566
Other payables		666,433	537,600
Borrowings		358,472	881,393
		<u>1,955,801</u>	<u>2,215,025</u>
<b>Total liabilities</b>		<u>6,521,502</u>	<u>6,939,207</u>
<b>Total equity and liabilities</b>		<u>10,859,482</u>	<u>11,073,751</u>
<b>Net current assets</b>		<u>1,616,166</u>	<u>1,059,612</u>
<b>Total assets less current liabilities</b>		<u>8,903,681</u>	<u>8,858,726</u>

## Notes to the condensed consolidated financial statement

(All amounts in thousand unless otherwise stated)

### 1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) The following new standards and amendments to standards which are relevant to the Group and are mandatory for the first time for the financial year beginning 1 January 2014 but have no material impact on the Group:

- Amendment to HKAS 32 ‘Financial instruments: Presentation’ on asset and liability offsetting
- Amendments to HKFRS 10, 12 and HKAS 27 ‘Consolidation for investment entities’
- Amendment to HKAS 36, ‘Impairment of assets’ on recoverable amount disclosures
- Amendment to HKAS 39 ‘Financial Instruments: Recognition and Measurement’ - ‘Novation of derivatives’
- HKFRIC 21 ‘Levies’
- Annual improvements 2012– Amendment to HKFRS 2, ‘Share-based payment’, HKFRS 3, ‘Business combinations’ and consequential amendments to HKFRS 9, ‘Financial instruments’, HKAS 37, ‘Provisions, contingent liabilities and contingent assets’, and HKAS 39, ‘Financial instruments – Recognition and measurement’

(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 2014, and have not been applied in preparing this consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to HKAS 19 regarding defined benefit plans: employee contributions<sup>1</sup>
- Annual improvements 2012– Amendment to HKFRS 8, ‘Operating segments’, IAS 16, ‘Property, plant and equipment’ and IAS 38, ‘Intangible assets’ and IAS 24, ‘Related Party Disclosures’<sup>1</sup>
- Annual improvement 2013 – Amendment to HKFRS 3, ‘Business combinations’, HKFRS 13, ‘Fair value measurement’ and HKAS 40, ‘Investment property’<sup>1</sup>
- HKFRS 14 ‘Regulatory Deferral Accounts’<sup>2</sup>
- Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operations<sup>2</sup>

- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation<sup>2</sup>
- Amendments to HKAS 16 and HKAS 41 on Agriculture: bearer plants<sup>2</sup>
- Amendments to HKFRS 10 and HKAS 28 on sale or contribution of assets between an investor and its associate or joint venture<sup>2</sup>
- Amendment to HKAS 27 on equity method in separate financial statements<sup>2</sup>
- Annual improvements 2014<sup>2</sup>
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 on investment entities: applying the consolidation exception<sup>2</sup>
- HKFRS15 ‘Revenue from Contracts with Customers’<sup>3</sup>
- HKFRS 9 ‘Financial Instruments’<sup>4</sup>

<sup>1.</sup> Changes effective for annual periods beginning on or after 1 July 2014

<sup>2.</sup> Changes effective for annual periods beginning on or after 1 January 2016

<sup>3.</sup> Changes effective for annual periods beginning on or after 1 July 2017

<sup>4.</sup> Changes effective for annual periods beginning on or after 1 January 2018

The Group is in the process of assessing the impact of these new standards, interpretations and amendments. None of these is expected to have a significant effect on the results and financial position of the Group.

## 2 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

	<b>2014</b>	<b>2013</b>
Revenue	1,671,132	1,614,678
Other income	51,469	48,373
	<u>1,722,601</u>	<u>1,663,051</u>

(b) Analysis of other income

	<b>2014</b>		<b>2013</b>	
	<b>Income</b>	<b>Cost</b>	<b>Income</b>	<b>Cost</b>
Contract operation service	113,402	(86,091)	99,985	(70,323)
Technical service	25,786	(7,819)	19,596	(3,320)
Rental	10,624	(5,179)	8,178	(5,219)
Other	7,135	(6,389)	6,401	(6,925)
	<u>156,947</u>	<u>(105,478)</u>	<u>134,160</u>	<u>(85,787)</u>

(c) Operating segment analysis

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

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

Other services include contract operation services, lease of office building or apartments and other services. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column.

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

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2014 and 2013 respectively is as follows:

(i) For the year ended 31 December 2014

	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	796,351	163,650	340,800	164,734	67,570	61,515	127,981	1,722,601
Segment expense	(545,711)	(138,521)	(295,833)	(137,354)	(45,919)	(59,286)	(65,439)	(1,288,063)
Results before share of profits of an associate	250,640	25,129	44,967	27,380	21,651	2,229	62,542	434,538
Share of loss of an associate								(1,274)
Profit before tax								433,264
Income tax expense								(115,552)
Profit for the year								<u>317,712</u>
Segment assets	5,774,822	677,996	2,057,979	1,284,451	398,570	25,372	608,945	10,828,135
Investment in an associate	—	—	—	—	—	—	31,347	31,347
Total assets	5,774,822	677,996	2,057,979	1,284,451	398,570	25,372	640,292	10,859,482
Total liabilities	3,868,171	276,649	756,348	1,072,181	244,937	64,036	239,180	6,521,502
Other information								
– Interest income (Note 4)	2,372	464	1,924	2,351	121	18	11,410	18,660
– Interest expenses (Note 4)	(146,979)	(20,792)	(43,432)	(434)	(8,167)	(7,463)	(1,855)	(229,122)
– Depreciation	(380)	(2,701)	(22,529)	(52,309)	(387)	(1,806)	(6,809)	(86,921)
– Amortization	(118,154)	(36,249)	(66,384)	(545)	(13,336)	(9,827)	(2,799)	(247,294)
– Capital expenditures	<u>365,582</u>	<u>844</u>	<u>218,885</u>	<u>119,437</u>	<u>15,934</u>	<u>—</u>	<u>4,475</u>	<u>725,157</u>

(ii) 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 of an associate								(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	—	—	—	—	—	—	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 (Note 4)	3,592	419	1,430	2,249	94	12	11,535	19,331
– Interest expenses (Note 4)	(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	<u>622,497</u>	<u>85</u>	<u>34,649</u>	<u>68,102</u>	<u>364</u>	<u>2,412</u>	<u>9,297</u>	<u>737,406</u>

(iii) Revenue of approximate RMB789 million is derived from Tianjin Water Authority Bureau ('TWAB') under the newly signed agreement to grant service concession rights. In 2013, revenue RMB775 million was derived from Tianjin Sewage Company ('TSC') under sewage water processing agreements.

These revenues are attributable to the Sewage processing and facility construction services segment.

### 3 Expense by nature

Expenses included in cost of sales and administrative expenses are analysed as follows:

	<b>2014</b>	<b>2013</b>
Amortisation of intangible assets and land use rights	247,294	136,998
Utilities	214,036	211,594
Employee benefit expense	183,379	177,211
Depreciation of property, plant and equipment and investment properties	86,921	201,024
Repair and maintenance expenses	82,369	69,469
Raw materials and consumables used	43,828	45,952
Sewage mud processing fee	42,295	50,664
Cost of recycling water pipeline connection service	35,358	48,766
Construction cost of sewage water plants	28,557	26,290
Impairment of intangible assets (note(a))	23,910	11,324
Factory environment, detection and fire prevention fee	20,842	17,880
Network maintenance fee	19,252	12,098
Other taxes	11,320	10,614
Travel, meeting and business entertainment expenses	9,471	13,493
Toll road management fee	7,120	7,120
Consulting service fee	4,476	2,503
Office allowance	4,305	5,004
Auditors' remuneration	4,200	4,200
Expenses of board of directors	3,642	3,175
Allowance for impairment of trade receivables (Note 8)	—	7,169
Others	34,047	36,522
	<u>1,106,622</u>	<u>1,099,070</u>

- (a) A provision of RMB7 million was made in respect of the intangible assets of Anguo Capital Water Co., Ltd. and a provision of RMB17 million was made in respect of the intangible assets of Tianjin Jinning Capital Water Co., Ltd.



#### 4 Finance costs- net

	2014	2013
Interest expenses of borrowings	229,122	259,295
Less:Capitalised interest	—	—
Net interest expenses	229,122	259,295
Less: Interest income	(18,660)	(19,331)
– long-term receivables	(11,343)	(11,480)
– bank deposits	(7,317)	(7,851)
Exchange gains(note(a))	(27,947)	(66,790)
Others	5,111	4,639
	<u>187,626</u>	<u>177,813</u>

(a) Exchange gains of the long-term payables denominated in JPY and USD were about RMB28 million (31 December 2013: about RMB67 million).

#### 5 Income tax expense

	2014	2013
Current income tax	97,751	90,827
Deferred income tax	17,801	8,332
	<u>115,552</u>	<u>99,159</u>

#### 6 Earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the Company of Rmb308 million (2013: Rmb282 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2013: 1,427 million shares).

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

	2014	2013
Profit attributable to owners of the Company	<u>308,168</u>	<u>281,899</u>
Weighted average number of ordinary shares in issue (million shares)	<u>1,427</u>	<u>1,427</u>
Basic and diluted earnings per share (Rmb Yuan)	<u>0.22</u>	<u>0.20</u>

## 7 Dividends

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, was approved at the Annual General Meeting on 5 June 2014.

A dividend in respect of the year ended 31 December 2014 of Rmb0.07(gross including tax) per share, amounting to a total dividend of Rmb100 million, is to be approved at the annual general meeting. These financial statements do not reflect this dividend payable.

## 8 Trade receivables

	<b>Group</b>	
	<b>As at 31 December</b>	
	<b>2014</b>	<b>2013</b>
Due from TSC for: (note (b))		
– Sewage processing service	1,890,671	1,890,671
– Construction of sewage processing plants	422	—
	<u>1,891,093</u>	<u>1,890,671</u>
Due from TWAB for:		
– Sewage processing service	436,751	—
Less: Non-current portion	—	—
	<u>2,327,844</u>	<u>1,890,671</u>
Receivables from related parties	40,186	48,753
Due from others - Current	<u>202,253</u>	<u>153,131</u>
	2,570,283	2,092,555
Less: allowance for impairment of trade(note(c)):	<u>(7,169)</u>	<u>(7,169)</u>
	<u><u>2,563,114</u></u>	<u><u>2,085,386</u></u>

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

	<b>Group</b>	
	<b>2014</b>	<b>2013</b>
Within 1 year	649,382	954,931
1 to 2 years	786,811	798,902
2 to 3 years	795,627	338,722
Over 3 years	338,463	—
	<u>2,570,283</u>	<u>2,092,555</u>
Total	<u><u>2,570,283</u></u>	<u><u>2,092,555</u></u>

- (b) TSC has a good credit record in history, the outstanding trade receivables from TSC is collected on a continuous basis.

In March 2015, the Group received a repayment plan of Rmb1.89 billion from TSC. According to the repayment plan, TSC will settle Rmb500 million on 6 March 2015, and the remaining balances on 30 April 2015 and 15 June 2015 respectively. The first settlement was received by the Group on 6 March 2015. Management believes that TSC has capability to repay the outstanding amounts according to the repayment plan and there is no bad debt risk on the Group's account receivables as at 31 December 2014.

- (c) Movements on the Group's allowance for impairment of trade receivables are as follows:

	2014	2013
At 1 January	(7,169)	—
Provision for receivables impairment	<u>—</u>	<u>(7,169)</u>
At 31 December	<u><u>(7,169)</u></u>	<u><u>(7,169)</u></u>

On 31 December 2014, the total amount of trade receivables due from Qujing City Water General Company in respect of sewage processing fee and tap water fee was RMB77 million, among which RMB16 million was aged over 2 years. According to the repayment plan drawn up by Qujing government on 30 September 2014, impairment provision of RMB7 million was provided.

## 9 Trade payables

As at 31 December 2014, the majority of trade payables are aged within one year.

### 5.2 Significant differences between financial information reported under Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC (the “PRC Accounting Standards for Business Enterprises”)

There is no difference between the consolidated net profit and consolidated net assets prepared under HKFRSs and the PRC Accounting Standards for Business Enterprises.

## § 6 SALE AND PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

## **§ 7 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 Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

## **§ 8 MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS**

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

## **§ 9 PUBLIC FLOAT**

As at the date of this announcement, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

## **§ 10 PRE-EMPTIVE RIGHTS**

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

## **§ 11 AUDIT COMMITTEE**

On 31 July 2001, the Board approved the establishment of the audit committee (the “**Audit Committee**”) to review and supervise the financial reporting procedures and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2014 with the Directors.

## § 12 REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in this preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

By Order of the Board

**Liu Yujun**

*Chairman*

Tianjin, the PRC

26 March 2015

*As at the date of this announcement, the Board of Directors comprises four executive Directors: Mr. Liu Yujun, Mr. Lin Wenbo, Ms. Fu Yana and Ms. Cao Shuo; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Ms. Lee Kit Ying, Karen, Mr. Gao Zongze and Mr. Guan Yimin.*