

Annual Report 2015



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 contains no false information, misleading statements or material omissions, and accept joint and several responsibilities 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. Liu Yujun, the officer in charge of the Company, Ms. Peng Yilin, the officer in charge of the accounting function, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2015 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 2015 amounted to RMB330.54 million. After deduction of the statutory common reserve of RMB19.31 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 RMB1,965.88 million at the beginning of the year, and less the distribution in 2015 of the 2014 cash dividend of RMB99.91 million, the actual profit distributable to the shareholders for the year amounted to RMB2,177.20 million. According to the profit appropriation policy of the Company, it will be proposed that a cash dividend for 2015 of RMB0.70 (gross tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB99.9060 million, representing 30.23% of the available-for-distribution profit attributable to the Company realized in 2015. No transfer from the capital reserve fund to share capital was made for 2015. The appropriation proposal shall be submitted to the 2015 annual general meeting of the Company for consideration and shall be implemented after approval.

- V. Risk statements for the forward-looking statements:

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

VIII. 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 “Management Discussion and Analysis” for the potential risks that the Company may face.

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
“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
“TM Resources”	Tianjin Metro Resources Investment Company Limited
“Tianjin Ziya Investment”	Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited
“Water Recycling Company”	Tianjin Water Recycling Company Limited
“Guizhou Company”	Guizhou Capital Water Company Limited
“Capital Materials Company”	Tianjin Capital New Materials Company Limited
“Baoying Company”	Baoying Capital Water Company Limited
“Qujing Company”	Qujing Capital Water Company Limited
“Fuyang Company”	Fuyang Capital Water Company Limited
“Hangzhou Company”	Hangzhou Tianchuang Water Company Limited

1. Definitions

“Hong Kong Company”	Tianjin Capital Environmental Protection (Hong Kong) Company Limited
“Wendeng Company”	Wendeng Capital Water Company Limited
“Jing Hai Company”	Tianjin Jing Hai Capital Water Company Limited
“Xi’an Company”	Xi’an Capital Water Company Limited
“Kaiying Company”	Tianjin Kaiying Technology Development Company Limited
“Anguo Company”	Anguo Capital Water Company Limited
“Wuhan Company”	Wuhan Tianchuang Environmental Protection Company Limited
“Capital Environmental Company”	Tianjin Capital Environmental Water Company Limited
“Zichuang Company”	Tianjin Zichuang Engineering Investment Company Limited
“Jinning Capital Environmental Company”	Tianjin Jinning Capital Environmental Water Company Limited
“Jiayuan Tianchuang”	Tianjin Jiayuan Tianchuang New Energy Technology Company Limited
“Jiayuan Shengchuang”	Tianjin Jiayuan Shengchuang New Energy Technology Company Limited
“Huade Shunli”	Huade Shunli (Tianjin) Investment Company Limited
“Tianjin Dikang”	Tianjin Dikang Golf Sports Company Limited
“Committee of Xibeixie Village”	The committee of Xibeixie village, Zhongbei town, Xiqing district, Tianjin
“Junfeng Property”	Tianjin Junfeng Property Company Limited
“Jiasheng Company”	Tianjin Jiasheng Labour Services Company Limited
“Tianjin Infrastructure Consultant”	Tianjin Investment Group Infrastructure Management and Consultant Company Limited

Special Note: financial figures in this annual report, unless otherwise noted, are denominated in RMB.

2. Company Profile and Major Financial Indicators

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. Liu Yujun

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	Niu Bo	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	niu_bo@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	http://www.tjcep.com
Email address	tjcep@tjcep.com

2. Company Profile and Major Financial Indicators

IV. PLACES WHERE THE COMPANY INFORMATION IS DISCLOSED AND AVAILABLE FOR INSPECTION

Name of the media 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 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	Stock short name	Stock code	Stock short name 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. 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	Du Kai 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	Kwong On Cheng

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PREVIOUS THREE YEARS

(i) Major accounting data

	<i>Unit: 0'000 Currency: RMB</i>			
	2015	2014	Increase/decrease for the period as compared to the same period last year (%)	2013
Operating income	193,420.6	182,807.9	5.81	174,986.1
Net profit attributable to the shareholders of the Company	33,053.7	30,816.8	7.26	28,189.9
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	29,723.7	29,128.3	2.04	26,848.9
Net cash flow from operating activities	231,067.9	60,936.9	279.19	57,147.3
	As at the end of 2015	As at the end of 2014	Increase/decrease as at the end of the period as compared to the end of the same period last year (%)	As at the end of 2013
Net assets attributable to the shareholders of the Company	440,111.5	417,048.4	5.53	397,649.4
Total assets	1,004,930.2	1,085,948.2	-7.46	1,107,375.1
Total share capital as at the end of the period	142,722.8	142,722.8	0.00	142,722.8

2. Company Profile and Major Financial Indicators

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PREVIOUS THREE YEARS

(Continued)

(ii) Major financial indicators

Currency: RMB

	2015	2014	Increase/decrease for the period as compared to the same period last year (%)	2013
Basic earnings per share (RMB/share)	0.23	0.22	4.55	0.20
Diluted earnings per share (RMB/share)	0.23	0.22	4.55	0.20
Basic earnings per share after deduction of extraordinary items (RMB/share)	0.21	0.20	5.00	0.19
Weighted average return on net assets ratio (%)	7.73	7.57	Increased by 0.16 percentage point	7.27
Weighted average return on net assets ratio after deduction of extraordinary items (%)	6.95	7.15	Decreased by 0.20 percentage point	6.92

VIII. 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.

IX. MAJOR FINANCIAL DATA BY QUARTER FOR THE YEAR 2015

	<i>Unit: 0'000 Currency: RMB</i>			
	The First Quarter (January to March)	The Second Quarter (April to June)	The Third Quarter (July to September)	The Fourth Quarter (October to December)
Operating Income	44,915.7	50,882.2	53,238.0	44,384.7
Net profit attributable to the shareholders of the Company	7,118.3	11,025.2	14,537.7	372.5
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	7,046.4	10,950.2	14,479.4	-2,752.3
Net cash flow from operating activities	49,856.5	145,413.2	19,653.8	16,144.4
Differences between data by quarter and data disclosed in periodical reports				
Not applicable				

X. EXTRAORDINARY PROFIT AND LOSS ITEMS AND AMOUNTS

	<i>Unit: 0'000 Currency: RMB</i>		
	Amount in 2015	Amount in 2014	Amount in 2013
Profit/loss from disposal of non-current assets	0.4	-181.2	-485
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	4,113.7	2,316.9	2,291
Other non-operating income and expenses except for the above items	407.4	104.7	77
Effect on non-controlling interests	-61.1	8.2	-71
Income tax effect	-1,130.4	-560.1	-471
Total	<u>3,330.0</u>	<u>1,688.5</u>	<u>1,341</u>

2. Company Profile and Major Financial Indicators

XI. PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS

Results

Unit: 0'000 Currency: RMB

	For the year ended 31st December				
	2015	2014	2013	2012	2011
Turnover	<u>175,367</u>	<u>167,113</u>	<u>161,468</u>	<u>154,117</u>	<u>149,315</u>
Profit before taxation	<u>49,018</u>	<u>43,326</u>	<u>38,752</u>	<u>37,280</u>	<u>37,603</u>
Taxation	<u>(14,570)</u>	<u>(11,555)</u>	<u>(9,916)</u>	<u>(9,825)</u>	<u>(9,615)</u>
Profit after taxation	34,448	31,771	28,836	27,455	27,988
Non-controlling interests	<u>(1,394)</u>	<u>(954)</u>	<u>(646)</u>	<u>(557)</u>	<u>(409)</u>
Profit attributable to the shareholders of the Company	<u>33,054</u>	<u>30,817</u>	<u>28,190</u>	<u>26,898</u>	<u>27,579</u>
Dividend	<u>9,991</u>	<u>9,991</u>	<u>11,418</u>	<u>8,563</u>	<u>5,709</u>

Note: The results for each of the five years ended 31 December 2015 have been extracted from the previous annual reports and the audited consolidated income statements as set out in this annual report.

XI. PREPARED IN ACCORDANCE WITH THE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Assets and Liabilities

Unit: 0'000 Currency: RMB

	As at 31st December				
	2015	2014	2013	2012	2011
Fixed assets	57,114	61,346	477,516	429,068	383,231
Intangible assets	624,475	630,610	264,848	275,369	280,304
Associated company	2,600	3,135	3,262	3,463	4,067
Available-for-sale financial assets	200	200	200	400	400
Long-term receivables	31,946	32,615	33,361	33,763	33,845
Trade receivables due after one year	—	—	—	6,879	6,879
Other non-current assets	805	846	725	851	863
Net current assets	<u>28,637</u>	<u>161,617</u>	<u>105,961</u>	<u>69,578</u>	<u>8,936</u>
	745,777	890,369	885,873	819,371	718,525
Non-controlling interests	21,764	16,750	15,805	15,244	14,737
Long-term liabilities	<u>283,901</u>	<u>456,570</u>	<u>472,418</u>	<u>426,104</u>	<u>346,954</u>
Net assets	<u><u>440,112</u></u>	<u><u>417,048</u></u>	<u><u>397,650</u></u>	<u><u>378,023</u></u>	<u><u>356,834</u></u>

3. Company Business Overview

I. EXPLANATION OF PRINCIPAL BUSINESS OF THE COMPANY, ITS OPERATION MODE AND CONDITIONS OF THE INDUSTRY DURING THE REPORTING PERIOD

(i) Principal Business of the Company and its Operation Mode

During the reporting period, there was no significant change in the principal business of the Company. The principal business remains to be water utilities business and new energy cooling and heating supply business. Water utilities business includes sewage treatment and the relevant technological research and development and achievements transformation thereof, the production, sales and pipe network connection of recycled water (Reclaimed water) and the supply of tap water business.

1. Water Utilities Business

(1) Sewage Water Treatment and the Relevant Technological Research and Development and Achievements Transformation

The major operating mode of sewage treatment business is a licensed operation model of investment, construction and operation. Licensed operation agreements and agreements on sewage treatment services were entered into with competent authorities of the government for a general term of 20 to 30 years. Our sewage treatment business anchored in the area of Tianjin, covering 11 cities in northern China, central China, the Southwest, eastern China and the Northwest. The operation of the sewage treatment projects and the business expansion thereof are undertaken by the Company and its 11 subsidiaries respectively.

(2) Production, Sales and Pipe Network Connection for Recycled Water

The production, sales and pipe network connection for recycled water of the Company mainly locates in the area of Tianjin. The operation of production and sales works through the integration of production, supply and sales and then charges in accordance with the guidance price set by the government for the sale of recycled water; while the operating mode of pipe network connection works by undertaking of pipe network connection projects for recycled water in accordance with relevant regulations of the government.

(3) Supply of Tap Water

Our current tap water supply business locates mainly in Qujing, Yunnan, where there are three tap water plants, with a total scale of 200,000 cubic meters per day. Currently, it is operating by Qujing Company under licensed operation.

3. Company Business Overview

2. *New energy cooling and heating supply business*

The new energy cooling and heating supply business is mainly located in the area of Tianjin. The business model is a licensed operation model of investment, construction and operation. Licensed operation agreements and the cooling and heating supply contracts were entered into with the competent authorities of the government and the users within our service area respectively, and the service fees for the cooling and heating supply are charged according to the above agreements. The term for licensed operation is usually 25-30 years.

(ii) **Explanation of the Conditions of the Industry**

(1) *Integrated environmental services have become the mainstream market demand*

Since the 12th Five-Year Plan, the PRC has promoted the development of the environmental protection service industry through a series of policies. The “Guidance Opinions on the Development of Environmental Protection Service Industry”, issued in 2011, encouraged the development of the integrated environmental service industry which offers systematic solutions, and has actively explored the model of new environmental services, including the contractual environmental services. Under the guidance of the policies, environmental protection companies are required to provide local governments with result-oriented integrated environmental services. Integrated environmental service providers will gradually become the mainstream of the development trend in the environmental service industry. The Company will focus on improving the industrial chain with dimensional service capabilities, including water supply, sewage treatment, industrial wastewater treatment, sludge disposal, garbage disposal, recycled water and environmental remediation; The Company will enhance its integrated environmental services capabilities, carrying out integrated environmental services in the fields of environmental consulting, technology research and development, engineering design, general engineering contracting, environmental infrastructure investment, construction, and operation, etc.

3. Company Business Overview

(2) *PPP model has become the mainstream business model*

The Implementation of the “Notice on the Issues Concerning the Promotion of Partnership in using Public and Private Capitals” issued by the PRC Ministry of Finance on 23 September 2014, the “Guidance Opinions on the Investment and Financing Mechanisms for Innovations in Key Areas to Encourage Social Capital” issued by PRC State Council, and the “Implementation Opinions on the Promotion of Partnership in using Public and Private Capitals on Water Pollution Prevention and Treatment” issued by both the PRC Ministry of Environmental Protection and the PRC Ministry of Finance on 9 April 2015, has fully reflected the country’s support on the promotion of PPP model in the environmental protection projects. During the reporting period, the Company reconstructed the market development system through organization restructuring, forming a layout for market development in 11 provinces and cities across the country. The Company also actively participated in the competition of PPP projects throughout the country, using the group market development model of “regional business driven by spot bases”.

(3) *An increasingly competitive market*

Under the background of the above-mentioned environmental protection policies of the PRC, stronger environmental protection enterprises within the country actively participate in competing for the environmental protection projects, and develop rapidly leveraging on their technology and capital strength through models including mergers and acquisitions, making the market competition increasingly fierce. The Company will take full advantage of its own competitive strengths to actively participate in the market competition.

II. EXPLANATION OF THE SIGNIFICANT CHANGES IN THE COMPANY'S MAJOR ASSETS DURING THE REPORTING PERIOD

During the reporting period, there were no significant changes in the Company's main assets.

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The Group's core competitiveness is mainly reflected in the following four aspects: (1) safe, stable, up to standard and efficient operation capabilities; (2) practical, leading, flexible and sustainable research and development capabilities; (3) professional, dedicated, cooperative and innovative staff team; (4) trustworthy, responsible, standardized and healthy corporate reputation. These four aspects of core competitiveness complement one another. Corporate integrity, diligent employees and technology innovation ultimately enable customers to be assured, thereby establishing the Company's favourable brand influence in environmental protection.

After years of operating practices, the Company has accumulated a lot of management experience in operating water utilities and new energy cooling and heating projects, and has trained many outstanding technical and management personnel, which guaranteed well the safe and stable operation of different projects; In the aspect of market development, after several years of cultivation, the Company has established a group market development system covering 11 provinces and cities nationwide, with regionalized marketing support teams; In the aspect of technology research and development, the Company has established a market-oriented research and development system, and obtained 38 patents arising from its own independent researches in aspects including sewage, sludge, deodorant and bacteria biological agents; For talent development, based on the project requirement features on stable operation, and the accumulations in these years regarding market development and technology research and development, the Company's employees and management team demonstrate their professionalism, diligence, integrity, and willingness to take up responsibilities, which serve as an important support for the Company's future development.

4. Management discussion and analysis

I. MANAGEMENT DISCUSSION AND ANALYSIS

In 2015, under the leadership of the Board, the Company's management followed the Group's 2015 major strategies and operation plan:- on the basis of ensuring safe, stable, up to standard and efficient operation of the existing projects in water utilities and new energy cooling and heating supply, vigorously promoted market development to increase market share and project reserves; increased efforts in technology research and development and market development for transforming scientific and technological achievements, to add new profit growth points; adjusted the organizational structure to further improve the management efficiency and provide guarantee for successful implementation of strategic plans within the Company. In particular:

1. To continue steady progress of water utilities business operation: During the reporting period, the subsidiaries of the Company in Guiyang, Hangzhou, Xi'an, etc., saw smooth progress including the upgrade of their sewage treatment facilities and the corresponding adjustment of service fees. This ensured the continuing revenue from the sewage treatment projects of the Company. The Company successfully recovered the receivables concerning the four sewage treatment plants in Tianjin area before the signing of licensed operation agreements, totaling RMB 1,890 million and repaid part of the bank loans. This has improved the Company's liabilities position and supported the healthy development of the Company.
2. To continue the increasing efforts in the transformation of achievements in technology research and development: During the continuous revenue growth from deodorant business, efforts in promoting the technology development in industrial sewage, the construction of high voltage sludge carbon source technology demonstration projects and the marketing of products such as biological agents will be made to provide new profit growth points for the Company in the future.
3. To vigorously promote market development: For sewage treatment business, the Company was awarded the sewage treatment PPP project in Jieshou city of the Anhui Province, and signed a third party environmental management agreement with Linyi city and Yishui county of the Shandong province respectively. For new energy cooling and heating supply business, the Company was awarded the licensed operation project of energy station 2 in Houtai scenic area of Tianjin. In March 2016, the Company was awarded the licensed operation project of energy station in Binhai New District Cultural Center (the first phase) in Tianjin. Currently, the Company has successfully commenced the above projects.
4. To further strengthen the Company's management: During the reporting period, in order to highlight the role and function of the Group's market development, project construction, operation and management and research and development in technology, the Company adjusted the organizational structure, changing from the original division-by-business system to a direct functional system. After the organizational restructuring, the integration of overall resources of the Group will be facilitated and this will further enhance the management efficiency.

II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

1. Analysis on the overall results of operations during the reporting period

In 2015, the Group recorded an operating revenue of RMB 1,934.21 million, representing an increase of 5.81% as compared to that of 2014. While the operating revenue increased, the operating costs increased by 10.8% or RMB 117.17 million from the corresponding period last year. The increase in operating revenue was mainly attributed to the increase in revenue from sewage treatment business, pipe network connection for recycled water business and the business in transformation of achievements in technology research. The increase in operating costs was mainly attributed to the higher handling cost of sewage due to the increase in the handling volume, and the higher cost of business in transformation of achievements in technology research incurring from the increase in revenue.

Business tax and surcharges increased by RMB 17.07 million or 105.24% when compared with that in last year. This was mainly attributed to the payment of value-added tax and surcharges.

During the reporting period, based on the consideration of prudence, the Group made a loss provision of RMB 10.98 million for the Anguo Company's assets in the urban water supply and sewage treatment project and a loss provision of RMB18.28 million for the Jinning Chuanghuan's assets subject to licensed operation.

To sum up, during the reporting period, the Group generated a net profit (net profit attributable to shareholders of the Company) of RMB 330.54 million, increased by 7.26% or RMB 22.37 million when compared to that of 2014.

2. Analysis of the principal business

(1) Sewage treatment business

As at the end of the reporting period, the scale of sewage handled by the Group under licensed operation was 3.08 million cubic meters per day, which was basically the same as compared with that at the beginning of the reporting period; the operating scale under entrustment was about 0.79 million cubic meters per day, which has increased slightly from that at the beginning of the reporting period. During the reporting period, the Group handled sewage in a total of 1,280.05 million cubic meters, representing a 9% increase from that of 2014. This was mainly attributed to the increase in scale and capacity of Jingu Sewage Treatment Plant after the relocation of Jizhuangzi Sewage Treatment Plant in Tianjin region, as well as the increase in sewage treatment capacity by some of the subsidiaries. The revenue from sewage treatment totaled RMB 1,398.29 million, representing a 1.83% increase from that of 2014. The growth rate being less than that of sewage treatment capacity is mainly because of the payment of value-added tax starting from 1 July 2015 by the Group for its sewage treatment business in accordance with the provisions in the "Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive

4. Management discussion and analysis

Utilization of Resources” issued by the State Administration of Taxation of the PRC Ministry of Finance (the “Cai Shui [2015] No.78”), which regarded all unit price for the existing service fees to be tax inclusive. As a result, the Group’s revenue incurred from the sewage treatment business was reduced by approximately RMB 107 million.

During the reporting period, the sewage handled by the Group under licensed operation totaled 1,053.32 million cubic meters, generating a revenue of RMB 1,289.27 million.

During the reporting period, the sewage handled under entrustment by the Group totaled 226.73 million cubic meters, generating a revenue of RMB 109.02 million.

(2) *Recycled water business*

During the reporting period, there was no change in the scale of recycled water supply. The sales volume of recycled water was 18.46 million cubic meters, representing a 9.6% decrease from that of 2014. This was mainly because of the significant decrease in water consumption by the thermal power plants, whom are the main consumers of the recycled water plants located in Dongjiao and Xianyang Road. Revenue from the recycled water business totaled RMB 46.50 million, representing a 16.5% fall from that of 2014. This was partly because of the decrease in sales volume and partly because of the provisions in Cai Shui [2015] No. 78, which requires payment of value-added tax for the recycled water business starting from 1 July 2015. As a result, the revenue was reduced by approximately RMB 4.18 million.

During the reporting period, the Group realised an increase in revenue from the pipe network connection for recycled water business, which amounted to RMB138.90 million, representing an increase of 27.38% from that of 2014. This was mainly due to the increase in settlement amount of pipe network connection business during the reporting period.

(3) *Cooling and heating supply business*

During the reporting period, revenue from the Company’s cooling and heating supply business was still generated by the energy station project in Tianjin Cultural Center. Other projects have not been completed. The cooling and heating supply business generated a revenue of RMB 69.79 million, which is 3.29% higher than that of 2014.

(4) *Tap water business*

During the reporting period, there was no change in the scale of tap water supply. The sales volume of tap water totaled 39.25 million cubic meters, representing a 2.8% increase from that of 2014. The revenue amounted to RMB 63.71 million, which is 3.57% higher than that of 2014.

(5) *Transformation of achievements in technology research*

During the reporting period, the Group's Kaiying Company continued to vigorously promote the transformation of achievements in technology research business including the patented whole-process deodorization of sewage plants. A total revenue of RMB 46.73 million was generated, representing a 65.94% or RMB 18.57 million increase from that of 2014.

(6) *Toll collection business*

The toll collection business has followed the spirit as laid down in JinZhengBan [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", promulgated on 19 May 2010, and realised revenue of the toll collection business based on the amount agreed in the "Entrusted Toll Collection Agreement". The revenue level continued to remain stable. During the reporting period, the revenue from toll collection business amounted to RMB 67.03 million, which was in line with that of 2014.

(I) ANALYSIS OF PRINCIPAL BUSINESSES

Analysis on changes in profit statement and cash flow statement

Unit: 0,000 Currency: RMB

Item	Amount		
	Amount for the current period	for the same period last year	Percentage change (%)
Operating revenue	193,420.6	182,807.9	5.81
Operating costs	120,194.4	108,477.5	10.80
Sales expenses	316.6	0.0	—
Administrative expenses	10,536.6	10,341.5	1.89
Financial expenses	18,285.5	18,762.6	-2.54
Non-operating revenue (Note 1)	15,447.9	80,087.6	-80.71
Non-operating costs (Note 2)	3,494.5	77,847.2	-95.51
Net cash flow from operating activities	231,067.9	60,936.9	279.19
Net cash flow from investing activities	-49,285.5	-32,949.2	-49.58
Net cash flow from financing activities	-130,414.1	-45,996.7	-183.53
Research and development expenses (Note 3)	281.5	674.7	-58.28

4. Management discussion and analysis

Note 1: The amount for the same period last year was mainly attributed to the relocation compensation of Jizhuangzi Sewage Treatment Plant, while there was no such compensation but mainly refund in value-added tax during the current period.

Note 2: The amount for the same period last year was mainly attributed to loss due to the relocation of Jizhuangzi Sewage Treatment Plant and recycled water plant, while the amount of the current period mainly included the expenses after relocation.

Note 3: There were less production-related experiments and research projects during the current period.

1. Analysis of income and costs

During the reporting period, the main source of operating revenue of the Group remained to be sewage treatment, sales of recycled water and pipe network connection, cooling and heating supply business and tap water business. For analysis of income and costs of the above businesses, please refer to the “Operation Situation of Principal Business during the Reporting Period”.

The operating revenue from the top five customers of the Group amounted to RMB 1,221 million, accounting for 63% of the Group’s total operating revenue. The procurement from the top five suppliers of the Group amounted to RMB 209 million, accounting for 17% of the total procurement amount for the year.

(1) Major business breakdown by industry, product and region

Unit: 0,000 Currency: RMB

By industry	Major Business by Industry					
	Operating revenue	Operating costs	Gross profit margin (%)	Increase/decrease in operating revenue as compared to last year (%)	Increase/decrease in operating costs as compared to last year (%)	Increase/decrease in gross profit margin as compared to last year (%)
Sewage treatment and construction of sewage treatment plants business	129,202	78,417	39.31	1.03	8.88	Decreased by 4.38 percentage points
Pipe network connection and supply of recycled water business	18,540	12,693	31.54	12.55	-2.11	Increased by 10.25 percentage points
Toll collection business	6,703	712	89.38	0.00	0.00	Increased by 0.00 percentage points
Tap water supply business	6,371	4,472	29.81	3.57	-9.86	Increased by 10.45 percentage points
Heating and cooling supply	6,979	4,257	39.00	3.29	5.32	Decreased by 1.18 percentage points
Transformation of technology research achievements (Note 1)	4,673	4,272	8.58	65.94	48.85	Increased by 10.50 percentage points
Others (Note 2)	2,899	3,305	-14.00	792.00	820.61	Decreased by 3.54 percentage points

4. Management discussion and analysis

Unit: 0,000 Currency: RMB

Major business by region

By region	Operating revenue	Operating costs	Gross margin (%)	Increase/ decrease in	Increase/ decrease in	Increase or decrease in gross profit margin as compared to last year (%)
				operating revenue as compared to last year (%)	operating costs as compared to last year (%)	
Tianjin	120,437	71,093	40.97	5.97	17.68	Decreased by 5.87 percentage points
Qijing	9,696	6,536	32.59	-2.81	1.21	Decreased by 2.67 percentage points
Hangzhou	16,383	10,029	38.78	0.11	-7.70	Increased by 5.18 percentage points
Xi'an	9,460	7,408	21.69	15.52	9.07	Increased by 4.63 percentage points
Others	19,391	13,062	32.64	2.41	-2.55	Increased by 3.43 percentage points

Note 1: Following the increased efforts in market development, the business revenue and costs have both dramatically grown in the business of transforming achievements in technology research.

Note 2: Others mainly include the sale of building materials business. During the reporting period, the revenue significantly increased due to increase in sales volume.

(2) Analysis of production and sales volume

Not applicable

(3) Cost analysis

Unit: 0,000 Currency: RMB

		By industry					
					Percentage of		Percentage
					total costs for		change in the
					the same		amount for
					period		the current
					last year		period as
					last year (%)		compared to
					last year (%)		the same
					last year (%)		period
Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage of total costs for the same period last year (%)	Explanation
Sewage treatment	Labor	10,410	9.63	8,733	8.92	19.20	
	Energy consumption (electricity)	20,934	19.36	18,645	19.04	12.28	
	Materials consumption	4,689	4.34	4,755	4.86	-1.39	
	Repair and maintenance	9,095	8.41	8,469	8.65	7.39	
	Sludge disposal	5,486	5.07	4,149	4.24	32.22	Note 1
	Depreciation and amortization	24,252	22.43	23,464	23.96	3.36	
	Other manufacturing costs	3,341	3.09	2,798	2.86	19.41	
	Subtotal	78,207	72.33	71,013	72.51	10.13	
Construction of sewage treatment plant	Construction cost	210	0.19	1,007	1.03	-79.15	Note 2
	Subtotal	210	0.19	1,007	1.03	-79.15	

4. Management discussion and analysis

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in 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	Labor	658	0.61	753	0.77	-12.62	
	Energy consumption (Electricity)	391	0.36	588	0.60	-33.50	Note 3
	Materials consumption	96	0.09	87	0.09	10.34	
	Repair and maintenance	32	0.03	47	0.05	-31.91	Note 4
	Depreciation and amortization	806	0.75	1,030	1.05	-21.75	
	Expenses incurred for water source	2,381	2.20	2,316	2.36	2.81	
	Other manufacturing costs	108	0.10	140	0.14	-22.86	
	Subtotal	4,472	4.14	4,961	5.07	-9.86	
Recycled water	Labor	1,331	1.23	1,157	1.18	15.04	
	Energy consumption (Electricity)	818	0.76	851	0.87	-3.88	
	Materials consumption	677	0.63	716	0.73	-5.45	
	Repair and maintenance	1,388	1.28	1,221	1.25	13.68	
	Depreciation and amortization	3,820	3.53	5,120	5.23	-25.39	
	Other manufacturing costs	365	0.34	366	0.37	-0.27	
	Subtotal	8,399	7.77	9,431	9.63	-10.94	

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in 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 (%)	
Pipe network connection for recycled water	Construction cost	4,294	3.97	3,535	3.61	21.47	
	Subtotal	4,294	3.97	3,535	3.61	21.47	
Cooling and heating supply	Labor	544	0.50	481	0.49	13.03	
	Energy consumption (electricity)	1,749	1.62	1,641	1.68	6.55	
	Materials consumption	59	0.05	72	0.07	-18.32	
	Repair and maintenance	165	0.15	172	0.18	-3.88	
	Depreciation and amortization	1,412	1.31	1,348	1.38	4.73	
	Municipal heat-supply network fee	161	0.15	190	0.19	-15.12	
	Other manufacturing costs	167	0.15	138	0.14	21.14	
	Subtotal	4,257	3.94	4,042	4.13	5.32	
Toll Collection	Charging management fees	712	0.66	712	0.73	0	
	Subtotal	712	0.66	712	0.73	0	

4. Management discussion and analysis

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in 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 (%)	
Transformation of achievements in technology research	Labor	822	0.76	869	0.89	-5.41	
	Payments for materials and facilities	2,588	2.39	1,237	1.26	109.24	Note 5
	Other manufacturing costs	862	0.80	764	0.78	12.78	
	Subtotal	4,272	3.95	2,870	2.93	48.85	
Others	Product sale	2,749	2.54	230	0.23	1,095.22	Note 6
	Other manufacturing costs	556	0.51	129	0.13	331.01	Note 7
	Subtotal	3,304	3.06	359	0.37	820.61	
Total		108,128	100	97,930	100	10.41	

Note 1: Sludge output and sludge disposal fee increased with respect to the increase in the volume of sewage treated.

Note 2: Due to the completion of some construction projects, the expenses decreased with revenue.

Note 3: Anguo tap water project was transferred in 2014, the operating costs of tap water business in 2015 was therefore reduced.

Note 4: Due to the two maintenance works for Qujing Tap Water Plant in 2014, the maintenance expenses for that year increased.

Note 5: The material cost increased as the revenue from the business of transformation of achievements in technology research increased due to the promotion in market development.

Note 6: The sales expenses of building materials increased along with the growth in revenue.

Note 7: This was mainly because the costs for consulting and research and development in technology have increased.

2. Expenses

During the reporting period, the administrative expenses of the Group increased slightly when compared to that of 2014, at a rate of 1.89%;

During the reporting period, the Group recovered the receivables of sewage treatment service fee amounting to RMB 1,890 million and repaid part of the bank loans in advance, reducing the interest expenses. However, due to the effect arising from Renminbi depreciation, the money denominated in US Dollars and Japanese Yen for foreign asset acquisition has suffered exchange loss, which had been presented as exchange earnings for the same period last year. Owing to the effects of the above situations, the financial expenses reduced by 2.54% during the reporting period as compared to that of 2014.

3. Research and development investment

(1) Research and development investment

Unit: 0,000 Currency: RMB

Expensing research and development investment during the period	254.46
Capitalized research and development investment during the period	27.08
Total research and development investment	281.54
Percentage of total research and development investment on operating revenue (%)	0.15
Number of research and development personnel in the Company	66
Percentage of number of research and development personnel over the total number of personnel of the Company (%)	4.44
Ratio of capitalized research and development investment (%)	9.62

(2) Explanation

During the reporting period, the main direction for research and development of the Group was developing the new technical process and applicable technologies in fields such as sewage and sludge treatment. The Group has completed the research and development plan set for the year 2015.

4. Management discussion and analysis

4. Cash flow

Unit: 0,000 Currency: RMB

Item	2015	2014	Increase/ Decrease	Percentage Change (%)	Remarks of changes
Net cash flow from operating activities	231,068	60,937	170,131	279.19	During the period, the Company recovered sewage treatment service fee of RMB 1,890 million owed by the Sewerage Company for 2014 or before, causing an increase of cash inflow.
Net cash flow from investment activities	-49,286	-32,949	-16,337	-49.58	For the same period last year, the Company has received the land expropriation compensation of RMB 300 million for the relocation project of Jizhuangzi Sewage Treatment Plant.
Net cash flow from financing activities	-130,414	-45,997	-84,417	-183.53	The borrowing balance during the period was lower than that of last year, and the payment amount is higher than that of last year, causing an increase of net cash outflow.
Net increase in cash flow	51,368	-18,009	69,377	385.24	Accumulated result of the above three cash activities.

(II) MAJOR CHANGES IN PROFITS CAUSED BY NON-PRINCIPAL BUSINESSES

Not applicable

(III) ANALYSIS OF ASSETS AND LIABILITIES

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 previous period (%)	Explanation
Monetary capital	134,988	13.43	82,009	7.55	64.60	The Company received the sewage treatment service fee of RMB 1,890 million owed by the Sewerage Company for 2014 before, giving rise to a significant increase in the year-end balance for the monetary capital.
Bills receivable	109	0.01	—	—	—	New bills receivable by subsidiaries increased, leading to the increase in amount at the end of the current period.
Accounts receivable	123,835	12.32	256,311	23.60	-51.69	The Company received the sewage treatment service fee of RMB 1,890 million owed by the Sewerage Company for 2014 before, giving rise to a sharp decrease of year-end balance for accounts receivable.
Advance payment	13,973	1.39	10,641	0.98	31.31	It was mainly the project fund paid in advance for the upgrading project of sewage treatment plants of subsidiaries of the Company.
Other receivables	7,453	0.74	571	0.05	1,205.25	This is mainly because of the refund of value-added tax newly introduced to the Company due to Cai Shui 2015 No. [78].
Short-term borrowing	—	—	5,000	0.46	-100.00	The Company repaid the short-term loan due.
Accounts payable	8,260	0.82	5,432	0.50	52.06	It was mainly paid for the source of tap water project and the deodorization equipment materials for Kaiying Company.
Payroll payable	2,181	0.22	1,365	0.13	59.78	It was mainly due to the outstanding salary payment for 2015.

4. Management discussion and analysis

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 previous period (%)	Explanation
Tax payable	9,639	0.96	2,640	0.24	265.11	The increase in closing balance was mainly due to the provisions in Cai Shui 2015 No. [78], the value-added tax payable for the sewage treatment and recycled water business of the Company increased.
Dividends payable	3,243	0.32	6,034	0.56	-46.25	The decrease in the closing balance was due to the payment of 2014 dividends to shareholders.
Other payables	47,581	4.73	66,643	6.14	-28.60	It was mainly the project fund and equipment fees paid by the Company for construction projects.
Non-current liabilities due within one year	100,382	9.99	30,422	2.8	229.97	It was mainly due to the inclusion of mid-term notes due within a year.
Long-term loan	57,419	5.71	156,457	14.41	-63.30	The Company repaid part of the long-term loans in advance, causing a sharp decrease of the year-end balance.
Bonds payable	69,493	6.92	138,898	12.79	-49.97	It was mainly due to the transfer of mid-term notes due within one year to non-current liabilities due within one year.
Minority shareholder's interest	21,764	2.17	16,750	1.54	29.93	It was mainly due to the increase in net profit in non wholly-owned subsidiaries, the minority shareholder's interest increases accordingly.

(IV) INDUSTRY ANALYSIS

(1) Water utilities industry

As for sewage treatment business, according to the “Action Plan for Water Pollution Prevention” promulgated by the PRC State Council in 2015 and other relevant regulations, the discharge standards for sewage treatment plants in cities and towns have been marked up, and the enforcement actions from environmental protection departments have been strengthened. The Company’s sewage treatment projects (except those in Tianjin) have started “upgrading and reconstruction”, and the four sewage treatment plants in Tianjin will soon begin “upgrading and reconstruction” too. In the future, as the PRC will highly emphasize the governance of environmental pollution in the rural area, the market for water treatment in rural area will expand step by step and will provide the Company with expansion potential for its sewage treatment business in the future.

As for recycled water business, on 21 February 2016, the PRC State Council promulgated the “Opinions on Further Strengthening the Urban Planning and Development Management”, which indicated that it would foster water utilities companies mainly engaging in recycled water business, and would reasonably form the price for the reuse of recycled water so as to encourage marketization of recycled water operations. By 2020, the utilization rate of recycled water will exceed 20% in cities with shortage in water. As the Company has accumulated a lot of experience regarding the operation and management of recycled water projects, it will provide the Company with expansion potential for its recycled water business in the future.

According to the relevant provisions in Cai Shui 2015 No.78, since July 2015, both the sewage treatment and recycled water business will be subjected to value-added tax, with a 70% immediate rebate. The sewage treatment business and the recycled water business of the Company, in the future, may face a situation where income will decrease while the tax burden will increase.

(2) New energy industry

Following the promulgation of national “Air Pollution Prevention and Control Action Plan” (the “**Ten Requirements Controlling Air Pollution**”), air pollution prevention and control has gained unprecedented attention. In order to reduce air pollution, Tianjin city advocated to replace traditional coal-fired boilers by natural gas or new energy. The new energy business will thus have huge room for development. With the opportunity of replacing coal with natural gas in various regions and encouraging the use of clean energy, the new energy industry will face greater demands and a more open market. The Company has four new energy cooling and heating supply projects in Tianjin, and has accumulated a lot of experience in operation and management regarding the new energy cooling and heating supply business. The above policy background will provide the Company with a huge expansion potential for its new energy cooling and heating supply business in the future.

4. Management discussion and analysis

(V) ANALYSIS OF INVESTMENT

1. Overall analysis of equity investment

In the past two years, the discharge standards for urban sewage treatment in various local governments have been tightened, all sewage treatment plants of the Company face the urge for upgrading and reconstruction. At the same time, the Company has actively worked on market development and was awarded the sewage treatment PPP project in Jieshou city, the project of energy station 1 and 2 in Tianjin Heiniuchengdao and the project of energy station 2 in Houtai scenic area of Tianjin. During the reporting period, the Company, based on the investment need for upgrading and reconstruction as well as for new projects, has injected capital for its subsidiaries including Guizhou Company, Hangzhou Company and Kaiying Company, and incorporated the wholly-owned subsidiaries including Jieshou City Tianchuang Water Utilities Co., Ltd., Jiayuan Tianchuang and Jiayuan Shengchuang. The total amount of equity investment mentioned above equals to RMB 220 million, representing an increase of RMB 127 million over that of last year.

(1) Major equity investment

- (1) During the reporting period, the Company, using its own financial resources, injected capital of RMB 19 million to its controlling subsidiary Guizhou Company for the upgrading and reconstruction of Xiaohe Sewage Treatment Plant. The project is invested and operated by Guizhou Company following the BOT model. The estimated total investment for this project is approximately RMB 57.8 million. Both sides of the shareholders are responsible for providing additional fund of RMB 20 million for Guizhou Company in accordance with their respective shareholding ratio (therefore, the other shareholder - TMICL injected RMB 1 million) to be used as project fund. The remaining investment amount will be solved with bank loans obtained by Guizhou Company. After the capital injection, the registered capital of Guizhou Company will increase to RMB 120 million, with the Company's shareholding ratio remains unchanged. Currently, the upgrading and reconstruction of Xiaohe Sewage Treatment Plant has been basically completed and completion settlement is underway.

- (2) During the reporting period, the Company, using its own financial resources, injected capital of RMB 84 million to its controlling subsidiary Hangzhou Company for the upgrading and reconstruction of Qige Sewage Treatment Plant (Phases I and II). The project is invested and operated by Hangzhou Company following the BOT model. The estimated total investment for this project is approximately RMB 400 million. Both sides of the shareholders are responsible for providing additional fund of RMB 120 million for Hangzhou Company in accordance with their respective shareholding ratio (therefore, the other shareholder - Hangzhou Water Holding Group Co., Ltd. injected RMB 36 million) to be used as project fund. The remaining investment amount will be solved with bank loans obtained by Hangzhou Company. After the capital injection, the registered capital of Hangzhou Company will increase to RMB 377.445 million, with the Company's shareholding ratio remains unchanged. Currently, the construction is underway; a new licensed operation agreement will be executed upon the completion of construction.
- (3) During the reporting period, the Company injected capital of RMB 15 million to its wholly-owned subsidiary, Kaiying Company, for the production and sales of new products, expansion in production capacity and supplementing the operating capital. After the capital injection, the registered capital of Kaiying Company will increase to RMB 20 million.
- (4) In September 2014, the Company was awarded the licensed operation project of energy station 1 and 2 in Tianjin Heiniuchengdao. The project, with total investment of approximately RMB 247 million, relates to the provision of heating and cooling supply service for users in the specified area during the licensed operation period and fees of heating and cooling supply will be charged. After the licensed operation period, the project will be handed over to an institution designated by the government. The licensed operation period is 30 years. During the reporting period, the Company, using its own capital of RMB 64 million, registered and incorporated its wholly-owned subsidiary, Jiayuan Tianchuang, which will invest, construct and operate the project. Currently, the project is under the construction process.
- (5) In January 2015, the Company was awarded the licensed operation project of energy station 2 in Houtai scenic area of Tianjin. The project, with total investment of RMB 117 million, relates to the provision of heating and cooling supply service for users in the specified area during the licensed operation period and fees of heating and cooling supply will be charged. After the licensed operation period, the project will be handed over to an institution designated by the government. The licensed operation period is 30 years. During the reporting period, the Company, using its own capital of RMB 33 million, registered and incorporated its wholly-owned subsidiary, Jiayuan Shengchuang, which will invest, construct and operate the project. Currently, the project is under pre-construction preparation.

4. Management discussion and analysis

(6) In September 2015, the Company was awarded the sewage treatment PPP project in Jieshou city. The project is under the operating model of inventory project entrusted operation + licensed operation for increment project. According to the tender documents, Fuyang Company, the wholly-owned subsidiary of the Company, registered and incorporated a project company with its own funds of RMB 5 million to operate the above inventory project. Currently, the entrusted operation is under normal condition.

(2) *Major non-equity investment*

The investment amount for the project of relocating Jizhuangzi Sewage Treatment Plant of the Company amounted to RMB 1,402.91 million. During the reporting period, RMB 195.04 million was invested and the accumulated investment amounted to RMB 1,278,752,300. The project has been put into operation and renamed as Jingu Sewage Treatment Plant. During the reporting period, the revenue of RMB 296.57 million was recorded.

Apart from the above equity investment for projects and the relocation project of Jizhuangzi Sewage Treatment Plant, the Company has no major non-equity investment during the reporting period.

(3) *Financial assets measured by fair value*

None

(VI) DISPOSAL OF MAJOR ASSETS AND EQUITY INTERESTS

None

(VII) ANALYSIS OF MAJOR SUBSIDIARIES AND COMPANIES IN WHICH THE COMPANY HAS INVESTED

1. Analysis of major subsidiary

Unit: 0,000 Currency: RMB
(Unless otherwise stated)

Company Name	Major Products or Services	Registered	Percentage	Total Assets	Net Assets	Net Profits
		Capital	of interest			
Water Recycling Company	Businesses of production and sales of recycled water as well as recycled water pipe network connection engineering	10,000	100%	135,969	22,876	3,931
Guizhou Company	Sewage treatment	12,000	95%	23,784	17,224	670
Baoying Company	Sewage treatment	5,300	70%	10,291	6,727	377
Quqing Company	Sewage treatment plant and tap water supply	17,898	86.55%	41,240	23,011	1,483
Fuyang Company	Sewage treatment	10,710	100%	32,566	18,577	2,210
Hangzhou Company	Sewage treatment	37,745	70%	81,513	51,138	3,737
Wendeng Company	Sewage treatment	6,140	100%	16,536	8,909	970
Xi'an Company	Sewage treatment	33,400	100%	67,648	30,464	1,298
Kaiying	Development, consultation, service and transfer of environmental technologies and products; manufacturing and processing of agents handling sewage and sludge; sewage treatment	2,000	100%	5,215	2,773	65
Anguo Company	Sewage treatment	4,100	100%	5,191	70	-1,037
Wuhan Company	Sewage treatment	10,324	100%	25,782	11,248	273
Jiayuan Xingchuang	Development, consultation, service and transfer of energy conservation and environment protection as well as new energy technologies; property management services	6,000	100%	37,661	11,815	1,717
Jiayuan Tianchuang	Development, consultation, service and transfer of energy conservation and environment protection as well as new energy technologies; property management services	6,400	100%	6,400	6,400	0
Jiayuan Shengchuang	Development, consultation, service and transfer of energy conservation and environment protection as well as new energy technologies; property management services	3,300	100%	3,300	3,300	0
Capital Materials Company	Manufacturing and sales of building materials, and products made of macromolecular materials and advanced composite materials	3,750	70.67%	390	60	-115
Jing Hai Company	Sewage treatment	1,200	100%	4,129	1,122	-55
Capital Environmental Company	Sewage treatment; production and sales of flocculants	1,000	100%	958	913	43
Zichuang Company	Investment in engineering projects	2,340	100%	2,795	2,464	2
Jinning Capital Environmental Company	Sewage treatment	1,500	100%	1,001	-2,491	-2,131
Hong Kong Company	Sewage treatment and its recycling	US7.84 million	100%	4,244	3,985	-621

4. Management discussion and analysis

Note 1: In 2015, the Water Recycling Company recorded operating revenue of RMB 186.7 million, operating profits of RMB 49.57 million and net profits of RMB 39.31 million.

Note 2: In 2015, the Hangzhou Company recorded operating revenue of RMB 165.98 million, operating profits of RMB 38.06 million and net profits of RMB 37.37 million.

2. Operation and performance of major companies in which the Company has invested

As at the end of the reporting period, the total investment amount invested by the Group in Tianjin Hangu North Talent Port Joint Stock Limited Company was RMB 2 million, accounting for 6.1% of its registered capital. Its main business scope includes: support business for top talents; service business for top talents (intermediary service for talent mobility, consultation service for financial guarantee and personal credit rating assessment); supporting project for enterprise talents; development and operation of achievements in technology projects; real estate development and operation business.

(VIII) STRUCTURED ENTITIES CONTROLLED BY THE COMPANY

None

III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

(I) Competitive landscape and development trend of the industry

(1) Development trend of the industry

Currently, the economic development of the PRC has entered into the new normality. The construction of ecological civilization has gained more and more attention from the country and local governments. The promulgation of Ten Requirements Controlling Air Pollution in 2014, the implementation of new "Environment Protection Law" in 2015 and the official release of "Action Plan for Water Pollution Prevention" indicate that environmental protection in the PRC will become an important part of "new normality" and step up onto a new stage. On one hand, it will facilitate the further expansion of the overall scale of the environmental protection industry. On the other hand, the rapid development in segments will also promote the further professionalisation of environmental protection services. Moreover, with higher environmental protection standards and stricter supervision, there will be a lot of market opportunities for upgrading and reconstruction. As environmental protection service is a kind of public service, viewing from the perspective of its investment and financing model, the PPP model will become a major mode of operation for projects.

(2) *Competitive landscape of the market*

The PRC policies regarding the environmental protection industry bring along opportunities as well as challenges. The whole industry is seeking for changes and innovations to compete for the earliest available opportunities. Under this circumstance, various kinds of capital enter the environmental protection market, making market competition increasingly fierce. On the other hand, leveraging on their technology and capital strength, many relatively strong enterprises in the water utilities market, solid waste market, etc., promote regional market integration, rapid growth in scale and rapid upgrading of business structure through models including mergers and acquisitions. Moreover, as the governments and residents become more demanding for the quality of environment, there are also higher requirements on the comprehensive environmental services ability of the environmental protection enterprises. The business model of providing integrated solutions of comprehensive environmental services for a certain region or city and the implementation thereof will become more mature. This will promote environmental protection enterprises to cultivate diversity in business capacity, expand industrial chain and adapt to the development trend of “large scale environmental protection”.

(3) *Trend of changes in industry position and regional market position*

Compared with the focus on internal restructuring in the past few years, the Company will face the future in a more proactive manner. The Company will strengthen the organization of market development to actively promote the expansion of businesses and strive to achieve the strategic target of being a comprehensive environmental service provider. As regards to the development in regional level, combining with the national “Belt and Road Initiative” and strategies in Beijing-Tianjin-Hebei Region, Yangtze River Economic Zone, etc., new market opportunities would be the main focus. For Tianjin region, based on undertaking the sewage treatment business of the central districts in Tianjin, the Company will continue to expand the municipal environmental protection business to the Binhai New Area and the surrounding counties. At the same time, combining with business development, the Company will actively seek for strategic cooperation, strengthen the relationship management with investors and explore innovative ways of financing.

4. Management discussion and analysis

(II) Development strategies of the Company

Combined with the new trend of national development of ecological civilization and the new features of development in the industry, to suit the new requirements for business development of the Company, the Company will continue to adhere 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 environmental solutions. In the future, the Company will focus on promoting the upgrade of overall capabilities to achieve the upgrading of the capabilities of a domestically-advanced service provider in capital operation, low-cost financing, agreement maintenance, cost control, market development, integrated environmental service, resource integration, strategic implementation and risk prevention and control.

1. Development mode

The Company will focus on creating the development model with “three linkages”.

(1) Integrated environmental service supported by the whole industrial chain

To create the integrated environmental service capability supported by a whole industrial chain, and to provide a platform for the promotion and application of new achievements in technology. Regarding the means to achieve this, apart from development through self-investments, the Company will also focus on studying enterprise acquisition, resource integration and development of strategic cooperation with other business partners to work hard on building up a new business ecosystem for integrated environmental services, complementing the shortfall in solid waste business and achieve a new round of scale expansion in the amount of water.

(2) Environmental-friendly and scientific research products and services

The Group will emphasise the promotion of environment protection research products and services, improving the control capability for different links in the high value-added industrial chain through scientific and technological research and development, and increasing the economic added value of environmental service. By comparing to the benchmarks of other similar kind of enterprises, there will be accurate assessment on the existing standards of the Company’s scientific and technological software and hardware, understanding on the position and identification of the differences. Regarding the means to achieve this, the Company will conduct individual research and development, cooperative development with universities or scientific research institutions, and acquisitions of professional technologies, etc. to build a little scientific and technological giant, to create a cooperative and open platform for research and development, and to store a number of research and development achievements with marketisation potential.

(3) Direct financing and capital operation

The Group will pay more attention to the capital operation to sort out the capital source for business and technological development. On one hand, it supports the expansion in business scale and the increase in market share. On the other hand, it fully improves the transformation ability of achievements in technology research and development. By fully utilizing the listed financing platform of the Company and integrating innovative financing modes such as environmental protection investment fund, mergers and acquisitions, financing lease and PPP, the growth in scale driven by capital could be achieved.

(III) Operating plans

1. *Progress of development strategy and operating plan of the Company during the reporting period is set out as follows:*

In 2015, the implementation of development strategy for the Group mainly included the following three aspects: First, technological innovation. Through continuous research and development of environmental protection technology, achievements in research and development with independent intellectual property rights were attained and this has supported the Company to extend to different links in the high value-added industrial chain and develop new business areas, and to create the output capacity in delivering environmental services based on featured environmental protection technologies and products. Second, business innovation. To focus on the upgrading and reconstruction of urban sewage treatment plants, strengthening water utilities businesses; actively expand new business areas such as the treatment and recycling of industrial sewage and sludge, new energies and environmental reinstatement, prompting the transformation of business structure. The last one is management innovation. To continue to promote the saving of operating costs, management cost control and the optimization of financing cost, thus improving the corporate efficiency. Also, strategic research will be carried out under the premise of risk prevention and control so as to contemplate and plan for innovations in business model and development path to adapt to the new development trend of the industry under the “new normality”.

The Company organized the production and operation activities based on the development strategy and operation plan set by the Board at the beginning of 2015. With efforts of all employees, as at the end of the reporting period, such development strategy and operation plan formulated at the beginning of the year have basically been completed. The targets set on revenue, fees and costs, have also achieved successfully.

2. In 2016, the Group is estimated to handle 1,018,421,200 cubic meters sewage (excluding the entrusted operation projects), produce tap water of 38.756 million cubic meters and sell recycled water of 19.625 million cubic meters; the estimated capital expenditure is RMB 855 million, the main projects include the upgrading and reconstruction of sewage treatment plants of subsidiaries, the new water projects, and newly awarded energy station construction projects, etc. In 2016, the following operating strategies will be implemented by the Company:

4. Management discussion and analysis

- (1) Promote the drafting of the 13th Five-Year Strategic Planning and lead the development for the next five years

In 2016, the Company will promote the drafting of the 13th Five-Year Strategic Planning, and will proceed to resolve and implement after the review and approval through the relevant decision making process.

- (2) Greater efforts for market development and expansion of market share

To achieve the upgrading of overall capabilities on environmental services, the Company, will expand projects such as sewage treatment, new energies and solid waste by means of traditional licensed operation model, PPP model, merger, acquisition and reorganization, joint venture and cooperation, technical servicing, etc., and will participate in the market of Haimian city construction, implement the third-party governance projects such as the industrial sewage treatment, and participate in new environmental governance business fields such as the supporting pipe network construction, watershed management, treatment of black and odorous water so as to expand the market share in the environmental water market.

- (3) Strengthen capital operation and promote business development

By combining the overall business planning, to promote direct financing, and make good use of the listed financing platform of the Company, the Company will support the reformation and innovation of subsidiaries with sound business growth and strong independence, and attempt to open the financing path overseas so as to achieve low-cost and multi-level financing.

- (4) Insist on the technological innovation and promote the generation and transformation of technological achievements

The Company will further strengthen its research and development capability, focusing on the connection of research and development and industrialization, especially strengthening the efforts to support priority subjects with wide application potential. The Company shall also continue to expand the industrialization scale of technological research and development achievements and speed up the rate of marketising research and development products, strengthen the hardware construction of research and development and timely start constructing the base for research and development.

Under the guidance of the above operating strategies, the Company will focus on the following work on the basis of safe and quality operation in 2016:

- (1) Improve the market development system; actively expand new projects in water utilities and environment; focus on acquisition opportunities in the secondary market; achieve the scale expansion in the amount of water;
- (2) Continue to strengthen the management of various operating businesses of the Group and improve the overall operating level by updating and perfecting standards related to operation, technology and quality, etc.;
- (3) Promote the upgrading and reconstruction of urban sewage treatment plants, ensuring the interests of the Group, and promote the upgrading and reconstruction of subsidiaries in other cities;
- (4) Properly carry out the signing of licensed operation agreement, preliminary works and construction works related to the energy station projects in Heiniuchengdao, Houtai and Binhai New Area Cultural Center, and continue to follow up with the development of new energy projects in the Tianjin region;
- (5) Continue to increase the investment in technological research and development work and start the site selection and construction of the base for research and development; further proceed with the market promotion of products and technologies on deodorants, industrial sewage process, sludge disposal, biological bacteria agents, carbon source extraction in sludge, etc., and commit to new research and development projects;
- (6) Strengthen various basic management tasks and complete the upgrading of the Group's internal control system; put greater efforts in the management of legal affairs; improve remuneration and incentive mechanism; strengthen the supervision and monitoring of decision making.

3. *Income, expenses and cost plan:*

In 2016, 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 treatment services will not exceed 3% as compared to 2015.

Cost control target:

In 2016, 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 treatment business will increase by not more than 10% in 2016 as compared to that of 2015. Also, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

4. Management discussion and analysis

4. *Technology R&D investment plan:*

In 2016, the Group will invest no less than RMB5.14 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..

5. The Group's existing funding channels are basically able to satisfy the requirements of the Group's annual operation plan. In 2016, the Group plans to invest RMB506 million in engineering projects, which are mainly the expenses for the upgrading of sewage water treatment plants and the construction fund for new energy projects. In 2016, the amount for fixed asset purchase plan of the Group will be approximately RMB14.64 million.

In 2016, funding demand of relevant projects will be obtained through existing financing channels of the Group. 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.

(IV) Possible risks

1. *General risk factors*

(1) Risk of government credit

Given the characteristic of licensed operation in sewage treatment projects, the capital source of sewage treatment service fee comes mainly from the special sewage-treatment fee charged by the government through the sales of tap water; the deficient amount will be supplemented by the finance of local government. The PPP packaging projects recently promoted usually include the investment and construction of infrastructure such as pipe networks. The investment of social capital is relatively large, and the investment return relies mainly on the payment of sewage treatment service fee from the government. Therefore, the uniqueness of capital source determines the importance and criticality of the government credit. Whether water utilities companies can recoup the investment as scheduled and obtain the expected rate of return depends on the level of government credit. In case the risk related to government credit occurs, the project companies will face cash flow problem, which may generate capital risks such as financial risks and financing risks.

(2) Risk of change in policy

In April 2014, the PRC State Council endorsed the "Notice concerning Opinions on Key Tasks for Deepening Reform of the Economic System in 2014" (Guo Fa [2014] No. 18), which deprives the local financing platform company of government financing functions. In order to complete the construction task of infrastructure, local governments must seek for new financing channels. The PPP model, with its strong financing functions, has received positive response from different local governments.

Currently, the PRC is at the special stage of comprehensive deepening of reform. For a long period in the future, there will be transformative changes in policies related to economy, finance, prices, finance and taxation and government functions, etc. The policy changes in prices and taxes will directly influence the adjustment of water price. It is predicted that, with the actual operation of the first batch of PPP projects announced by the Ministry of Finance and the rapid launch of the second and third batch projects, various possible problems relating to PPP model may appear gradually in 3 to 5 years. During the licensed operation period lasting for 30 years, as a social investor, one needs to focus on the risk of change in policy.

(3) Risks of operation and management

In 1 January 2015, the new “Environment Protection Law” was implemented officially. With the introduction of a series of environmental administrative rules and regulations, the standards for the environmental governance field become more stringent. Under this circumstance, the professional technical capability of water utilities companies and their technical process selection capability, and the capability to timely respond to changes of water quality are key factors to guarantee the standards could be met for water delivery. In addition, the Company should fully avoid the risk of non-compliance for discharge standards due to poor management in operation.

(4) Foreign exchange and interest rate risk

Regarding the foreign exchange and interest rate risk of the Company, please refer to the Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards - Note 3 to the Consolidated Financial Statements.

2. *Risk control measures*

(1) Protect the Company’s lawful interests making full use of laws and regulations

Strengthen the concept of corporate governance in accordance with the laws, make full use of its overall legal advisory system and protect lawful interests of the Company. Meanwhile, the Company calls for and supports the prompt establishment and perfection of “PPP Law” and “Licensed Operation Law” to further assure equality of the contracting parties, tighten up the performance assessment and benefit distribution mechanisms and provide for the government obligations to pay according to contracts and the rights for investors to get reasonable returns under the laws so as to reduce the risk related to government credit and the financial risk of the investors.

4. Management discussion and analysis

(2) Strengthen comprehensive risk management

Determine the target for comprehensive risk management; establish the institutional framework for comprehensive risk management to identify, analyse, assess and deal with possible risks hidden in different business links; improve the risk management system and establish a sound and comprehensive risk management system for the Company; improve its timing and efficiency of the comprehensive risk management of the Company; conduct the dynamic management and effective control over risks so as to reasonably ensure the achievement of the Company's strategic targets.

(3) Continue to raise the level of operating management

After revision of the new "Environment Protection Law", the Company, as a listed company in the environmental protection field, completed the identification, implementation and training in relation to the new laws and regulations at the earliest opportunity and particularly developed the following risk management and control measures based on the practical conditions of the Company so as to manage and control the production and operating risks: Focusing on staff training, strengthening the environmental protection and legal system consciousness and improving the management and control level of technologies; strengthening the maintenance and protection of facilities for proper preservation of asset value and stable operation; perfecting the monitoring of quality, promoting control over the whole process to ensure the end products could meet up to the standard of discharge; developing water environment remedy plans and safe production plans, so as to ensure careful operation and the best environmental performance of the Company under the force majeure conditions.

(3) FAILURE TO DISCLOSE AS PER RULES DUE TO INAPPLICABILITY OR SPECIAL REASONS

Not applicable

I. PROPOSAL ON THE ORDINARY SHARE 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 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.
- (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.

5. Major Events

- (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.”

5. Major Events

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.

The proposal on profit appropriation for 2015 is set out as follows:

As audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, the net profit attributable to the Company in 2015 amounted to RMB330.54 million. After deduction of the statutory common reserve of RMB19.31 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 RMB1,965.88 million at the beginning of the year, and less the distribution in 2015 of the 2014 cash dividend of RMB99.91 million, the actual profit distributable to the shareholders for the year amounted to RMB2,177.20 million. According to the profit appropriation policy of the Company, it will be proposed that a cash dividend for 2015 of RMB0.70 (gross tax) per ten shares will be distributed to all shareholders, with the cash dividend amount in the sum of RMB99.9060 million, representing 30.23% of the available-for-distribution profit attributable to the Company realized in 2015. No transfer from the capital reserve fund to share capital was made for 2015. The appropriation proposal shall be submitted to the 2015 annual general meeting of the Company for consideration and shall be implemented after approval.

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

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)	Unit: 0'000 Currency: RMB	
					Net profit attributable to the shareholders of the Company in the consolidated financial statements for the bonus distribution year	Percentage of the net profit attributable to the shareholders of the Company in the consolidated financial statements (%)
2015	0	0.70	0	9,990.6	33,053.7	30.23
2014	0	0.70	0	9,990.6	30,816.8	32.42
2013	0	0.80	0	11,417.8	28,189.9	40.50

(III) The Inclusion of Shares Repurchased through Cash Offer in Cash Dividend

Not applicable

(IV) If the Company records profits and the undistributed profits is positive during the reporting period but there is no proposal for cash dividend, the Company shall disclose the reasons, the usage and planned use of the undistributed profits in detail

Not applicable

5. Major Events

II. PERFORMANCE OF COMMITMENT

Not applicable

III. FUNDS OCCUPIED AND REPAYMENT PROGRESS DURING THE REPORTING PERIOD

Not applicable

IV. 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

V. APPOINTMENT AND REMOVAL OF ACCOUNTANTS

	Present Appointment
Name of the PRC accountant	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of the PRC accountant	Note 1
Service years of the PRC accountant	21 years
Name of Hong Kong accountant	PricewaterhouseCoopers
Remuneration of Hong Kong accountant	Note 1
Service years of Hong Kong accountant	21 years

	Name	Fees
Accountants responsible for auditing of internal control	PricewaterhouseCoopers Zhong Tian LLP	RMB 0.8 million

Note 1: 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 21 years.

VI. RISKS OF SUSPENSION OF LISTING

Not applicable

VII. MATTERS RELATING TO BANKRUPTCY AND RESTRUCTURING

Not applicable

VIII. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION

(I) Litigation and arbitration that were disclosed in the Company's announcements and without subsequent progress

None

(II) Litigation and arbitration that were not disclosed in the Company's announcements or with subsequent progress

During the reporting period:

Complaining party	Responding party	Party to bear joint liability	Type of litigation or arbitration	Particulars of litigation (or arbitration)	Amount	Whether	Progress of litigation (or arbitration)	Ruling results of litigation (or arbitration) and its effect	Implementation of award of litigation (or arbitration)
					involved (or arbitration) (RMB0'000)	litigation forms predicated liability and its amount			
Anguo Company	Anguo Municipal Government	None	Arbitration	See Note 1	6,000	No	See Note 2	None	See Note 2
Huade Shunli	Jiayuanxing	None	Civil Litigation	See Note 3	1,029.23	No	See Note 3	None	None
Tianjin Dikang	The Company	None	Civil litigation	See Note 4	967.88	Yes	See Note 4	See Note 4	See Note 4
The Company	The committee of Xibeixie village, and Zhao Shuzhi	None	Litigation	See Note 5	0	No	See Note 5	See Note 5	See Note 5
The Company	Junfeng Property and Wang Jianzhong	None	Litigation	See Note 6	0	No	See Note 6	See Note 6	See Note 6
Gao Xuemin	Jiasheng Company and Kaiying Company	None	Litigation	See Note 7	12.6	No	See Note 7	See Note 7	See Note 7

5. Major Events

VIII. MATTERS RELATING TO MATERIAL LITIGATION AND ARBITRATION (Continued)

- Note 1:* As Anguo Municipal Government failed to perform the relevant terms of the licensed operation agreement entered into between Anguo Company and Anguo Municipal Government, Anguo Company applied for arbitration to China International Economic and Trade Arbitration Commission in 2013, requesting for termination of the licensed operation agreement of water supply project in Anguo; claiming payment of service fees for water supply and compensation for investment owed to Anguo Company by Anguo Municipal Government in the amount of RMB60 million.
- Note 2:* China International Economic and Trade Arbitration Commission has made an interlocutory judgement in April 2014. Pursuant to the interlocutory judgement, the transfer of tap water project has been completed. Anguo Company will temporarily operate the sewage project based on the original agreement, and the operations and charges of this project are under normal conditions. A third party appraising entity is now carrying out the appraisal and verification on the present value of assets invested by Anguo Company in the tap water project of this case, and the ruling results of the arbitration have yet been made. As at the end of the reporting period, accumulative provision of RMB29.20 million for asset impairment losses of Anguo water project was made.
- Note 3:* In October 2014, Huade Shunli sued Jiayuanxing for rent payment amounted to RMB10,292,280.00 with regard to the use of the first underground floor totaling 3,000 square metres of “Sunlight Paradise” located in Leyuan Road, Hexi district, Tianjin. In September 2015, Huade Shunli withdrew the litigation.
- Note 4:* The Company issued the Notice of Terminating the Lease Contract to Tianjin Dikang in March 2013. Since the land involved was included in the roads plan of the government, the Company terminated the land lease contract with Tianjin Dikang in respect of the 31.5 acres of land located in the Jizhuangzi Sewage Treatment Plant according to the contract. The Company received the notice of response to action from the court in November 2014. Tianjin Dikang sued the Company, alleging that it has suffered significant economic losses due to the early termination of the lease contract, requesting compensation for all economic losses of RMB25.54 million, with litigation costs being borne by the Company. According to the ruling of the second trial, the Company was ordered to pay RMB9.6788 million as compensation and bear the trial acceptance fee of RMB36,000. The Company has paid the compensation. The company will settle the amount from the Jizhuangzi’s relocation compensation fee. It is expected to reduce the Company’s deferred income from Jizhuangzi’s relocation, which will unlikely be a material effect on the Company.
- Note 5:* The defendants destroyed the wall and part of the land within the Xianyanglu Sewage Treatment Plant of the Company. The Company applied to Tianjin Xiqing District People’s Court to order the two defendants to stop the torts and recover those destroyed. The ruling of the first trial, which supports the Company’s claims, is now in force. The Company has applied to Xiqing District People’s Court to execute the ruling.
- Note 6:* The Company has entrusted the defendants to manage a building within the Jizhuangzi Plant. The entrustment agreement was expired and terminated at the end of 2012. The defendants have not yet returned the buildings to the Company. Therefore, the Company applied to Tianjin Xiqing District People’s Court to order the defendant and the third party, Wang Jianzhong (actual occupier) to return the occupied buildings immediately. The ruling of the first trial ordered the two defendants to return the buildings. Wang Jianzhong, the third party, appealed against the ruling of the first trial to Tianjin No. 1 Intermediate People’s Court. The case is now in the process of second trial.
- Note 7:* The contract regarding the applicant’s employment in Kaiying Company on 30 June 2013 has expired and was not renewed. The applicant applied to the Tianjin Heping District People’s Court on 5 June 2015, claiming (1) the two defendants to pay to the applicant the night working fees in the total amount of RMB126,000, (2) Jiasheng Company to pay to the applicant the outstanding pension loss of RMB198,000, and (3) the litigation costs to be borne by the two defendants. On 19 October 2015, the court ruling of the second trial dismissed all the applicant’s claims.

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

Not applicable

X. EXPLANATION ON THE INTEGRITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS, ULTIMATE CONTROLLERS DURING THE REPORTING PERIOD

During the reporting period, none of the Company, its controlling shareholders or ultimate controllers failed to abide by any effective judicial ruling, or defaulted on any material debt.

XI. THE COMPANY'S SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE SCHEME AND ITS EFFECTS

Not applicable

XII. 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 30 January 2015, the Company entered into the Sewage Water Plant Operation Agreement 2015 with Tianjin Investment Group, to provide it with operation and maintenance services for the Zhangguizhuang Sewage Water Treatment Plant. The service period commenced from 2 February 2015 to 1 August 2015. The total service fees are RMB 25,188,000.

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

- b. On 30 January 2015, the Company entered into the Sludge Disposal Centre Operation Agreement 2015 with Tianjin Investment Group, to provide it with operation and maintenance services for the Zhangguizhuang Sludge Disposal Centre. The service period commenced from 2 February 2015 to 1 August 2015. The total service fees were expected to be not more than RMB 4,240,000.

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

5. Major Events

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

- c. On 16 February 2015, Jiayuanxing entered into the TLP Cold Supply Agreement 2015 with TLP and TYCOM, to provide them with cold supply services at the commercial area of TLP. The service period commenced from 1 June 2015 to 30 September 2015. The unit price for provision of cold supply services is RMB 65 per m². The total service area is 363,042 m². The total service fees for the cold supply are RMB 23,597,730.

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.

- d. On 29 May 2015, Jiayuanxing entered into the TM Resources Cold Supply Agreement 2015 with TM Resources, to provide it with cold supply services at the underground transportation hub in the Tianjin Cultural Centre. The service period commenced from 1 June 2015 to 30 September 2015. The unit price for provision of cold supply services is RMB 65 per m². The total service area is 45,218 m². The total service fees for the cold supply are RMB 2,939,170.

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

- e. On 31 July 2015, the Company entered into the New Sewage Water Plant Operation Agreement with Tianjin Investment Group, to provide it with operation and maintenance services for the Zhangguizhuang Sewage Water Treatment Plant. The service period commenced from 2 August 2015 to 31 December 2015. The total service fees are RMB 20,990,000.

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

- f. On 31 July 2015, the Company entered into the New Sludge Disposal Centre Operation Agreement with Tianjin Investment Group, to provide it with operation and maintenance services for the Zhangguizhuang Sludge Disposal Centre. The service period commenced from 2 August 2015 to 31 December 2015. The total service fees were expected to be not more than RMB 4,000,000.

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

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

- g. On 13 November 2015, Jiayuanxing entered into the TM Resources Heat Supply Agreement 2015 with TM Resources, to provide it with heat supply services at the underground transportation hub in the Tianjin Cultural Centre. The service period commenced from 15 November 2015 to 15 March 2016. The unit price for provision of heat supply services is RMB 40 per m². The total service area is 45,218 m². The total service fees for the heat supply are RMB 1,808,720.

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

- h. On 13 November 2015, Jiayuanxing entered into the TLP Heat Supply Agreement 2015 with TLP and TYCOM, to provide them with heat supply services at the commercial area of TLP. The service period commenced from 15 November 2015 to 15 March 2016. The unit price for provision of heat supply services is RMB 40 per m². The total service area is 363,042 m². The total service fees for the heat supply are RMB 14,521,680.

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.

- i. On 31 December 2015, the Company entered into the Sewage Water Plant Operation Agreement with Tianjin Investment Group, to provide it with operation and maintenance services for the Zhangguizhuang Sewage Water Treatment Plant. The service period commenced from 1 January 2016 to 30 June 2016. The total service fees are RMB 25,188,000.

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

- j. On 31 December 2015, the Company entered into the Sludge Disposal Centre Operation Agreement with Tianjin Investment Group, to provide it with operation and maintenance services for the Zhangguizhuang Sludge Disposal Centre. The service period commenced from 1 January 2016 to 30 June 2016. The total service fees were expected to be not more than RMB 4,670,000.

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

5. Major Events

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

According to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), the above-mentioned item (a), (b), (e), (f), (i) and (j) are continuing connected transactions, the independent non-executive Directors of the Company have reviewed these continuing connected transactions and confirmed that:

- ① the relevant continuing connected transactions were in the ordinary course of business of the Company;
- ② the relevant continuing connected transactions were conducted on normal commercial terms; and
- ③ the 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 Rules 14A.56 of the Listing Rules regarding the above-mentioned continuing connected transactions item (a), (b), (e) and (f) occurred in 2015.

Saved as discussed above, there is no related party transaction or continuing related party transaction as set out in notes to the consolidated financial statements that falls under the definition of “connected transaction” or “continuing connected transaction” in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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

None

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

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

Unit: Yuan Currency: RMB

Connected Party	Connected relationship	Type of connected transaction	Subject of connected transaction	Pricing principles 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
Tianjin Haihe	Affiliated company within the Group	Provision of labour	Capital Materials Company, one of the subsidiaries of the Company, accepted the entrustment from Tianjn Haihe that Capital Materials Company shall supervise the land in Lot 1, Zijinshang Road, Xiqing District, Tianjin for Tianjin Haihe.	After arm's length negotiation by the parties to the agreement	446,256	38.26	The term of the agreement was one year and the transaction amount was settled in four installments and paid quarterly.	The agreement was determined on arm's length basis by parties, and there was no significant difference from the market price.

5. Major Events

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

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

		Type of	Subject of	Pricing principles	Amount of	Percentage	Settlement method	Reason for
Connected Party	Connected relationship	connected transaction	connected transaction	of connected transaction	connected transaction (RMB)	in similar transactions (%)	of connected transaction	the substantial difference between transaction price and market price
Tianjin Haihe	Affiliated company within the Group	Other inflows	The Company accepted the entrustment from Tianjin Haihe to construct walls for Jizhuangzi Sewage Treatment Plant and Water Recycling Plant.	After arm's length negotiation by the parties to the agreement	1,513,909	23.9	Tianjin Haihe paid 30% in advance after the execution of the agreement, paid up to 80% after the completion of relevant projects, and paid the remaining portion after the acceptance of the examination result.	The agreement was determined on arm's length basis by parties, and there was no significant difference from market price.
Tianjin Infrastructure Consultant	Affiliated company within the Group	Agency service	Tianjin Infrastructure Consultant provided bidding agent service to the Company regarding the earthwork and site preparation project of Jizhuangzi Sewage Treatment Plant and Water Recycling Plant.	After arm's length negotiation by the parties to the agreement	49,821	1.2	The amount was paid in one lump sum after the completion of the tender process.	The agreement was determined on arm's length basis by parties, and there was no significant difference from market price.
Total	/	/	/	/	2,009,986	63.36	/	/

XII. MATERIAL CONNECTED TRANSACTIONS (Continued)

(ii) Connected Transactions as a Result of Acquisition, Disposal of Assets or Equity

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

None

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

None

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

Not applicable

(iii) Significant Connected Transactions in Common External Investment

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

None

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

None

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

Not Applicable

(iv) Creditor's Rights and Debts with Related Parties

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

None

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

None

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

Not applicable

5. Major Events

XIII. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

(I) Custody, subcontracting and leasing

Not applicable

(II) Guarantees

Unit: 0'000 Currency: RMB

Guarantees provided to external parties by the Company (excluding guarantees provided to Subsidiaries)	
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
Guarantees provided to Subsidiaries of the Company	
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)	81,975
Total amount of guarantees provided by the Company (including guarantees provided to Subsidiaries)	
Total amount of guarantees (A+B)	81,975
Percentage of the total amount of guarantees to the net assets of the Company (%)	17.74
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

XIII. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (Continued)

(III) Cash and Asset Management Entrusted to Others

1. *Entrusted wealth management*

Not applicable

2. *Entrusted Loans*

Not applicable

3. *Other Financial Investments and Derivative Investments*

Not applicable

XIV. DETAILS OF OTHER MAJOR EVENTS

(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 Code on Corporate Governance Practices 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 published 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 the annual report.

(v) 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.

5. Major Events

XIV. DETAILS OF OTHER MAJOR EVENTS (Continued)

(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 2015 with the Directors.

XV. 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 30 March 2016 for contents in detail.

(II) **Explanation of Environmental Protection of Listed Companies and their Subsidiaries which Fall into Categories of Heavy Pollution Industries as Prescribed by the State's Environmental Protection Authorities**

Not applicable

XVI. CONVERTIBLE BONDS

Not applicable

6. Details of Changes in Ordinary Shares and Shareholders

I. CHANGES IN ORDINARY SHARE CAPITAL

(i) **Changes in ordinary shares**

During the reporting period, there were no changes in the total number of ordinary shares and the structure of share capital of the Company.

(ii) **Changes in restricted shares**

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

II. ISSUE AND LISTING OF SECURITIES

(i) **Issue of securities as at the end of the reporting period**

In the past three years as of the end of the reporting period, the Company has not conducted any issue and listing of securities.

(ii) **Changes in the total number of ordinary shares and the structure of shareholders of the Company and changes in the structure of the assets and liabilities of the Company**

Not applicable

(iii) **Existing internal employee shares**

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

III. DETAILS OF SHAREHOLDERS AND ULTIMATE CONTROLLER

(i) **Total number of shareholders**

Total number of ordinary shareholders as at the end of the reporting period	87,200
Total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report	87,743

Note: The total numbers of shareholders above represent the sum of holders of A Shares and H Shares. The total number of ordinary shareholders as at the end of the reporting period is 87,200, among which 70 are holders of H Shares. The total number of ordinary shareholders as at the end of the previous month before the disclosure date of the annual report is 87,743, among which 70 are holders of H Shares.

6. Details of Changes in Ordinary Shares and Shareholders

(ii) Shareholdings of the top ten shareholders and the top ten shareholders of circulating shares (or shareholders of non-restricted circulating shares) at the end of the reporting period

Name of shareholder	Shareholdings of the top ten shareholders			Number of restricted shares held (shares)	Pledged or frozen Status	Number (shares)	Nature of the shareholder
	Increase/decrease during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Percentage (%)				
TMICL	0	715,565,186	50.14	0	None	—	State-owned legal person
HKSCC NOMINEES LIMITED	3,430,000	337,924,900	23.68	0	Unknown	—	Unknown
Central Huijin Asset Management Ltd.	14,169,800	14,169,800	0.99	0	Unknown	—	State-owned legal person
Chen Hexiang	770,547	5,326,356	0.37	0	Unknown	—	Unknown
Daton Securities Co., Ltd.	4,523,374	4,523,374	0.32	0	Unknown	—	Unknown
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund	1,405,727	2,143,083	0.15	0	Unknown	—	Unknown
Agricultural Bank of China Limited-SWS MU CSI Environmental Protection Industry Index Classified Securities Investment Fund	-2,500,979	1,725,384	0.12	0	Unknown	—	Unknown
China Construction Bank Corporation-Invesco Great Wall Quantization Selected Stock Securities Investment Fund	1,608,236	1,608,236	0.11	0	Unknown	—	Unknown
Shenyang Railway Coal Group Co., Ltd.	-1,500,000	1,500,000	0.11	0	Unknown	—	Unknown
Hong Kong Securities Clearing Company Ltd.	1,212,976	1,394,590	0.10	0	Unknown	—	Unknown

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

Name of shareholder	Number of non-restricted circulating shares held	Type
TMICL	715,565,186	Ordinary RMB Shares
HKSCC NOMINEES LIMITED	337,924,900	H Shares
Central Huijin Asset Management Ltd.	14,169,800	Ordinary RMB Shares
Chen Hexiang	5,326,356	Ordinary RMB Shares
Daton Securities Co., Ltd.	4,523,374	Ordinary RMB Shares
Agricultural Bank of China Limited-CSI500 Index Open-ended Fund	2,143,083	Ordinary RMB Shares
Agricultural Bank of China Limited-SWS MU CSI Environmental Protection Industry Index Classified Securities Investment Fund	1,725,384	Ordinary RMB Shares
China Construction Bank Corporation-Invesco Great Wall Quantization Selected Stock Securities Investment Fund	1,608,236	Ordinary RMB Shares
Shenyang Railway Coal Group Co., Ltd.	1,500,000	Ordinary RMB Shares
Hong Kong Securities Clearing Company Ltd.	1,394,590	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.

6. Details of Changes in Ordinary Shares and Shareholders

Notes:

- (1) According to the register of members 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.

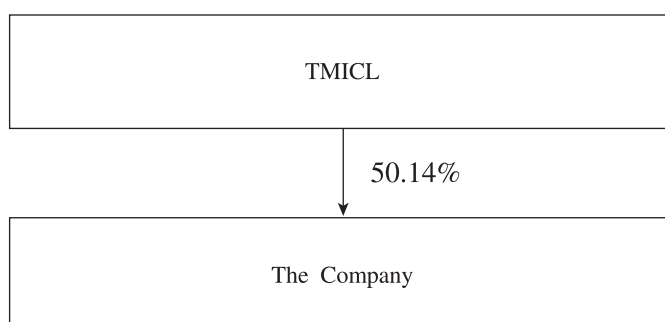
IV. CHANGES IN THE CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

(i) Controlling shareholder

1 Legal person

Name	TMICL
Head of the entity or legal representative	An Pindong
Date of incorporation	20 January 1998
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).
The shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested during the reporting period	Nil
Notes on other information	Nil

2 *Flowchart on the shareholding interests and relationship of control between the Company and its controlling shareholder*



(ii) **Ultimate controller**

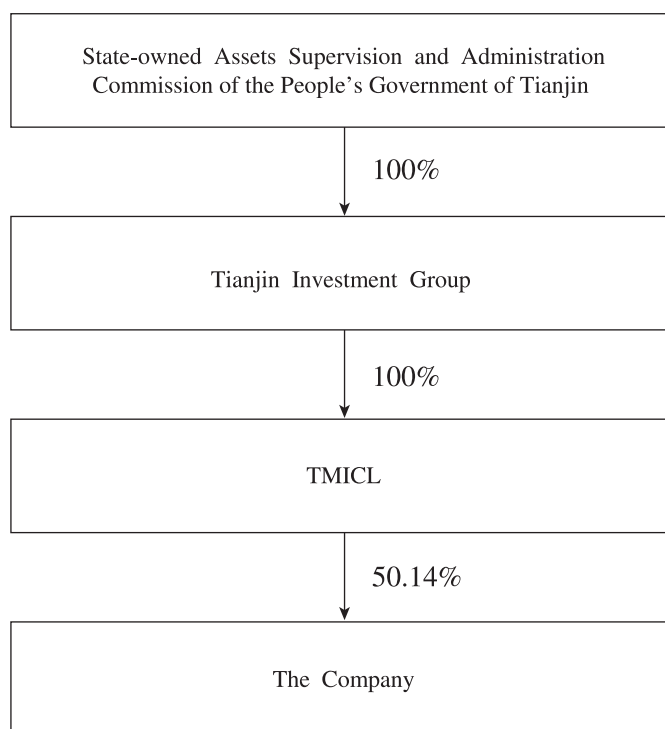
1 *Legal person*

Name	Tianjin Investment Group
Head of the entity or legal representative	Li Baokun
Date of incorporation	23 July 2004
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).

6. Details of Changes in Ordinary Shares and Shareholders

The shareholdings of other domestic and foreign listed companies in which the company has controlling interests and has invested during the reporting period	Nil
Notes on other information	Nil

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



V. DESCRIPTION OF RESTRICTION ON DECREASE OF SHAREHOLDINGS

Not applicable

VI. 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.

VII. SUBSTANTIAL SHAREHOLDERS INTERESTS

- (a) As at 31st December 2015, 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	715,565,186 A Shares (L)	65.82%	50.14%
USB AG	Person having a security interest in shares	20,990,530 H Shares (L)	6.17%	1.47%
		514,000 H Share (S)	0.15%	0.04%
UBS Group AG	Interest of corporation controlled by the substantial shareholder	23,038,036 H Shares (L)	6.78%	1.61%
		5,585,446 H Share (S)	1.64%	0.39%
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%
BlackRock, Inc	Interest of corporation controlled by the substantial shareholder	20,759,918 H Shares (L)	6.11%	1.45%

Note: The letter “L” represents the person’s long position in the shares.

The letter “S” represents the person’s short 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 2015, 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

Changes in shareholdings and the remuneration of the existing and resigned Directors, Supervisors and senior management during the reporting period

Name	Position held (note)	Sex	Age	Appointment date	Termination date	No. of shares held at the beginning of the year (shares)	No. of shares held at the end of the year (shares)	Changes in no. of shares for the year	Reason for changes	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Whether remuneration was received from related parties of the Company
Liu Yujun	Executive Director, Chairman	M	50	13 March 2015	17 December 2018					52.56	No
Zhang Wenhui	Former Executive Director, Chairman	M	61	18 December 2012	13 March 2015					32.47	No
Lin Wenbo	Executive Director, general manager	M	59	18 December 2012	17 December 2018					85.03	No
Fu Yana	Executive Director, deputy general manager	F	45	18 December 2012	17 December 2018					70.93	No
Shi Zhenjuan	Former Executive Director	F	46	18 December 2012	13 March 2015					0	Yes
Cao Shuo	Former Executive Director	F	38	13 March 2015	29 January 2016					0	No
Cao Shuo	Former chief accountant	F	38	29 August 2014	29 January 2016					66.62	No
Peng Yilin	Executive Director	F	35	16 March 2016	17 December 2018					0	No
Peng Yilin	Chief accountant	F	35	29 January 2016	17 December 2018					9.03	No
An Pindong	Non-executive Director	M	48	18 December 2012	17 December 2018					0	Yes
Chen Yinxing	Non-executive Director	F	42	18 December 2012	17 December 2018					0	Yes
Gao Zongze	Independent non-executive Director	M	76	15 April 2014	17 December 2018					21.17	No
Wang Xiangfei	Independent non-executive Director	M	63	18 December 2015	17 December 2018					0	No
Guo Yongqing	Independent non-executive Director	M	41	18 December 2015	17 December 2018					0	No
Guan Yimin	Former independent non-executive Director	M	65	15 April 2014	17 December 2015					21.17	No
Lee Kit Ying, Karen	Former independent non-executive Director	F	68	18 December 2012	17 December 2015					22	No
Zhang Mingji	Chairman of Supervisory Committee	M	58	18 December 2012	17 December 2018					70.95	No
Nie Youzhuang	Supervisor	M	47	18 December 2012	17 December 2018	959	959	-	No change	45.25	No
Wu Baolan	Supervisor	F	49	18 December 2012	17 December 2018					41.47	No
Li Xiaoshen	Supervisor, deputy secretary of the party general branch and chairman of the labour union of TMICL	M	57	18 December 2012	17 December 2018					0	No
Li Yang	Supervisor	M	47	18 December 2012	17 December 2018					79.10	No
Niu Jing	Supervisor	F	46	18 December 2015	17 December 2018					40.99	No
Qi Lipin	Former supervisor	F	39	18 December 2012	29 October 2015					0	No
Qi Lipin	Chief economist	F	39	29 October 2015	17 December 2018					44.96	No
Deng Biao	Deputy general manager	M	50	18 December 2012	17 December 2018					70.95	No
Yang Guang	Deputy general manager	M	46	18 December 2012	17 December 2018					73.97	No
Zhang Qiang	Deputy general manager	M	53	18 December 2012	17 December 2018					71.43	No
Li Yuqing	Chief engineer	M	51	18 December 2012	17 December 2018					73.97	No
Lo Wai Keung, Eric	Company secretary (Hong Kong)	M	40	18 December 2012	17 December 2018					13.18	No
Tang Fusheng	Former deputy general manager	M	43	18 December 2012	16 February 2015					24.87	No
Wang Hong	Deputy general manager	M	41	18 December 2012	17 December 2018					70.97	No
Zhao Yi	Deputy general manager	M	45	18 December 2012	17 December 2018					73.94	No
Zhang Jian	Deputy general manager	M	46	18 December 2012	17 December 2018					81.17	No
Niu Bo	Secretary to the Board	M	39	29 January 2016	17 December 2018					41.80	No
Total	/	/	/	/	/	/	/	/	/	1,299.95	/

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Liu Yujun	Mr. Liu is now the deputy chief accountant of Tianjin Investment Group and chairman of the Company. Mr. Liu was the chief accountant of Tianjin No. 4 Municipal Engineering Company from December 1996 to August 2000; the chief accountant of Tianjin Metro General Company from August 2000 to October 2007; the deputy general manager and the chief accountant of TMG from October 2007 to November 2008; the deputy chief accountant of Tianjin Investment Group and the deputy general manager and the chief accountant of TMG from November 2008 to April 2011; the deputy chief accountant of Tianjin Investment Group, the deputy general manager and chief accountant of TMG and the secretary of the party branch, chairman of the board and general manager of TM Resources from April 2011 to April 2013. He has been the deputy chief accountant of TMG since April 2013; and the general manager, secretary of the party general branch and director of Tianjin Haihe Jinan Investment Construction Development Company Limited from January to March 2015. Mr. Liu has been a Director and chairman of the Company since 13 March 2015.
Zhang Wenhui	Mr. Zhang was the chairman and party committee secretary of the Company during the reporting period, and retired from the Company as Director and chairman on 13 March 2015.
Lin Wenbo	Mr. Lin is a Director and the general manager of the Company. Mr. Lin joined the Company since December 2000 as deputy general manager and executive deputy general manager, in charge of production operation, engineering and construction, and market development. He held positions as general manager and chairman, etc. at Kaiying Company, Guizhou Company, Hangzhou Company, Baoying Company, Wendeng Company and Hong Kong Company. Mr. Lin was appointed as a Director of the Company since 18 December 2009 and as the general manager of the Company since 25 March 2010.
Fu Yana	Ms. Fu is now a Director, deputy general manager, the manager of the human resources department and also the officer to the office of general manager of the Company. Ms. Fu has been the secretary to the Board from December 2000 to 29 January 2016. 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 and also the officer to the office of general manager since November 2015. Ms. Fu has also acted as the director of the Tianjin Hangu North Talent Port Joint Stock Limited Company, which is a subsidiary company in which the Company has invested.
Shi Zhenjuan	Ms. Shi was a Director of the Company during the reporting period. Ms. Shi resigned as the Director on 13 March 2015.
Cao Shuo	Ms. Cao was a Director and chief accountant of the Company during the reporting period. Ms. Cao resigned as a Director and chief accountant of the Company on 29 January 2016 due to other development and arrangements.
Peng Yilin	Ms. Peng is an economist. She graduated from Tianjin University of Finance and Economics, with a master degree in management. She is now a Director, chief accountant and the assistant general manager of the Company. Ms. Peng worked as project manager of the investment management department of Tianjin Haitai Technology Development Company Limited* (天津海泰科技发展股份有限公司) from October 2005 to March 2008. She worked as officer in the financing development department of Tianjin Investment Group from March 2008 to January 2012; as assistant department head of the financing development department of Tianjin Investment Group from January 2012 to May 2015; and as financial central manager of Tianjin Investment Group from May 2015 to October 2015. Ms. Peng has been working on corporate investment and financing, with extensive experience in finance, accounting and investment. Ms. Peng has been the assistant general manager of the Company since 29 October 2015, chief accountant of the Company since 29 January 2016 and a Director of the Company since 16 March 2016.
An Pindong	Mr. An is now the deputy chief economist of Tianjin Investment Group, the general manager of TMICL and a Director of the Company. From December 2000, Mr. An was the chief accountant of the Company. In February 2005, he resigned as the Company's chief accountant. Mr. An was appointed as the Director of the Company since December 2000.
Chen Yinxing	Ms. Chen is now the the deputy chief accountant of Tianjin Investment Group, a Director of the Company 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 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 a Director of the Company since 18 December 2009.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Gao Zongze	<p>Mr. Gao is an independent non-executive Director of the Company, a consultant to China Maritime Law Association, an arbitrator and an expert panel member of the China Maritime Arbitration Commission, an arbitrator of the Arbitration Institute of the Stockholm Chamber of Commerce, an arbitrator of the Arbitration Institute of the International Chamber of Commerce in Paris, an arbitrator of the Hong Kong Arbitration Centre, a special researcher and an invited professor of the Institute of Law of Chinese Academy of Social Sciences, a part-time professor of the China University of Political Science and Law, a part-time professor of the National Judges College of China, a part-time professor of the National Prosecutors College of China, a professor of the Law School of Central University of Finance and Economics, a senior advisor and a first-grade lawyer of King & Wood Mallesons, Beijing. Mr. Gao studied at Dalian Maritime University of China, the Graduate School of Chinese Academy of Social Sciences and the Law School of Columbia University in the United States. Mr. Gao was the chairman and general manager of China Legal Services (Hong Kong) Company Limited from 1998 to November 2001 and a solicitor of Beijing Fusheng Law Firm from December 2001 to July 2004. He is currently a lawyer of King & Wood Mallesons since August 2004. Mr. Gao has years of experience in legal practice. He specializes in maritime law, international trade law and securities law. Mr. Gao has served as a special advisor to the Supreme People's Court of the PRC, a legal counsel of the General Administration of Customs of the PRC, the former State Commodity Inspection Bureau and more than 20 major enterprises including China Petroleum & Chemical Corp., China Agri-Industries, Metals & Minerals, China National Cereals, Oils and Foodstuffs Import and Export Corporation, China National Arts & Crafts Import and Export Corporation and China Huaneng Power International Corporation. He served as an independent director of Huaneng Power International Inc. from 1995 to 2005, an independent director of Shanxi Zhangze Electric Power Co., Ltd. from 2000 to 2006, an independent director of Shenzhen Capstone Industrial Co., Ltd. from 2003 to 2006, an independent director of HL Corp. (Shenzhen) from 2006 to 2011 and an independent director of Beijing Tianqiao Beida Jade Bird Sci-Tech Co., Ltd. from 2007 to 2009. Mr. Gao was appointed as the independent non-executive Director of the Company from 2002 to 2008 and was re-appointed as the independent non-executive Director of the Company on 15 April 2014.</p>
Wang Xiangfei	<p>Mr. Wang is now an independent non-executive director of China Development Bank International Investment Limited and SEEC Media Group Limited, the vice chief financial officer of Sonangol Sinopec International Limited, the financial advisor of China Sonangol International Holding Limited, an executive director of Nan Nan Resources Enterprise Limited and an external supervisor of Shenzhen Rural Commercial Bank. Mr. Wang is a senior accountant, graduated from Renmin University of China, majoring in finance and received a bachelor degree in economics. He also has worked in senior management teams of a couple of companies engaging in banking and other financial services. He was the independent non-executive director of China CITIC Bank Co., Ltd. and Shandong Chenming Paper Holdings Limited, and was the independent non-executive Director of the Company from April 2002 to April 2008.</p>
Guo Yongqing	<p>Mr. Guo is a post-doctorate, professor in accounting and certified public accountant in the PRC. Mr. Guo is now an accounting professor of the Shanghai National Accounting Institute, and concurrently serving as an independent director of Sanxiang (Group) Co., Ltd., Chongqing Brewery Co., Ltd., and Shanghai Haixin Group Co., Ltd.. Mr. Guo has been the department head of Shanghai National Accounting Institute.</p>
Guan Yimin	<p>Mr. Guan was an independent non-executive Director of the Company during the reporting period. He retired on 17 December 2015 upon change of Board session.</p>
Lee Kit Ying, Karen	<p>Ms. Lee was an independent non-executive Director of the Company during the reporting period. She retired on 17 December 2015 upon expiry of term of office.</p>
Zhang Mingqi	<p>Mr. Zhang is now the chairman of the Supervisory Committee, the deputy secretary of party committee, the secretary of disciplinary committee and the chairman of labor union 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 labour 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. Mr. Zhang has been the supervisor of Baoying Company, Guizhou Company, Xi'an Company, Wuhan Company and Wendeng Company since November 2010.</p>

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Nie Youzhuang	Mr. Nie is now the Supervisor of the Company and the deputy manager of the market development division. Mr. Nie joined the Company since January 2001 and worked in the production operation department, and held positions as departmental deputy general manager, manager and deputy chief engineer of the Company. From February 2008 to December 2009, he was the general manager of the 1st water operation 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 Treatment Plant. Mr. Nie was the general manager of Zichuang Company from February 2013 to January 2016 and was appointed as the deputy manager of the market development division of the Company with effect from January 2016. Mr. Nie was appointed as a Supervisor of the Company since 19 December 2003.
Wu Baolan	Ms. Wu is now the Supervisor of the Company and the head of the party-masses department of the Company. Ms. Wu joined the Company since 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	Mr. Li is now the deputy secretary of the party general branch and chairman of the labour union of TMICL and a Supervisor of the Company. Mr. Li Xiaoshen graduated from college in 1975 and joined the Down to the Countryside Movement. In 1976, Mr. Li joined the army. From July 1985 to May 1988, Mr. Li successively held the position of advisor at deputy company commander level in the Communication Department and the Organization and Mobilization Department of Tianjin Garrison Headquarter. From May 1988 to April 2001, Mr. Li served in the Organization and Mobilization Department of Tianjin Garrison Headquarter, holding office as advisor at company commander level, advisor at deputy battalion level, advisor at a deputy organization level and deputy head. From April 2001 to March 2002, Mr. Li served as deputy minister of the Tianjin Tanggu District People's Armed Forces. From March 2002 to November 2004, Mr. Li served as manager of Tianjin Garrison Student Military Training Office. 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.
Li Yang	Mr. Li is now the Supervisor, assistant to general manager, and the general manager of the northwest region of the Company, the chairman and the general manager of Xi'an Company. From November 2005 to April 2009, he was the general manager of Fuyang Company. 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 northwest region of the Company and the general manager of Xi'an Company since February 2011. Mr. Li was appointed as the assistant to general manager of the Company since January 2012, and as the chairman of Xi'an Company since September 2015. Mr. Li Yang has been the Supervisor of the Company since 8 September 2009.
Niu Jing	Ms. Niu is now a Supervisor of the Company, the manager of the legal and audit department and an assistant accountant. Ms. Niu graduated from Tianjin University of Finance and Economics in 1993, majoring in finance and taxation. She worked as accountant in Tianjin Xianda Hotel from 1993 to 1995; worked as financial controller in Tianjin Shandong McDonald's Food Company Limited from 1995 to 2002; and worked as financial manager and internal control manager of Tianjin Jiafu Commercial Company Limited from 2002 to 2009. She joined the Company since July 2009 and served as manager of the legal and audit department of the Company since then. She was appointed as the Supervisor on behalf of the Company's shareholders since 17 December 2015.
Deng Biao	Mr. Deng is now the deputy general manager of the 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 also acted as the general manager of the 3rd engineering branch company of the Company from the end of 2010 to January 2016.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Qi Lipin	Ms Qi, a senior economist, is now the chief economist and the manager of investment and management department of the Company. Ms Qi graduated from Nankai University of Tianjin in July 1999, majoring in economics and information management and received a bachelor degree in economics. Ms Qi worked for Binhai City Municipal Construction and Development Company Limited from July 1999 to February 2001. She joined the Company in February 2001, acted successively as an officer of project development department, assistant to the manager of market development department, deputy manager of the department of assets management and corporate development and research, deputy manager of planning department, and manager of operation and management department. She was appointed as an the deputy chief economist and manager of operation and management department of the Company since January 2010. She was appointed as the chief economist of the Company since October 2015. Ms. Qi was the Supervisor of the Company from June 2009 to October 2015.
Yang Guang	Mr. Yang is now the deputy general manager of the Company and the general manager of the operational branch company. From June 2003 to November 2010, Mr. Yang worked as the deputy general manager and general manager in Guizhou Company and the general manager of the western region of water business division of the Company; he was also the director and/or chairman of Xi'an Company, Qujing Company, Guizhou Company and Wuhan Company. From November 2010 to January 2016, he has also acted as the general manager of the Tianjin water business division of the Company, and the executive director of Jing Hai Company, Jinning Capital Environmental Company, Anguo Company and Capital Environmental Company since November 2011. Mr. Yang has been the deputy general manager of the Company since 5 March 2009 and general manager of the operational branch of the Company since January 2016.
Zhang Qiang	Mr. Zhang is now the deputy general manager of the 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. Before that period, he was also the general manager of the business department of the urban projects of the Company. From December 2010 to January 2016, he also served as the general manager of the 2nd engineering branch of the Company.
Li Yuqing	Mr. Li is now the chief engineer of the Company. From 2001 to 2008, Mr. Li worked successively for Dongjiao Sewage 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. From 2010 to January 2016, Mr. Li served as the general manager of the Tianjin water business division of the Company and the director of the scientific research institute of the business division of the research and development centre. Mr. Li has been the chief engineer of the Company since 30 June 2009.
Lo Wai Keung, Eric	Mr. Lo 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	Mr. Tang was the deputy general manager of the Company. He resigned as the deputy general manager on 16 February 2015.
Wang Hong	Mr. Wang is now the deputy general manager of the Company. Mr. Wang joined the Company in March 2002 and successively served as the deputy manager of work project of Xianyanglu Sewage Treatment Plant and deputy general manager and general manager of the construction management branch company. He was the assistant to general manager of the Company from June 2009 to March 2010. He has been the deputy general manager of the Company since 25 March 2010 and he has been the general manager of the 1st engineering branch company of the Company from December 2010 to January 2016. He has also been the chairman of Zichuang Company since February 2015, and the director of Capital Environmental Company since July 2013.

7. Directors, Supervisors, Senior Management and Employees

Name	Primary working experience
Zhao Yi	Mr. Zhao is now the deputy general manager of the Company and the manager of market development division. From August 2005 to March 2009, Mr. Zhao held the positions of the general manager of Qijing Company and Kaiying Company, which are all 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. He served as the general manager of the non-local water business division from November 2010 to January 2016. Also, he acted as the chairman of eight controlling subsidiaries under the non-local business division from November 2010 to September 2015.
Zhang Jian	Mr. Zhang is now the deputy general manager of the Company, the general manager in Zhejiang region, chairman of Hangzhou Company, and the director and chairman of Baoying Company. From April 2006 to December 2009, Mr. Zhang was the administrative deputy general manager (presiding over the work) of Hangzhou Company. He has been the general manager of the non-local water business division of the Zhejiang region and the general manager of Hangzhou Company since December 2009. He has been the chairman of Hangzhou Company, and the director and chairman of Baoying Company since September 2015. He has been the deputy general manager of the Company since January 2012.
Niu Bo	Mr. Niu is now the secretary to the Board of the Company, deputy chief economist, and senior engineer. He graduated from Changchun University of Science and Technology with a bachelor degree in environmental engineering. Mr. Niu joined the Company in August 2004, and from then to December 2009, he has acted as the project manager, assistant department manager and department manager of the market development department (later called the strategic investment department), in charge of the market development of water projects, investment management and project assessment, etc. He has been the deputy chief economist and the manager of strategic investment department of the Company since December 2009. He also served as the chairman of Hong Kong Company since February 2015. Mr. Niu has been appointed as the secretary to the Board of the Company since 29 January 2016.

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).

7. Directors, Supervisors, Senior Management and Employees

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 2015, 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, including interests and short positions which were taken as or deemed to have pursuant to 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 2015, none of the Directors, Supervisors or chief executives of the Company or their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

II. POSITIONS HELD 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 in shareholder's entity	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

Not applicable

7. Directors, Supervisors, Senior Management and Employees

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The procedures for determining the remuneration of the Directors, Supervisors and senior management	The remuneration of the Directors and Supervisors will be determined in accordance with the remuneration standard as approved at the Company's general meetings. The remuneration of the senior management officers will be determined on the basis of the remuneration plan approved by the Board and the operation result of the Company, 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.
The basis for determining the remuneration of the Directors, Supervisors and senior management	The remuneration of the Company's senior management will be distributed in accordance with their achievements in production and operation and usual management activities. The annual performance remuneration and bonus will be distributed according to the achievement of annual operating targets and performance appraisal results.
Actual payment of the remuneration to the Directors, Supervisors and senior management	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.
Actual remuneration received by all Directors, Supervisors and senior management as at the end of the reporting period (in total)	RMB12.9995 million

During the financial year, the Company did not pay any housing allowance, other allowance, and 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 or guarantees to the Directors, Supervisors or senior management. Except for remuneration, the Directors, Supervisors and senior management of the Company or such entities connected thereto have not derived other material interests, whether directly or indirectly, from other transactions, arrangements or 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

Name	Position held	Changes	Reason for changes
Zhang Wenhui	Director, Chairman	Resignation	Retirement
Liu Yujun	Director, Chairman	Appointment	Work engagement
Shi Zhenjuan	Director	Resignation	Re-designation
Cao Shuo	Director	Appointment	Work engagement
Tang Fusheng	Deputy general manager	Resignation	Re-designation
Qi Lipin	Supervisor	Resignation	Re-designation
Qi Lipin	Chief economist	Appointment	Work engagement
Lee Kit Ying, Karen	Director	Resignation	Expiry of the office term
Guan Yimin	Director	Resignation	Expiry of the office term
Wang Xiangfei	Director	Appointment	Work engagement
Guo Yongqing	Director	Appointment	Work engagement
Niu Jing	Supervisor	Appointment	Work engagement

V. PUNISHMENTS IMPOSED BY SECURITIES REGULATORY AUTHORITIES IN THE LAST THREE YEARS

Not applicable

VI. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(i) Employees

Number of on-duty employees of the Company	451
Number of on-duty employees of major Subsidiaries	1,031
Total number of on-duty employees	1,487
Number of retired employees to whom the Company and its major Subsidiaries are required to pay charges	0

Composition by profession

Category of profession	Number
Production	742
Sales	62
Technical	359
Finance	70
Administration	254
Total	1,487

Education

Category of education	Number (persons)
Doctor	5
Master	197
Undergraduate	534
Tertiary	411
Below Tertiary	340
Total	1,487

7. Directors, Supervisors, Senior Management and Employees

(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) Subcontracting labor

Total working hours for subcontracting labor	0
Total remuneration paid for subcontracting labor	0

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE

(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 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 Company Law and the relevant requirements of the CSRC.

In 2015, in light of the amendments to Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules issued by the Stock Exchange, the Company has incorporated risk management function into the terms of reference of the Audit Committee and made amendments to the Implementation Rules for the Audit Committee under the Board of the Company accordingly.

In 2015, based on our actual business development needs and in order to further improve the management efficiency, the Company has started organizational restructuring. Accordingly, the Company has begun to adjust and further improve the risk management and internal control system.

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

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” under Appendix 10 of 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.

During the reporting period, as approved by the Board, the Company has formulated the “Management System for the Shareholding of Directors, Supervisors and Senior Management”, which set out more detailed guidelines, so as to regulate the securities transactions by the Directors, Supervisors and senior management of the Company.

After making specific enquiries by the Board, as at the end of the reporting period, except the 959 domestic shares of the Company held by Mr. Nie Youzhuang mentioned above, 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

During the reporting period, the Board of the Company consists of nine directors, including Mr. Zhang Wenhui, Mr. Lin Wenbo, Ms. Fu Yana and Ms. Shi Zhenjuan as executive Directors; Mr. An Pindong and Ms. Chen Yinxing as non-executive Directors; and Mr. Guan Yimin, Mr. Gao Zongze and Ms. Lee Kit Ying, Karen as independent non-executive Directors. Mr. Zhang Wenhui and Ms. Shi Zhenjuan resigned as Directors due to retirement and re-designation of work respectively, both effective on 13 March 2015. Mr. Liu Yujun and Ms. Cao Shuo were elected as the executive Directors for replacement at the general meeting of the Company.

The term of office of the sixth Board of the Company expired on 17 December 2015, and the members of the seventh Board were elected on the general meeting, which comprises of Mr. Liu Yujun, Mr. Lin Wenbo, Ms. Fu Yana and Ms. Cao Shuo as executive Directors; Mr. An Pindong and Ms. Chen Yinxing as non-executive Directors; and Mr. Gao Zongze, Mr. Wang Xiangfei and Mr. Guo Yongqing as independent non-executive Directors, with a term of office to be expired on 17 December 2018.

Ms. Cao Shuo, our executive Director, resigned as an executive Director on 29 January 2016 due to reasons for other development and arrangements. Ms. Peng Yilin was elected as an executive Director of the Company at the general meeting of the Company held on 16 March 2016, with a term of office to be expired on 17 December 2018.

8. Corporate Governance

There was no relationship including financial, business, family or other material and 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 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 2015 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 of the Stock Exchange.

The Company held 15 Board meetings and three general meetings during the reporting period. For details of the attendance of Directors, please refer to “Attendance of Directors at the Board meetings and general meetings” in this section.

There is a 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 the SSE and the Stock Exchange, and matters which are not required to be disclosed are generally decided and implemented by the senior management of the Company.

Trainings for Directors in 2015

With the continuous growth of the Company’s business and the amendments of the Listing Rules from time to time, 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 at the Board office of the Company.

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

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 resigned as the Chairman of the Company on 13 March 2015 due to his retirement, and Mr. Liu Yujun was elected as the Chairman of the Company at the Board meeting held on the same day. During the reporting period, Mr. Lin Wenbo served as the General Manager of the Company.

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. During the reporting period, Ms. Lee Kit Ying, Karen, an independent non-executive Director, who commenced her tenure on 17 December 2012 for three years, left the office due to the expiry of her tenure of 6 years. Mr. Guan Yimin left the office after the expiry of his tenure, which commenced on 15 April 2014 and ended on 17 December 2015 (i.e. the expiry date of the sixth Board of the Company). The tenures of the independent non-executive Directors of the seventh Board of the Company, namely Mr. Gao Zongze, Mr. Wang Xiangfei and Mr. Guo Yongqing, who were elected on 17 December 2015 will expire on 17 December 2018.

Mr. An Pindong and Ms. Chen Yinxing served as non-executive Directors of the sixth Board and will continue to serve as non-executive Directors of the seventh Board of the Company with a tenure of 3 years.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

6. About Committees under the Board

- (1) The Remuneration and Assessment Committee of the Company consists of three independent non-executive Directors with Ms. Lee Kit Ying, Karen and Mr. Wang Xiangfei (from 18 December 2015) 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 Implementation Rules for the Remuneration and Assessment Committee of the Company which is available on the website of the Stock Exchange.

During the reporting period, the Company held 4 meetings of the Remuneration and Assessment Committee which mainly discussed the performance of the Company and its evaluation for the year 2014 (including the performance of executive Directors and its evaluation as well as the advice on remuneration of new Directors, Supervisors and Senior Management).

- (2) 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. Gao Zongze 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 Implementation Rules for the Nomination Committee of the Company which is available on the website of the Stock Exchange.

In respect of the nomination procedures as well as the selection and recommendation of candidates of Director, the Articles of Association of the Company provides that, the Board of the Company and shareholders representing, in aggregate, more than 10% of the total shares of the Company may nominate candidates to the Director of the Company. The Nomination Committee under the Board of the Company shall make suggestions to the Board regarding the nomination, selection and recommendation of candidates of Directors pursuant to the Implementation Rules for the Nomination Committee of the Company. The appointment of executive Directors is determined by the general meeting. During the reporting period, the nomination and appointment of two executive Directors, namely Mr. Liu Yujun and Ms. Cao Shuo, and the election of the seventh Board of the Company have all been carried out in accordance with the above-mentioned procedures of nomination, selection and recommendation. In addition, the qualifications for acting as independent non-executive Directors are subject to review and approval by SSE.

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

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 Implementation Rules for the Nomination Committee of the Company and the Board Diversity Policy as well as the present situation and future development plan of the Company.

During the reporting period, the Company held 3 meetings of the Nomination Committee which discussed matters in relation to, among other things, the nomination of two candidates to be executive Directors, the nomination of candidates to be members of the seventh Board of the Company, the nomination and appointment of chief economist and the nomination of new General Manager, senior management, Company Secretary to the Board, Securities Affairs Representative and Company Secretary (Hong Kong) of the Company.

- (3) The Audit Committee of the Company comprised three independent non-executive Directors, with Mr. Guan Yimin (prior to 17 December 2015) and Mr. Guo Yongqing (after 18 December 2015) as the chairman. The primary duties of the Audit Committee include reviewing of yearly, half-yearly and quarterly financial statements, reviewing and monitoring the financial management, internal control, risk management and corporate governance of the Company and making proposal for the appointment of external auditors. For details of its written working scope, please see the Implementation Rules for the Audit Committee of the Company which is available on the website of the Stock Exchange.

During the reporting period, the Company held 8 meetings of the Audit Committee which mainly discussed financial information in quarterly reports, half-year report and annual report, and reviewed the internal control of the Company, and made proposal for the appointment of external auditors, and proposed amendments to the Implementation Rules for the Audit Committee, etc.

The Company has established a sound corporate governance structure according to the relevant laws and regulations and the actual situation of the Company. For details of the corporate governance, please refer to “(i) Corporate Governance” above. The Audit Committee has reviewed and assessed the internal control of the Company annually, including the evaluation of the corporate governance of the Company.

Ms. Lee Kit Ying, Karen, a member of the Audit Committee, was unable to attend the meeting of the Audit Committee for the 2015 first quarter report held on 29 April 2015 due to her work engagement. She entrusted Mr. Gao Zongze, a member of the Audit Committee, to vote on her behalf.

Other members of the Audit Committee have attended all the meetings.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

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 were 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 contents 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 (and Mr. Niu Bo, the secretary to the Board of the Company from 29 January 2016 onwards). Mr. Lo has attended not less than 15 hours of relevant professional trainings during 2015 financial year in accordance with Rule 3.29 of the Listing Rules.

9. About Shareholders' Rights

In accordance with the relevant requirements of the Articles of Association of the Company and the Rules of the Procedures of General Meetings, shareholders who severally or jointly hold 10% or more shares in the Company are entitled to ask the Board or Supervisory Committee to convene or convene by themselves an extraordinary general meeting. The 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.

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

10. About Investor Relationship

During the reporting period, the Company have made amendments to the Implementation Rules for the Audit Committee under the Board of the Company according to the amendments to Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules issued by the Stock Exchange, but 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. Risk Management and Internal Control

During the reporting period, the Company has established proper internal control system. The internal control system is established and gradually improved with the orientation to possible risks exposed by the Company in various key business and management activities. From the third quarter of 2015 onwards, to further enhance management efficiency and emphasize on, among other things, market development, project construction and operations, the Company proceeded to organizational restructuring and the Company's risk management and internal control system will be further improved accordingly. The investment and management department of the Company is responsible for the construction of risk management and internal control system. The legal and audit department of the Company is responsible for reviewing the effectiveness of internal control.

The Board shall hear the report from the legal and audit department on annual conclusion and plans of the internal audit in due course every year and review the internal control and risk management of the Company.

Each year, the Board shall review the internal control monitoring system, and issue the Annual Internal Control Assessment Report to investors.

12. 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 2015, 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.

8. Corporate Governance

I. DESCRIPTION OF CORPORATE GOVERNANCE (CONTINUED)

12. About other specific disclosures (continued)

The Board of the Company has been much concerned about the internal control of the Company. At the 6th meeting of the seventh Board held on 29 March 2016, 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 relating to financial reporting of the Company during 2015, and has issued a standard unqualified opinion.

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 2016, and re-appoint PricewaterhouseCoopers to provide overseas financial audit services for the Company in 2016. The above proposal was reviewed and passed at the sixth meeting of the seventh Board of the Company and will be submitted for the consideration by the shareholders at the general meeting.

(ii) 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 2014 Annual Report and the 2015 Interim Report, the Company issued notifications to the Directors, Supervisors, senior management, controlling shareholder and ultimate controller that no dealing of the stocks of the Company shall be made during the sensitive period. 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
2015 First Extraordinary General Meeting	13 March 2015
2014 Annual General Meeting	22 May 2015
2015 Second Extraordinary General Meeting	17 December 2015

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)
Liu Yujun	No	10	10	6	0	0	No	2
Zhang Wenhui	No	5	5	5	0	0	No	1
Lin Wenbo	No	15	4	11	0	0	No	3
Fu Yana	No	15	4	11	0	0	No	3
Shi Zhenjuan	No	5	5	5	0	0	No	1
Cao Shuo	No	10	10	10	0	0	No	2
An Pindong	No	15	11	11	4	0	No	3
Chen Yinxing	No	15	13	12	2	0	No	3
Gao Zongze	Yes	15	15	14	0	0	No	3
Lee Kit Ying, Karen	Yes	13	12	1	1	0	No	3
Guan Yimin	Yes	13	13	11	0	0	No	3
Wang Xiangfei	Yes	2	2	2	0	0	No	0
Guo Yongqing	Yes	2	2	2	0	0	No	0
Number of Board meetings held during the year (times)								15
Among which: Physical Meetings (times)								0
Meetings held by way of other communication method (times)								11
Meetings held physically together with by way of other communication method (times)								4

(ii) Disagreement on the relevant matters 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.

For details of the performance of duties by independent non-executive Directors, please refer to "The Report of Performance of Duties by Independent Directors".

8. Corporate Governance

IV. IMPORTANT OPINIONS AND SUGGESTIONS RAISED BY SPECIAL COMMITTEES UNDER THE BOARD WHEN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD AND DISCLOSURE ON EVENTS INVOLVING OBJECTIONS AND DISSENTS

During the reporting period, the Nomination Committee under the Board nominated two candidates, namely Mr. Liu Yujun and Ms. Cao Shuo to become Directors of the seventh Board of the Company, all of such nominations have been approved at the general meeting of the Company. Also, Ms. Qi Lipin was nominated as chief economist of the Company, which has been approved by the Board.

The Remuneration and Assessment Committee under the Board made recommendation and advices regarding the remuneration policies in respect of the Directors of the seventh Board of the Company based on the actual conditions during the reporting period, which have been approved at the general meeting of the Company.

During the reporting period, the Audit Committee of the Company proposed to reappoint 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.

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 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.
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.

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 (CONTINUED)

	Independent or not	Description
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.

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	Unit: RMB (Yuan)
	Contribution to pension scheme
Zhang Jian	33,739.2
Lin Wenbo	33,739.2
Li Yang	33,739.2
Li Yuqing	33,739.2
Yang Guang	33,739.2

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

VIII THE DISCLOSURE OF INTERNAL CONTROL ASSESSMENT REPORT

For details, please refer to “2015 Internal Control Assessment Report” disclosed at the website of the SSE on 30 March 2016.

Descriptions of Material Defects Relating Internal Control during the Reporting Period

Non-applicable

IX. 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 “2015 Internal Control Audit Report” disclosed on the website of the SSE on 30 March 2016.

9. Financial Accounting Report

For details, please refer to the accounting statements and audited reports for 2015 of the Company.



Auditor's Report

PwC ZT Shen Zi (2016) No. 10098

(Page 1 of 2)

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

We have audited the accompanying financial statements of Tianjin Capital Environmental Protection Group Company Limited (hereinafter the "Company"), which comprise the consolidated and company balance sheets as at 31 December 2015, and the consolidated and company income statements, the consolidated and company statements of changes in shareholders' 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.

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.

10. Report of the Auditors

PwC ZT Shen Zi (2016) No. 10098

(Page 2 of 2)

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 2015, 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

29 March 2016

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

As at 31 December 2015

(All amounts in RMB thousand unless otherwise stated)

ASSETS	Notes 4	Group		Company	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
CURRENT ASSETS					
Cash and cash equivalents	(1)	1,349,875	820,092	604,199	295,231
Notes receivables		1,094	—	—	—
Trade receivables	(2)	1,238,352	2,563,114	1,024,181	2,371,956
Prepayments	(3)	139,727	106,412	172	259
Dividend receivables		—	—	8,713	—
Other receivables	(4)	74,531	5,707	151,549	95,792
Inventories	(5)	27,151	14,392	3,697	4,336
Other current assets	(6)	47,168	62,250	124,043	77,380
Total current assets		2,877,898	3,571,967	1,916,554	2,844,954
NON-CURRENT ASSETS					
Available-for-sale financial assets	(7)	2,000	2,000	2,000	2,000
Long-term receivables	(8)	319,463	326,147	319,463	326,147
Long-term equity investments	(9)	25,998	31,347	1,557,255	1,353,236
Investment properties	(10)	101,263	104,936	78,986	82,154
Fixed assets	(11)	451,510	488,528	141,424	157,880
Construction in progress	(11)	2,943	4,133	—	197
Intangible assets	(12)	6,260,176	6,321,963	3,511,540	3,648,936
Other non-current assets	(6)	8,051	8,461	181,580	134,468
Total non-current assets		7,171,404	7,287,515	5,792,248	5,705,018
TOTAL ASSETS		10,049,302	10,859,482	7,708,802	8,549,972

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

As at 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes 4	Group		Company	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
CURRENT LIABILITIES					
Short-term borrowings	(16)	—	50,000	—	50,000
Trade payables	(14)	82,599	54,319	26,193	21,540
Advances	(14)	874,880	776,190	7,666	6,841
Taxes payable	(14)	96,387	26,400	71,522	14,987
Dividend payable	(14)	32,426	60,337	32,426	60,337
Other payables	(14)	475,812	666,433	941,483	1,029,776
Wages payable	(15)	21,809	13,650	12,667	7,930
Other non-current liabilities due within one year	(16)	1,003,816	304,221	721,466	91,391
Other current liabilities	(16)	3,810	4,251	—	—
Total current liabilities		2,591,539	1,955,801	1,813,423	1,282,802
NON-CURRENT LIABILITIES					
Long-term borrowings	(16)	574,186	1,564,566	—	725,850
Long-term debentures	(16)	694,925	1,388,975	694,925	1,388,975
Long-term payables	(16)	269,777	262,454	269,777	262,454
Other non-current liabilities	(16)	48,638	53,727	—	—
Deferred revenue	(17)	1,145,674	1,209,201	905,198	967,167
Deferred income tax liabilities	(18)	105,810	86,778	46,104	36,584
Total non-current liabilities		2,839,010	4,565,701	1,916,004	3,381,030
TOTAL LIABILITIES		5,430,549	6,521,502	3,729,427	4,663,832
SHAREHOLDERS' EQUITY					
Share capital	(19)	1,427,228	1,427,228	1,427,228	1,427,228
Capital surplus	(20) (a)	382,311	382,311	380,788	380,788
General reserves	(20) (b)	414,376	395,063	414,376	395,063
Undistributed profits	(20) (c)	2,177,200	1,965,882	1,756,983	1,683,061
Equity attributable to owners of the parent		4,401,115	4,170,484	3,979,375	3,886,140
Non-controlling interests	(21)	217,638	167,496	—	—
Total shareholders' equity		4,618,753	4,337,980	3,979,375	3,886,140
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,049,302	10,859,482	7,708,802	8,549,972

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

Liu Yujun
Company Representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

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

For the year ended 31 December 2015

(All amounts in RMB thousand unless otherwise stated)

	Notes 4	Group		Company	
		2015	2014	2015	2014
Income from operations	(22)	1,934,206	1,828,079	994,093	983,187
Less: Cost for operations	(22)	(1,201,944)	(1,084,775)	(556,440)	(492,149)
Business tax and surcharges	(23)	(33,289)	(16,219)	(18,422)	(8,777)
Selling expenses	(24)	(3,166)	—	—	—
Administrative expenses	(24)	(105,366)	(103,415)	(62,604)	(61,410)
Financial expenses - net	(26)	(182,855)	(187,626)	(109,658)	(112,524)
Impairment of assets	(27)	(31,589)	(23,910)	(38,928)	(23,910)
Add: Investment (loss)/income	(9)	(5,349)	(1,274)	8,713	2,000
Including: Share of loss of an associate		(5,349)	(1,274)	—	—
Operation profit		370,648	410,860	216,754	286,417
Add: Non-operating income	(28)	154,479	800,876	110,553	684,881
Including: Gain on disposals of non-current assets		38	64	—	3
Less: Non-operating expenses	(29)	(34,945)	(778,472)	(33,791)	(669,378)
Including: Loss on disposals of non-current assets		(34)	(1,876)	—	(265)
Total profit		490,182	433,264	293,516	301,920
Less: Income tax	(30)	(145,703)	(115,552)	(100,375)	(83,848)
Net profit		344,479	317,712	193,141	218,072
Attributable to owners of the parent		330,537	308,168	193,141	218,072
Non-controlling interests		13,942	9,544	—	—
Earnings per share(in Rmb Yuan)	(31)				
– Basic		0.23	0.22	—	—
– Diluted		0.23	0.22	—	—
Other comprehensive income after deduction of impact of income tax		—	—	—	—
Total comprehensive income		344,479	317,712	193,141	218,072
Attributable to owners of the parent		330,537	308,168	193,141	218,072
Non-controlling interests		13,942	9,544	—	—

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

Liu Yujun
Company Representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

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

Cash Flow Statement

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

	Notes 4	Group		Company	
		2015	2014	2015	2014
1. Cash flows from operating activities					
Cash received from sales of goods and rendering of services		3,532,338	1,450,247	2,424,296	572,798
Cash received from tax refunds		17,248	—	—	—
Cash received relating to other operating activities	(32) (c)	28,051	12,555	13,789	5,349
Sub-total of cash inflows		<u>3,577,637</u>	<u>1,462,802</u>	<u>2,438,085</u>	<u>578,147</u>
Cash paid for goods and services		(741,871)	(490,146)	(328,505)	(229,657)
Cash paid to and on behalf of employees		(235,244)	(198,200)	(95,267)	(99,053)
Payments of taxes and levies		(246,064)	(128,725)	(127,569)	(87,780)
Cash payments relating to other operating activities	(32) (d)	(43,779)	(36,362)	(28,449)	(29,097)
Sub-total of cash outflows		<u>(1,266,958)</u>	<u>(853,433)</u>	<u>(579,790)</u>	<u>(445,587)</u>
Net cash flows from operating activities	32	<u>2,310,679</u>	<u>609,369</u>	<u>1,858,295</u>	<u>132,560</u>
2. Cash flows from investing activities					
Cash received from returns on investments		—	674	—	17,366
Net cash received from disposals of fixed assets	(32) (e)	95	6,504	43	72
Cash received from subsidiaries		—	—	179,143	338,954
Cash received from restricted bank deposits		—	2,067	—	—
Other cash received relating to investing activities	(32) (f)	—	300,000	—	300,000
Sub-total of cash inflows		<u>95</u>	<u>309,245</u>	<u>179,186</u>	<u>656,392</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(468,645)	(638,737)	(211,228)	(321,169)
Cash paid to acquire equity investments		—	—	(215,000)	(97,010)
Other cash paid relating to investing activities		(16,100)	—	(5,000)	(2,500)
Cash paid to subsidiaries		—	—	(214,548)	(79,337)
Other cash paid relating to investing activities	(32) (g)	(8,205)	—	(7,294)	—
Sub-total of cash outflows		<u>(492,950)</u>	<u>(638,737)</u>	<u>(653,070)</u>	<u>(500,016)</u>
Net cash flows from investing activities		<u>(492,855)</u>	<u>(329,492)</u>	<u>(473,884)</u>	<u>156,376</u>

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

Cash Flow Statement

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

	Notes 4	Group		Company	
		2015	2014	2015	2014
3. Cash flows from financing activities					
Cash received from borrowings		145,000	829,651	100,000	586,000
Cash received by investors		37,000	—	—	—
Sub-total of cash inflows		<u>182,000</u>	<u>829,651</u>	<u>100,000</u>	<u>586,000</u>
Repayments of amounts borrowed		(1,187,542)	(1,004,903)	(944,350)	(704,250)
Payments for interest expenses		(169,982)	(194,211)	(108,276)	(129,638)
Payments for distribution of dividends or profits		(128,617)	(90,504)	(127,817)	(90,407)
Sub-total of cash outflows		<u>(1,486,141)</u>	<u>(1,289,618)</u>	<u>(1,180,443)</u>	<u>(924,295)</u>
Net cash flows from financing activities		<u>(1,304,141)</u>	<u>(459,967)</u>	<u>(1,080,443)</u>	<u>(338,295)</u>
4. Effect of foreign exchange rate changes on cash		—	—	—	—
5. Net increase/(decrease) in cash and cash equivalents		513,683	(180,090)	303,968	(49,359)
Add: Cash and cash equivalents at beginning of the year		<u>814,892</u>	<u>994,982</u>	<u>292,731</u>	<u>342,090</u>
6. Cash and cash equivalents at end of the year	(32) (b)	<u><u>1,328,575</u></u>	<u><u>814,892</u></u>	<u><u>596,699</u></u>	<u><u>292,731</u></u>

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

Liu Yujun
Company Representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

	Attributable to owners of the parent				Non-controlling interests	Total shareholders' equity
	Share capital	Capital surplus	General reserve	Undistributed profits		
Balance at 1 January 2014	1,427,228	382,311	373,256	1,793,699	158,050	4,134,544
Changes in 2014						
Comprehensive income						
Net profit	—	—	—	308,168	9,544	317,712
Total comprehensive income	—	—	—	308,168	9,544	317,712
Profit appropriation						
Appropriation to statutory common reserves	—	—	21,807	(21,807)	—	—
Dividend appropriation to shareholders	—	—	—	(114,178)	(98)	(114,276)
Balance at 31 December 2014	1,427,228	382,311	395,063	1,965,882	167,496	4,337,980
Changes in 2015						
Comprehensive income						
Net profit	—	—	—	330,537	13,942	344,479
Total comprehensive income	—	—	—	330,537	13,942	344,479
Investment from shareholders	—	—	—	—	37,000	37,000
Profit appropriation						
Appropriation to statutory common reserves	—	—	19,313	(19,313)	—	—
Dividend appropriation to shareholders	—	—	—	(99,906)	(800)	(100,706)
Balance at 31 December 2015	1,427,228	382,311	414,376	2,177,200	217,638	4,618,753

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

Liu Yujun
Company Representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

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

Company Statement of Changes in Equity

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

	Share capital	Capital surplus	General reserves	Undistributed profits	Total shareholders' equity
Balance at 1 January 2014	1,427,228	380,788	373,256	1,600,974	3,782,246
Changes in 2014					
Comprehensive income					
Net profit	—	—	—	218,072	218,072
Total comprehensive income	—	—	—	218,072	218,072
Profit appropriation					
Appropriation to statutory common reserves	—	—	21,807	(21,807)	—
Dividend appropriation to shareholders	—	—	—	(114,178)	(114,178)
Balance at 31 December 2014	1,427,228	380,788	395,063	1,683,061	3,886,140
Changes in 2015					
Comprehensive income					
Net profit	—	—	—	193,141	193,141
Total comprehensive income	—	—	—	193,141	193,141
Profit appropriation					
Appropriation to statutory common reserves	—	—	19,313	(19,313)	—
Dividend appropriation to shareholders	—	—	—	(99,906)	(99,906)
Balance at 31 December 2015	<u>1,427,228</u>	<u>380,788</u>	<u>414,376</u>	<u>1,756,983</u>	<u>3,979,375</u>

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

Liu Yujun
Company Representative

Peng Yilin
Person in charge of
accounting function

Liu Tao
Person in charge of
accounting department

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

Notes to the Financial Statements

For the year ended 31 December 2015
(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 the basis of Tianjin Bohai Chemical Industry (Group) Company Limited (“Bohai Chemical Industry”). Bohai Chemical Industry was established on 8 June 1993 in Tianjin, the People’s Republic of China (the ‘PRC’), listed in Hong Kong Stock Exchange (“H share”) in May 1994 and Shanghai Stock Exchange (“A share”) in June 1995. Bohai Chemical Industry appeared significant losses in 1998 and 1999. Approved by Tianjin Government, the Company had completed the equity and assets reorganization of Bohai Chemical Industry at the end of year 2000. The address of the Company’s registered office is No.45 Guizhou Road, Heping District, Tianjin. The parent company and ultimate holding company of the Company is Tianjin Municipal Investment Company Limited (“Municipal Investment”) and Tianjin City Infrastructure Construction and Investment Group Company Limited (“City Infrastructure Construction Investment”) respectively. On December 31, 2015, the Company’s total share capital is RMB 1.427 billion yuan, RMB 1 yuan per share value.

For the detailed information of subsidiaries which are in scope and new in scope this year, see Note 4(9) (a).

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 (“Service concession rights agreements”), the Group currently provides sewage processing services via the following plants:

Plant	Location	Agreement date	Authorizer
Guiyang	Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying	Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi	Hubei	15 July 2005	Chibi Construction Bureau
Fuyang	Anhui	18 December 2005	Fuyang Construction Committee
Qujing	Yunnan	25 December 2005	Qujing City Water General Company
Honghu	Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou	Zhejiang	20 November 2006	Hangzhou Sewage Company
Jinghai	Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng	Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an	Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Anguo	Hebei	14 October 2008	An Guo Municipal Government
Xianning	Hubei	16 October 2008	Xianning Construction Committee
Yingdong	Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Qujing	Yunnan	16 August 2011	QuJing Housing and Urban Construction Bureau
Chaohu	Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau
Jingu	Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission(“TUCC”), Tianjin Water Authority Bureau(“TWAB”)
Xianyanglu	Tianjin	18 February 2014	TUCC and TWAB
Dongjiao	Tianjin	18 February 2014	TUCC and TWAB
Beicang	Tianjin	18 February 2014	TUCC and TWAB

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(a) Processing of sewage water (Continued)

Based on the sewage water processing agreements, the Group provide sewage water processing services and are entitled to a pre-determined sewage processing fee.

(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 TUCC of providing heating and cooling supply services for Tianjin City Cultural Center's concentrated energy station project.

These consolidated financial statements were approved by the Directors of the Company on 29 March 2016.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group determined the specific accounting policies and accounting estimates according to the production management characteristics. They are reflected mainly on the impairment assessment of accounts receivables (Note 2(9)), valuation method of investment properties (Note 2(12)), amortization and depreciation of intangible assets and fixed assets (Note 2(13) (16)), recognition and amortization of concession rights (Note 2(16) (b)), revenue recognition (Note 2(20)) and so on.

The significant accounting policy adopted by the group see note 2(25).

(1) Basis of preparation of financial statement

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, 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 stipulated by China Securities Regulatory Commission.

The financial statements prepared on a continuous operating basis.

(2) Statement of compliance with CAS

The financial statements of the Company for the year ended 31 December 2015 truly and completely present the financial position as of 31 December 2015 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.

(3) Accounting period

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

(4) Recording currency

The recording currency is Renminbi (“Rmb”).

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) 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 non-controlling interests, non-controlling interest income and comprehensive income which belongs to non-controlling interests and are presented separately in the consolidated balance sheet within equity, net profits and comprehensive income respectively.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' owners' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and total comprehensive incomes attributed to non-controlling interests, and presented separately in the consolidated financial statements under owners' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and net profit attributed to non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary.

If there is any different when judging one transaction upon different accounting entities (the group, the company and the subsidiary), adjust the transaction to base on the group entity.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) 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.

(7) Foreign currency translation

(a) Foreign currency transactions

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.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the owners' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments

(a) Financial assets

(i) Classification of financial assets

Financial assets at initial recognition are classified as follows: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the holding intention and ability of the Group. The Group's financial assets are represented as available-for-sale assets and receivables.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as assets at fair value through profit or loss or as available-for-sale.

Available-for-sale financial assets (AFS)

AFS are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as other types. Since the date of balance sheet, the available-for-sale financial assets which will be sold within 12 months are reported as other current assets.

(ii) 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. Financial assets measured at fair value through profit or loss and available-for-sale financial assets should be measured at fair value for subsequent period. If there is no active market for an equity instrument and the range of reasonable fair values is significant and these estimates cannot be made reliably, then an entity must measure the equity instrument at cost less impairment. Receivables are carried at amortized cost using the effective interest method.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) Financial instruments (Continued)

(a) Financial assets (Continued)

(iii) 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.

If an impairment loss on an available-for-sale financial asset carried at cost has been incurred, the amount of the loss is measured as the difference between similar asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. Impairment loss has occurred should not be reserved.

(iv) Recognition 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.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(8) 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.

Borrowings and debentures are initially recognized at its fair value net of transaction costs, and subsequently measured at amortized cost using effective interest method.

Financial liabilities with maturity within one year (including one year) are included in short-term liabilities. Financial liabilities 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 liabilities.

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.

(9) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of tap water 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.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) 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.

Basis of the groups and methods to determine the impairment losses:

	Basis	Methods
General credit portfolio	Trade receivables besides that are individually significant and subject to separate impairment assessment	Aging
Project deposits	Project deposits	None
VAT refunds	VAT refunds	None
Receivables from subsidiaries	Receivables from subsidiaries	None
Others	Other receivables besides above	Aging

A general provision is made for based on the ageing of receivables, at the following percentages:

	Trade receivables	Other receivables
Within 2 years	0%	0%
2-3 years	0%	100%
Over 2 years	100%	100%

(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.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Inventories

(a) Classification

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.

(b) Measurement

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.

(c) Basis of net realisable value and provision for decline in the value of inventories

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 determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts perpetual inventory system.

(e) Amortization method of spare parts and low value articles

Spare parts and low value articles are one-time write-off.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) 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.

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

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted using the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

(a) *Determination of investment 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.

(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 the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Long-term equity investments (Continued)

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

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.

(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 2(17)).

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Investment properties

Investment property is held to earn rentals and it shall be measured initially at its 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 2(17)).

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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Fixed assets

(a) Recognition and measurement

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.

(b) Depreciation method

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.

(c) 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 2(17)).

(d) Disposal

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.

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

(14) 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 2(17)).

(15) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of an 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 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 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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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) 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.

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

(16) Intangible assets (Continued)

(c) *Technical know-how and software*

Separately acquired technical know-how and software are shown at historical cost. Technical know-how and software 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 software 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.

(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 2(17)).

(17) 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.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Employee benefits

Employee benefits are various forms of compensation or compensation of the group for workers to provide services or termination of labor relations and give, including short-term compensation, post-employment benefits and termination benefits, etc.

(a) Short-term Employee benefits

The short-term compensation includes wages, bonuses, allowances and subsidies, welfare workers, medical insurance, work injury insurance, maternity insurance, housing fund, trade unions and education funding, short-term paid absence from duty. 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.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include the premiums or contributions on basic pensions and unemployment insurance, both of which belong to defined contribution plans.

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.

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2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) 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, 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.

(19) Dividend distribution

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

(20) 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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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) 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) Sales of environmental protection equipment

Revenue is recognised when the Group has delivered the equipment to the location specified in the sales contract and the customer has confirmed the acceptance of the equipment. The environmental protection equipment is mainly the achievement of technology research.

(f) Contract operation income

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

(g) Sales of technical services

The Group sells technical services to other companies. For sales of technical services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

11. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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 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.

(22) 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.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Deferred tax assets and deferred tax liabilities (Continued)

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

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

Deferred tax assets and liabilities are offset when:

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

(23) Leases

Leases in which a significant portion of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. Others are classified as operating leases.

(a) Operating leases

Cost of operating lease is recognized on a straight-line basis over the period of the lease as asset costs or current losses.

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

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

(24) 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.

(25) 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.

(a) *Critical accounting estimates and key assumptions*

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

(i) Bad debt provisions of receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade and other receivables. Provisions are applied to these receivables where events or changes in circumstance indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the year in which such estimate has been made.

(ii) Income Tax

The Group is subject to income taxes in numerous regions. There are partial 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.

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

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3 TAXATION

- (1) 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) (Note(a))	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)	3%-17%
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%

- (a) On 12 June 2015, the Ministry of Finance and the State Administration of Taxation issued the *preferential value-added tax catalogue of products and services which comprehensively utilized resources Caishui* [2015] No.78 (hereinafter referred to as the No. 78). According to the No.78, the sewage processing and reclaimed water business are required to pay value-added tax since July 1, 2015. 70% of value-added tax paid by the sewage processing business and 50% value-added tax paid by reclaimed water business will be refunded.

- (2) Preferential tax policies for enterprise income tax

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

Name of subsidiaries	Enterprise income tax rate of 2015	Preferential tax policy
Fu Yang Capital Water Co.,Ltd.	0%	Income from engaging in qualified projects of environmental protection and energy and water conservation is subject to exemption from enterprise income tax commence from 2014 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 from 2012 to 2020.
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	15%	High tech enterprises entitle to preferential tax policy from 2013 to 2015.
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.

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

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4 NOTES TO THE FINANCIAL STATEMENTS

(1) CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Cash on hand	128	333	13	13
Cash in bank	1,349,747	819,759	604,186	295,218
	<u>1,349,875</u>	<u>820,092</u>	<u>604,199</u>	<u>295,231</u>
Including:				
Bank deposits overseas	<u>8,276</u>	<u>7,942</u>	<u>—</u>	<u>—</u>

(a) Cash and cash equivalents comprise the following for the purposes of the cash flow statement:

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Cash and cash equivalents (note (i))	1,349,875	820,092	604,199	295,231
Less: Restricted bank deposits	<u>(21,300)</u>	<u>(5,200)</u>	<u>(7,500)</u>	<u>(2,500)</u>
Cash and cash equivalents on cash flow statement(note 4(32))	<u>1,328,575</u>	<u>814,892</u>	<u>596,699</u>	<u>292,731</u>

(i) The restricted bank deposits are all represented as projects deposits due within one year.

(2) TRADE RECEIVABLES

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Trade receivable	1,247,851	2,570,283	1,024,181	2,371,956
Less: Provision for bad debts	<u>(9,499)</u>	<u>(7,169)</u>	<u>—</u>	<u>—</u>
	<u>1,238,352</u>	<u>2,563,114</u>	<u>1,024,181</u>	<u>2,371,956</u>

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

For the year ended 31 December 2015
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(2) TRADE RECEIVABLES (Continued)

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

	Group			
	31 December 2015		31 December 2014	
	amount	% of total balance	amount	% of total balance
Within 1 year	1,107,015	89%	649,382	25%
1 to 2 years	124,862	10%	786,811	31%
Over 2 years	15,974	1%	1,134,090	44%
Total	1,247,851	100%	2,570,283	100%

	Company			
	31 December 2015		31 December 2014	
	amount	% of total balance	amount	% of total balance
Within 1 year	922,273	90%	477,430	20%
1 to 2 years	101,908	10%	776,235	33%
Over 2 years	—	—	1,118,291	47%
Total	1,024,181	100%	2,371,956	100%

The average credit period of about 30 days has been granted by the Group. As of 31 December 2015, the ageing of trade receivables which are past due but not impaired is no different than the analysis shown above.

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

Category	Group							
	31 December 2015				31 December 2014			
	Ending balance Amount	% of total balance	Provision for bad debts Amount	% of total balance	Ending balance Amount	% of total balance	Provision for bad debts Amount	% of total balance
Trade receivables with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	1,055,573	85%	9,499	100%	2,404,369	94%	7,169	100%
General credit portfolio	192,278	15%	—	—	165,914	6%	—	—
Total	1,247,851	100%	9,499	100%	2,570,283	100%	7,169	100%

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

(2) TRADE RECEIVABLES (Continued)

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

Category	31 December 2015				Company 31 December 2014			
	Ending balance		Provision for bad debts		Ending balance		Provision for bad debts	
	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance
Trade receivables with amounts that are individually significant and that the related provision for bad debts is provided on the individual basis	952,839	93%	—	—	2,327,422	98%	—	—
General credit portfolio	71,342	7%	—	—	44,534	2%	—	—
Total	1,024,181	100%	—	—	2,371,956	100%	—	—

(c) 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:

	Group		Ratio
	Ending balance	Provision for bad debts	
TWAB(note(i))	952,839	—	—
Qujing City Water General Company(note(ii))	102,734	(9,499)	9%
Total	1,055,573	(9,499)	

	Company		Ratio
	Ending balance	Provision for bad debts	
TWAB(note(i))	952,839	—	—

(i) The outstanding trade receivables from TWAB of the Company is collected on a continuous basis. So there's no impairment risk identified.

(ii) On 31 December 2015, the total amount of trade receivables due from Qujing City Water General Company, in respect of sewage processing fee and tap water fee was Rmb102,734 thousand. The management estimated and provided RMB9,499 thousand bad debt provision for those foreseeable uncollectible receivables with ageing over 2 years.

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

(2) TRADE RECEIVABLES (Continued)

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

	Group			
	31 December 2015		31 December 2014	
	amount	% of total balance	amount	% of total balance
Within 1 year	180,381	94%	162,059	98%
1 to 2 years	11,897	6%	3,855	2%
Total	192,278	100%	165,914	100%

	Company			
	31 December 2015		31 December 2014	
	amount	% of total balance	amount	% of total balance
Within 1 year	59,445	83%	40,679	91%
1 to 2 years	11,897	17%	3,855	9%
Total	71,342	100%	44,534	100%

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

	31 December 2015	31 December 2014
City Infrastructure Construction and Investment	<u>28,489</u>	<u>16,388</u>

(f) As at 31 December 2015, the trade receivables from the top five debtors are analyzed as below:

	relationship with the Group	amount	ageing	% of total balance
TWAB(note(i))	Third party	862,828	Within 1 year	69.15%
		90,011	1 to 2 years	7.22%
Qujing City Water General Company	Third party	63,806	Within 1 year	5.11%
		22,954	1 to 2 years	1.84%
		15,974	Over 2 years	1.28%
City Infrastructure Construction and Investment (note(i))	Ultimate holding company	28,489	Within 1 year	2.28%
Hangzhou Sewage Company	Third party	19,987	Within 1 year	1.60%
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company	12,539	Within 1 year	1.00%
Total		1,116,588		89.48%

(i) As at 31 December 2015, the amount of trade receivables from the top five debtors of the Company is Rmb1,012,964 thousand which is 98.90% of the balance.

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

(2) TRADE RECEIVABLES (Continued)

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

	relationship with the Group	31 December 2015		31 December 2014	
		amount	% of total balance	amount	% of total balance
City Infrastructure Construction and Investment	Ultimate holding company	28,489	2.29%	16,388	0.64%
Tianjin Lecheng Properties Co., Ltd.	Controlled by the same ultimate holding company	12,539	1.00%	18,422	0.72%
Tianjin Metro Resources Investment Co., Ltd.	Controlled by the same ultimate holding company	7,349	0.59%	4,975	0.19%
Tianjin City Resource Operation Co., Ltd.	Controlled by the same ultimate holding company	401	0.03%	401	0.02%
Total		<u>48,778</u>	<u>3.91%</u>	<u>40,186</u>	<u>1.57%</u>

(3) PREPAYMENTS

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

	Group			
	31 December 2015		31 December 2014	
	amount	% of total balance	amount	% of total balance
Within 1 year	74,919	54%	54,987	52%
1 to 2 years	46,007	33%	48,348	45%
Over 2 years	18,801	13%	3,077	3%
Total	<u>139,727</u>	<u>100%</u>	<u>106,412</u>	<u>100%</u>

As at 31 December 2015, the prepayments aged over one year with amount of Rmb64,808 thousand (2014: Rmb51,425 thousand) mainly for recycled water pipeline connection service for which the projects have not been completed and hence balances remain outstanding.

	Company			
	31 December 2015		31 December 2014	
	amount	% of total balance	amount	% of total balance
Within 1 year	66	38.4%	8	3.1%
1 to 2 years	6	3.5%	48	18.5%
Over 2 years	100	58.1%	203	78.4%
Total	<u>172</u>	<u>100%</u>	<u>259</u>	<u>100%</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(3) PREPAYMENTS (Continued)

(b) As at 31 December 2015, the prepayments to the top five debtors are analyzed as below:

	amount	% of total balance
Total amounts of prepayments to the top five debtors	<u>27,487</u>	<u>20%</u>

(c) As at 31 December 2015, there were no prepayments to any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2014: Nil). As at 31 December 2015, there were no prepayments to any of the related parties of the Company (31 December 2014: Nil).

(4) OTHER RECEIVABLES

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Receivables from VAT refunds	57,071	—	44,681	—
Project deposits	9,301	2,840	6,613	1,135
Receivables from subsidiaries	—	—	93,852	92,883
Others	8,159	2,867	6,403	1,774
Less: provision for bad debts	—	—	—	—
	<u>74,531</u>	<u>5,707</u>	<u>151,549</u>	<u>95,792</u>

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

	Group			
	31 December 2015		31 December 2014	
	amount	% of total balance	amount	% of total balance
Within 1 year	69,833	94%	2,296	40%
1 to 2 years	1,445	2%	1,308	23%
2 to 3 years	1,179	1%	362	6%
Over 3 years	2,074	3%	1,741	31%
	<u>74,531</u>	<u>100%</u>	<u>5,707</u>	<u>100%</u>

	Company			
	31 December 2015		31 December 2014	
	amount	% of total balance	amount	% of total balance
Within 1 year	149,668	98.76%	93,913	98.04%
1 to 2 years	4	0.00%	1,051	1.10%
2 to 3 years	1,051	0.69%	11	0.01%
Over 3 years	826	0.55%	817	0.85%
	<u>151,549</u>	<u>100%</u>	<u>95,792</u>	<u>100%</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) OTHER RECEIVABLES (Continued)

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

Category	Group							
	31 December 2015				31 December 2014			
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Portfolio for impairment assessment								
VAT refunds	57,071	77%	—	—	—	—	—	—
Project deposits	9,301	12%	—	—	2,840	50%	—	—
Others	8,159	11%	—	—	2,867	50%	—	—
Total	74,531	100%	—	—	5,707	100%	—	—

Category	Company							
	31 December 2015				31 December 2014			
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Portfolio for impairment assessment								
VAT refunds	44,681	29%	—	—	—	—	—	—
Receivables from subsidiaries	93,852	62%	—	—	92,883	97%	—	—
Project deposits	6,613	5%	—	—	1,135	1%	—	—
Others	6,403	4%	—	—	1,774	2%	—	—
Total	151,549	100%	—	—	95,792	100%	—	—

(c) Portfolio for impairment assessment with aging are analyzed as below:

Category	Group							
	31 December 2015				31 December 2014			
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Within 1 year	8,159	11%	—	—	2,867	50%	—	—

Category	Company							
	31 December 2015				31 December 2014			
	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	Amount	% of total balance	
Within 1 year	6,403	4%	—	—	1,774	2%	—	—

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(4) OTHER RECEIVABLES (Continued)

(d) As at 31 December 2015, there were no receivables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2014: Nil). As at 31 December 2015, there were no receivables from any of the related parties of the Company (31 December 2014: Nil).

(e) As at 31 December 2015, other receivables from the top five debtors are analyzed as below:

	Nature	Group amount	ageing	% of total balance
Tianjin Municipal Office, SAT	Receivables from VAT refunds	44,681	Within 1 year	59.95%
Haiyan Public Resources Trading Center	Project deposits	5,000	Within 1 year	6.71%
Xi'an Municipal Office, SAT	Receivables from VAT refunds	4,989	Within 1 year	6.69%
Industrial Bank, Tianjin Senmiao Sub-branch	Receivables from bank deposit interest	3,168	Within 1 year	4.25%
Tianjin Management Station of Construction Waste	Project deposits	1,500	1 to 4 years	2.01%
		59,338		79.61%

	Nature	amount	ageing	% of total balance
Xi'an Capital Water Co., Ltd.	Receivables from subsidiaries	60,000	Over 3 years	39.59%
Tianjin Municipal Office, SAT	Receivables from VAT refunds	44,681	Within 1 year	29.48%
Tianjin Water Recycling Co., Ltd.	Receivables from subsidiaries	17,616	Over 3 years	11.62%
Chibi Capital Water Co., Ltd.	Receivables from subsidiaries	13,000	Over 3 years	8.58%
Industrial Bank, Tianjin Senmiao Sub-branch	Receivables from bank deposit interest	3,168	Within 1 year	2.10%
		138,465		91.37%

(f) According to No.78(Note3 (1) (a)), the amount of receivables from government grants (VAT refunds) is Rmb 57,071 thousand which due in 1 year and to be collected during the first quarter of 2016. This amount has been collected in the first quarter of 2016.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(5) INVENTORIES

Inventories are summarized by categories as follows:

	Group					
	31 December 2015			31 December 2014		
	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	9,237	—	9,237	9,597	—	9,597
Finished goods	2,340	—	2,340	2,644	—	2,644
Spare parts and low cost consumables	522	—	522	472	—	472
Construction contract costs	15,052	—	15,052	1,679	—	1,679
	<u>27,151</u>	<u>—</u>	<u>27,151</u>	<u>14,392</u>	<u>—</u>	<u>14,392</u>

	Company					
	31 December 2015			31 December 2014		
	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	3,498	—	3,498	4,137	—	4,137
Spare parts and low cost consumables	199	—	199	199	—	199
	<u>3,697</u>	<u>—</u>	<u>3,697</u>	<u>4,336</u>	<u>—</u>	<u>4,336</u>

(6) OTHER CURRENT AND NON-CURRENT ASSETS

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Other current asset:				
Receivables from subsidiaries	—	—	124,043	77,380
Assets of Anguo(Note 4(27))	47,143	58,124	—	—
Others	25	4,126	—	—
	<u>47,168</u>	<u>62,250</u>	<u>124,043</u>	<u>77,380</u>
Other non-current asset:				
Receivables from subsidiaries	—	—	181,580	134,000
Others	8,051	8,461	—	468
	<u>8,051</u>	<u>8,461</u>	<u>181,580</u>	<u>134,468</u>

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

(7) AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2015	31 December 2014
Measured at cost		
– Available for sale equity instruments	<u>2,000</u>	<u>2,000</u>

Available for sale financial assets related information analysis are as follows:

	31 December 2015	31 December 2014
Available for sale equity instrument		
– Cost	2,000	2,000
– Provision for impairment	<u>—</u>	<u>—</u>
	<u>2,000</u>	<u>2,000</u>

Available-for-sale financial assets measured at cost are equity investments in Tianjin Beifang Rencaigang Company Limited. These investments are not quoted in an active market, their fair values cannot be reliably estimated. The group has no plan to dispose these investments.

(8) LONG-TERM RECEIVABLES

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Receivables from toll road concession	<u>319,463</u>	<u>326,147</u>	<u>319,463</u>	<u>326,147</u>

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.

(9) LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Investment in subsidiaries (note (a))	—	—	1,639,755	1,424,755
Less: Impairment provision for long-term investment (note (b))	<u>—</u>	<u>—</u>	<u>(82,500)</u>	<u>(71,519)</u>
	—	—	1,557,255	1,353,236
Investment in an associate (note (c))	<u>25,998</u>	<u>31,347</u>	<u>—</u>	<u>—</u>
	<u>25,998</u>	<u>31,347</u>	<u>1,557,255</u>	<u>1,353,236</u>

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

(9) 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
Xi'an Capital Water Co., Ltd.	B	Xi'an	Xi'an	Sewage processing	334,000	Limited Company	Zhao Yi
Hangzhou Tianchuang Capital Water Co., Ltd.	A	Hangzhou	Hangzhou	Sewage processing	377,445	Limited Company	Zhao Yi
Qijing Capital Water Co., Ltd.	A	Qijing	Qijing	Sewage processing, tap water supply	178,983	Limited Company	Wang Hui
Guizhou Capital Water Co., Ltd.	A	Guizhou	Guizhou	Sewage processing	120,000	Limited Company	Zhao Yi
Fuyang Capital Water Co., Ltd.	B	Fuyang	Fuyang	Sewage processing	107,100	Limited Company	Zhou Jingdong
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	Han Song
Wuhan Tianchuang Capital Water Co., Ltd.	B	Wuhan	Wuhan	Sewage processing and tap water supply	103,240	Limited Company	Zhou Jingdong
Tianjin Jiayuantian Innovative Energy Technology Co., Ltd	B	Tianjin	Tianjin	Energy saving, innovative energy research, consulting and transfer service property management	64,000	Limited Company	Li Wei
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	B	Hong Kong	Hong Kong	Sewage processing	62,987	Limited Company	Niu Bo
Wendeng Capital Water Co., Ltd.	B	Wendeng	Wendeng	Sewage processing	61,400	Limited Company	Zhao Yi
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	Li Wei
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
Baoying Capital Water Co., Ltd.	A	Baoying	Baoying	Sewage processing	53,000	Limited Company	Zhang Jian

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) LONG-TERM EQUITY INVESTMENTS (Continued)

(a) Subsidiaries (Continued)

	Company type	Place of registration	Place of operation	Nature of business and business activity	Registered capital	Enterprise type	Legal representative
Tianjin Jiayuansheng Innovative Energy Technology Co., Ltd	B	Tianjin	Tianjin	Energy saving, innovative energy research, consulting and transfer service property management	33,000	Limited Company	Li Wei
Tianjin Capital New Materials Co., Ltd.	A	Tianjin	Tianjin	Production and sales of new types of construction material	37,500	Limited Company	Zhang Qiang
Tianjin Zichuang Project Investment Co., Ltd.	B	Tianjin	Tianjin	Construction project investment	23,400	Limited Company	Wang Hong
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	B	Tianjin	Tianjin	Environmental engineering protection and technical consultation	20,000	Limited Company	Li Yuqing
Tianjin Jinning Capital Water Co., Ltd	B	Tianjin	Tianjin	Sewage processing	15,000	Limited Company	Yang Guang
Tianjin Jing Hai Capital Water Co., Ltd	B	Tianjin	Tianjin	Sewage processing	12,000	Limited Company	Yang Guang
Tianjin Capital Water Co., Ltd.	B	Tianjin	Tianjin	Sewage processing	10,000	Limited Company	Wang Hong

A: Subsidiary

B: Wholly-owned subsidiaries

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) LONG-TERM EQUITY INVESTMENTS (Continued)

(a) Subsidiaries (Continued)

	Investment cost	31 December 2014	Additions	Provision	31 December 2015	Shareholding/ voting rights (%)	Non-controlling interest	Provisions of impairment	Cash dividends declared/ Gain on investment in the current year
Xi'an Capital Water Co., Ltd.	334,000	334,000	—	—	334,000	100/100	—	—	—
Hangzhou Tianchuang Capital Water Co., Ltd.	264,212	180,212	84,000	—	264,212	70/70	153,414	—	—
Qijing Capital Water Co., Ltd.	154,918	154,918	—	—	154,918	87/87	31,528	—	—
Guizhou Capital Water Co., Ltd.	114,000	95,000	19,000	—	114,000	95/95	7,002	—	—
Fuyang Capital Water Co., Ltd.	107,302	107,302	—	—	107,302	100/100	—	—	7,033
Tianjin Water Recycling Co., Ltd.	100,436	100,436	—	—	100,436	100/100	—	—	—
Wuhan Tianchuang Capital Water Co., Ltd.	98,500	98,500	—	—	98,500	100/100	2,264	—	—
Tianjin Jiayuantian Innovative Energy Technology Co., Ltd.	64,000	—	64,000	—	64,000	100/100	—	—	—
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	62,987	62,987	—	—	62,987	100/100	1,368	—	—
Wendeng Capital Water Co., Ltd.	61,400	61,400	—	—	61,400	100/100	—	—	—
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	60,000	60,000	—	—	60,000	100/100	—	—	—
Anguo Capital Water Co., Ltd.	41,000	10,981	—	(10,981)	—	100/100	—	(41,000)	—
Baoying Capital Water Co., Ltd.	37,100	37,100	—	—	37,100	70/70	21,885	—	1,680

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) LONG-TERM EQUITY INVESTMENTS (Continued)

(a) Subsidiaries (Continued)

	Investment cost	31 December 2014	Additions	Provision	31 December 2015	Share-holding/voting rights (%)	Non-controlling interest	Provisions of impairment	Cash dividends declared/ Gain on investment in the current year
Tianjin Jiayuansheng Innovative Energy Technology Co., Ltd.	33,000	—	33,000	—	33,000	100/100	—	—	—
Tianjin Capital New Materials Co., Ltd.	26,500	—	—	—	—	71/71	177	(26,500)	—
Tianjin Zichuang Project Investment Co., Ltd.	23,400	23,400	—	—	23,400	100/100	—	—	—
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	20,000	5,000	15,000	—	20,000	100/100	—	—	—
Tianjin Jinning Capital Water Co., Ltd.	15,000	—	—	—	—	100/100	—	(15,000)	—
Tianjin Jing Hai Capital Water Co., Ltd.	12,000	12,000	—	—	12,000	100/100	—	—	—
Tianjin Capital Water Co., Ltd.	10,000	10,000	—	—	10,000	100/100	—	—	—
Total	1,639,755	1,353,236	215,000	(10,981)	1,557,255		217,638	(82,500)	8,713

- (i) The Group is not exposed to significant restriction on recovery or remittance of return on investment in subsidiaries.
- (ii) In 2015, the parent company has invested in Hangzhou Tianchuang Capital Water Co., Ltd. in cash of RMB84 million, in Guizhou Capital Water Co., Ltd. in cash of RMB19 million and in Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd. in cash of RMB15 million. In 2015, the parent company has newly established Tianjin Jiayuansheng Innovative Energy Technology Co., Ltd. in cash of RMB64 million and Tianjin Jiayuansheng Innovative Energy Technology Co., Ltd. in cash of RMB33 million.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) LONG-TERM EQUITY INVESTMENTS (Continued)

(a) Subsidiaries (Continued)

(iii) In 2015, the cash dividend declared by the subsidiaries was RMB7 million and RMB2 million from Fuyang Capital Water Co., Ltd. and Baoying Capital Water Co., Ltd.

(iv) Non-controlling interest in Honghu Capital Water Co., Ltd. (a subsidiary of Wuhan Tianchuang Capital Water Co., Ltd.) is RMB2,264 thousand as at 31 December 2015 (31 December 2014: RMB2,301 thousand). Non-controlling interest in Sino Legend (Hong Kong) Limited (a subsidiary of Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.) is RMB1,368 thousand as at 31 December 2015 (31 December 2014: RMB1,803 thousand).

(b) Provisions

	31 December 2014	Additions	Decrease	31 December 2015
Tianjin Capital New Materials Co., Ltd.	26,500	—	—	26,500
Anguo Capital Water Co., Ltd. (note(i))	30,019	10,981	—	41,000
Tianjin Jinning Capital Water Co., Ltd.	15,000	—	—	15,000
	<u>71,519</u>	<u>10,981</u>	<u>—</u>	<u>82,500</u>

(i) A provision of Rmb 10,981 thousand was provided for the related assets of Anguo Capital Water Co., Ltd. in 2015, see Note 4(27).

(c) Investment in an associate

	Type	Place of registration	Registered capital	Interest & voting shares held
Tianjin international Machinery Co., Ltd.	Limited Company	Tianjin	120,000	27.50%

Tianjin International Machinery Co., Ltd. (“International Machinery”) is a Sino-foreign joint venture registered in the Tianjin Economics Development Area. The principal activities of International Machinery 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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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(9) LONG-TERM EQUITY INVESTMENTS (Continued)

(c) Investment in an associate (Continued)

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

	Initial Investment cost	31 December 2014	Share of loss	Cash dividends by the associate	31 December 2015	Share holding/ Voting rights(%)
International Machinery	33,000	31,347	(5,349)	—	25,998	27.50%

Summarised financial information for insignificant associate

	International Machinery	
	2015	2014
Aggregated carrying amount of investment	25,998	31,347
Aggregate of the following items in proportion		
Net loss(note(i))	(5,349)	(1,274)
Other comprehensive income(note(i))	—	—
Total comprehensive income	(5,349)	(1,274)

- (i) The net profit and other comprehensive income have taken into account the impacts of both the fair value of the identifiable assets and liabilities upon the acquisition of investment in associate and the unification of accounting policies adopted by the associate to those adopted by the Company.

(10) INVESTMENT PROPERTIES

Buildings	Group	Company
Cost		
At 1 January 2014, 31 December 2014 and 2015	137,374	110,648
Accumulated depreciation		
1 January 2014	(28,765)	(25,325)
Charge for the year	(3,673)	(3,169)
At 31 December 2014	(32,438)	(28,494)
Charge for the year	(3,673)	(3,168)
At 31 December 2015	(36,111)	(31,662)
Net book value		
At 31 December 2015	101,263	78,986
At 31 December 2014	104,936	82,154

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(10) INVESTMENT PROPERTIES (Continued)

The Group's investment properties mainly represent the apportioned cost of its office building of the Company and property of Tianjin Water Recycling Co., Ltd. located in Tianjin held for long-term rental. Based on the Management's assessment, the fair value of leased office building of the Company at 31 December 2015 was approximately Rmb158 million (2014: Rmb151 million) and its carrying value was approximately Rmb79 million. The fair value of leased property of Tianjin Water Recycling Co., Ltd. at 31 December 2015 was approximately Rmb52 million (2014: Rmb50 million) and its carrying value was approximately Rmb22 million.

(11) FIXED ASSETS AND CONSTRUCTION IN PROGRESS

(a) Group

	Buildings & structure (note (i))	Machinery & equipment	Motor vehicles & others	Total
Cost				
At 1 January 2014	2,006,261	2,183,553	227,036	4,416,850
Transfer from construction in progress	108,553	97,293	7,833	213,679
Additions	14,625	4,142	271	19,038
Transfers to intangible assets	(1,754,150)	(1,889,823)	(153,528)	(3,797,501)
Disposals	(85,657)	(86,397)	(16,645)	(188,699)
At 31 December 2014	289,632	308,768	64,967	663,367
Transfer from construction in progress(note4(11) (c))	—	7,040	—	7,040
Additions	—	4,228	1,633	5,861
Adjustment for estimated carrying amounts	(8,773)	—	—	(8,773)
Disposals	—	(27)	(1,009)	(1,036)
At 31 December 2015	280,859	320,009	65,591	666,459
Accumulated depreciation				
At 1 January 2014	(704,857)	(525,267)	(98,602)	(1,328,726)
Charge for the year(note(ii))	(22,067)	(48,270)	(12,911)	(83,248)
Transfers to intangible assets	664,970	445,811	53,253	1,164,034
Disposals	20,963	42,107	10,031	73,101
At 31 December 2014	(40,991)	(85,619)	(48,229)	(174,839)
Charge for the year(note(ii))	(12,506)	(25,389)	(3,160)	(41,055)
Disposals	—	27	918	945
At 31 December 2015	(53,497)	(110,981)	(50,471)	(214,949)
Net book value				
At 31 December 2015	227,362	209,028	15,120	451,510
At 31 December 2014	248,641	223,149	16,738	488,528

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(11) 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 Rmb37 million (2014:Rmb77 million) has been included in cost of operations and Rmb4 million (2014: Rmb6 million) in administrative expenses.
- (iii) As at 31 December 2015, 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 Rmb127 million and cost of Rmb175 million (31 December 2014: carrying amount of Rmb132 and cost of Rmb175 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 managements 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 2014	1,834,017	2,017,845	186,889	4,038,751
Additions	—	373	966	1,339
Transfers to intangible assets	(1,754,150)	(1,889,823)	(153,528)	(3,797,501)
Disposals	—	(13)	(4,037)	(4,050)
At 31 December 2014	79,867	128,382	30,290	238,539
Additions	—	54	331	385
Disposals	—	(27)	(836)	(863)
At 31 December 2015	79,867	128,409	29,785	238,061
Accumulated depreciation				
At 1 January 2014	(676,387)	(457,742)	(78,846)	(1,212,975)
Charge for the year	(5,400)	(28,455)	(1,781)	(35,636)
Transfers to intangible assets	664,970	445,811	53,253	1,164,034
Disposals	—	10	3,908	3,918
At 31 December 2014	(16,817)	(40,376)	(23,466)	(80,659)
Charge for the year	(3,652)	(11,784)	(1,362)	(16,798)
Disposals	—	27	793	820
At 31 December 2015	(20,469)	(52,133)	(24,035)	(96,637)
Net book value				
At 31 December 2015	59,398	76,276	5,750	141,424
At 31 December 2014	63,050	88,006	6,824	157,880

11. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(c) Movement of significant projects of construction in progress:

Name	Budget	31 December 2014	Increase in current year	Transfer to fixed assets	Transfer to intangible assets	31 December 2015	Group	Source of funds
							Proportion of expenditures incurred to budgeted amount	
Hangzhou – Qi Ge	430,000	—	84,920	—	(84,920)	—	22%	Self-raised
Xi'an – Deng Jiacun and Bei Shiqiao	181,620	—	113,725	—	(113,725)	—	100%	Self-raised
Others		4,133	35,235	(7,040)	(29,385)	2,943		Self-raised
Total - Group		4,133	233,880	(7,040)	(228,030)	2,943		

In 2015, there's no significant increase and decrease of construction in progress of the Company.

In 2015, no borrowing cost has been capitalized (2014: no borrowing cost has been capitalized).

(d) Construction in progress

As at 31 December 2015, the progress of significant projects of construction in progress:

	Construction progress	Remark
Hangzhou – Qi Ge	22%	Estimated by percent of occurred cost amount to total project budget
Xi'an – Deng Jiacun and Bei Shiqiao	100%	Estimated by percent of occurred cost amount to total project budget

(12) INTANGIBLE ASSETS

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Concession rights (note (a))	6,238,611	6,299,501	3,494,736	3,631,305
Land use rights (note (b))	15,426	15,866	11,394	11,721
Technical know-how and computer software(note (c))	6,139	6,596	5,410	5,910
	<u>6,260,176</u>	<u>6,321,963</u>	<u>3,511,540</u>	<u>3,648,936</u>

11. Financial statements prepared in accordance with PRC Accounting
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For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(12) INTANGIBLE ASSETS (Continued)

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

	Group	Company
Cost		
At 1 January 2014	3,322,411	—
Transfers from property, plant and equipment	2,633,467	2,633,467
Transfers from land use right	402,047	402,047
Transfers from CIP	1,618,262	1,402,907
Transfer to other current assets	(76,348)	—
Additions	21,442	—
Disposals	(716,372)	(716,328)
	<hr/>	<hr/>
At 31 December 2014	7,204,909	3,722,093
Transfers from CIP(Note4 (11) (c))	228,030	—
Additions	987	—
	<hr/>	<hr/>
At 31 December 2015	7,433,926	3,722,093
	<hr/>	<hr/>
Accumulated amortization		
At 1 January 2014	(669,970)	—
Charge for the year	(245,740)	(118,100)
Disposals	27,312	27,312
	<hr/>	<hr/>
At 31 December 2014	(888,398)	(90,788)
Charge for the year	(271,629)	(136,569)
	<hr/>	<hr/>
At 31 December 2015	(1,160,027)	(227,357)
	<hr/>	<hr/>
Provision of Impairment		
At 31 December 2014	(17,010)	—
Charge for the year(Notes4(27))	(18,278)	—
	<hr/>	<hr/>
At 31 December 2015	(35,288)	—
	<hr/>	<hr/>
Net book value		
At 31 December 2015	6,238,611	3,494,736
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2014	6,299,501	3,631,305
	<hr/> <hr/>	<hr/> <hr/>

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(12) INTANGIBLE ASSETS (Continued)

- (a) The movements of concession rights are as follows: (Continued)
- (i) As at 31 December 2015, certain of concession rights with net book value of Rmb201 million (Cost: Rmb302 million) (2014: carrying amount Rmb211 million; cost: Rmb302 million) have been secured against long-term borrowings of Rmb75 million (2014: Rmb97 million) (note 4(16) (a)).
- (ii) The remaining amortization period of concession rights range from 13 to 28 years.
- (b) The movements of land use rights are as follows:

	Group	Company
Cost		
At 1 January 2014	583,057	567,266
Transfers to intangible assets	(554,178)	(554,178)
Disposals	(11,038)	—
At 31 December 2014 and 2015	<u>17,841</u>	<u>13,088</u>
Accumulated amortization		
At 1 January 2014	(156,708)	(153,236)
Transfers to intangible assets	152,131	152,131
Charge for the year	(697)	(262)
Disposals	3,299	—
At 31 December 2014	(1,975)	(1,367)
Charge for the year	(440)	(327)
At 31 December 2015	<u>(2,415)</u>	<u>(1,694)</u>
Net book value		
At 31 December 2015	<u>15,426</u>	<u>11,394</u>
At 31 December 2014	<u>15,866</u>	<u>11,721</u>

11. Financial statements prepared in accordance with PRC Accounting
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For the year ended 31 December 2015
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(12) INTANGIBLE ASSETS (Continued)

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

	Group	Company
Cost		
At 1 January 2014	11,366	10,291
Additions	681	—
Disposals	(726)	—
At 31 December 2014	11,321	10,291
Additions	141	—
At 31 December 2015	11,462	10,291
Accumulated amortization		
At 1 January 2014	(4,007)	(3,751)
Charge for the year	(857)	(630)
Disposals	139	—
At 31 December 2014	(4,725)	(4,381)
Charge for the year	(598)	(500)
At 31 December 2015	(5,323)	(4,881)
Net book value		
At 31 December 2015	6,139	5,410
At 31 December 2014	6,596	5,910

(d) Amortization of Rmb272 million (2014: Rmb246 million) is included in the ‘cost of sales’ in the income statement and Rmb1 million (2014: Rmb1million) in ‘administrative expenses’ respectively.

(13) PROVISION FOR ASSET IMPAIRMENT

	31 December 2014	Increase in current year	31 December 2015
Provision for bad debts(note(i))	7,169	2,330	9,499
Provision for impairment of intangible assets (note(i))	17,010	18,278	35,288
Provision for impairment of other current assets(note(i))	18,224	10,981	29,205
	42,403	31,589	73,992

(i) The provisions for bad debts and for impairment of intangible assets and of other current assets have been made by the Group, see Note 4(27).

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

(14) TRADE PAYABLES, ADVANCES, OTHER PAYABLES, TAXES PAYABLE AND DIVIDEND PAYABLE

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Trade payables (note (a))	82,599	54,319	26,193	21,540
Advances (note (b))	874,880	776,190	7,666	6,841
Other payables (note (c))	475,812	666,433	941,483	1,029,776
Taxes payable (note (d))	96,387	26,400	71,522	14,987
Dividend payable (note (e))	32,426	60,337	32,426	60,337
	<u>1,562,104</u>	<u>1,583,679</u>	<u>1,079,290</u>	<u>1,133,481</u>

- (a) As at 31 December 2015, the majority of trade payables are aged within one year and mainly for raw materials purchase.

As at 31 December 2015, there were no trade payables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2014: Nil). And there were no trade payables from any of the related parties of the Company (31 December 2014: Nil).

- (b) Advances comprise:

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
For pipeline connection service	858,647	762,622	—	—
For heating service	6,720	5,752	—	—
Received from project of Han Gu	5,267	3,267	5,267	3,267
Other advances	4,246	4,549	2,399	3,574
	<u>874,880</u>	<u>776,190</u>	<u>7,666</u>	<u>6,841</u>

As at 31 December 2015, advances of Rmb625 million (31 December 2014: Rmb574 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 2015, there were no advances from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2014: Nil). And there were no advances from any of the related parties of the Group (31 December 2014: Nil).

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

(14) TRADE PAYABLES, ADVANCES, OTHER PAYABLES, TAXES PAYABLE AND DIVIDEND PAYABLE
(Continued)

(c) Other payables comprise: (Continued)

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Construction costs payable	307,810	493,812	170,639	358,788
Payable for purchase of fixed assets and concession rights	13,892	22,745	—	—
Long-term debenture interests payables(note 4(16) (c))	28,098	28,098	28,098	28,098
Payables to subsidiaries	—	—	666,406	596,406
Others	126,012	121,778	76,340	46,484
	<u>475,812</u>	<u>666,433</u>	<u>941,483</u>	<u>1,029,776</u>

As at 31 December 2015, other payables of Rmb205 million (31 December 2014: Rmb79 million) are aged over year, which mainly represent unsettled payables and deposits for upgrade projects.

As at 31 December 2015, there were no other payables from any of the shareholders of the Company who hold 5% or more of voting shares (31 December 2014: Nil). And there were no other payables from any of the related parties of the Group (31 December 2014: Nil).

(d) The balances of taxes payable

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Income tax payable	2,237	21,990	(4,523)	11,923
Value-added tax payable	78,493	674	63,981	366
Business tax payable	3,783	2,724	2,687	2,113
Others	11,874	1,012	9,377	585
	<u>96,387</u>	<u>26,400</u>	<u>71,522</u>	<u>14,987</u>

(e) Dividend payable

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Dividend payable for common shares	32,426	60,337	32,426	60,337

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

(15) EMPLOYEE BENEFITS PAYABLE

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Short-term Employee benefits	21,682	13,487	12,667	7,930
Defined contribution plans	127	163	—	—
	<u>21,809</u>	<u>13,650</u>	<u>12,667</u>	<u>7,930</u>

(a) Short-term Employee benefits

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Wages and salaries, bonuses, allowances and subsidies	8,061	156,854	(149,731)	15,184
Staff welfare	—	5,347	(5,347)	—
Social security contributions	82	13,274	(13,291)	65
Including: Medical insurance	73	11,938	(11,952)	59
Work injury insurance	4	562	(565)	1
Maternity insurance	5	774	(774)	5
Housing funds	280	30,860	(30,863)	277
Labor union funds and employee education funds	5,064	4,820	(3,728)	6,156
Others	—	279	(279)	—
	<u>13,487</u>	<u>211,434</u>	<u>(203,239)</u>	<u>21,682</u>

As at 31 December 2015, no defaulted payables are included in the balance of employee benefits payable and the balance is estimated to be used up in 2016.

(b) Defined contribution plans

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Basic pensions	146	30,542	(30,570)	118
Unemployment insurance	17	1,427	(1,435)	9
	<u>163</u>	<u>31,969</u>	<u>(32,005)</u>	<u>127</u>

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

(15) EMPLOYEE BENEFITS PAYABLE (Continued)

(c) Directors' emoluments

The remuneration of every director for the year ended 31 December 2015 is set out below:

Name	Fees	Salaries and other emoluments	Total
Executive Directors:			
Liu Yujun(note(i))	—	526	526
Zhang Wenhui(note(i))	—	325	325
Lin Wenbo(note(ii))	—	851	851
Fu Yana	—	709	709
Cao Shuo(note(iii))	—	666	666
Non-executive Directors:			
Li Jieying(note(iv))	212	—	212
Gao Zongze(note(iv))	220	—	220
Guan Yimin(note(iv))	212	—	212
Wang Xiangfei(note(iv))	8	—	8
Guo Yongqing(note(iv))	8	—	8
	660	3,077	3,737

- (i) On January 23, 2015, after the authorization of the twenty-sixth meeting of the sixth board of directors, Zhang Wenhui is no longer the chairman of the company since he has achieved the legal retirement age. On March 13, 2015, after the authorization of the first temporary shareholder meeting, Liu Yujun takes the place of chairman.
- (ii) In 2015, Lin Wenbo served as the chairman and executive director of the company.
- (iii) On March 13, 2015, after the authorization of the first temporary shareholder meeting, Cao Shuo takes the place of executive director of the company. On January 29, 2016, after the authorization of the third meeting of the seventh board of directors, Cao Shuo is no longer the executive director of the company for personal reason.
- (iv) On December 17, 2015, after the authorization of the second temporary shareholder meeting, Gao Zongze, Wang Xiangfei and Guo Yongqing take places of non-executive directors. Li Jieying and Guan Yimin are no longer the non-executive directors of the company.

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

(15) EMPLOYEE BENEFITS PAYABLE (Continued)

(c) Directors' emoluments (Continued)

The remuneration of every director for the year ended 31 December 2014 is set out below:

Name	Fees	Salaries and other emoluments	Total
Executive Directors:			
Zhang Wenhui	—	820	820
Lin Wenbo(note(i))	—	850	850
Fu Yana	—	720	720
Shi Zhenjuan(note(ii))	—	581	581
Non-executive Directors:			
Xie Rong(note(iii))	64	—	64
Di Xiaofeng(note(iii))	64	—	64
Li Jieying(note(iii))	220	—	220
Gao Zongze(note(iii))	156	—	156
Guan Yimin(note(iii))	156	—	156
	660	2,971	3,631
	660	2,971	3,631

- (i) In 2014, Lin Wenbo served as the chairman and executive director of the company.
- (ii) On January 23, 2015, after the authorization of the twenty-sixth meeting of the sixth board of directors, Shi Zhenjuan was no longer the executive director of the company because of work transfer.
- (iii) On April 15, 2014, after the authorization of the first temporary shareholder meeting, Li Jieying, Gao Zongze and Guan Yimin take places of non-executive directors. Xie Rong and Di Xiaofeng are no longer the non-executive directors of the company for personal reasons.

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

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

	Note	Group		Company	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
Non-current:					
Long-term bank borrowings	(a)	856,536	1,845,896	—	794,350
Less: current portion within one year	(a)	(282,350)	(281,330)	—	(68,500)
		<u>574,186</u>	<u>1,564,566</u>	<u>—</u>	<u>725,850</u>
Long-term debenture	(c)	1,393,175	1,388,975	1,393,175	1,388,975
Less: current portion within one year	(c)	(698,250)	—	(698,250)	—
		<u>694,925</u>	<u>1,388,975</u>	<u>694,925</u>	<u>1,388,975</u>
Long-term payable	(d)	292,993	285,345	292,993	285,345
Less: current portion within one year	(d)	(23,216)	(22,891)	(23,216)	(22,891)
		<u>269,777</u>	<u>262,454</u>	<u>269,777</u>	<u>262,454</u>
Other non-current liabilities	(e)	<u>48,638</u>	<u>53,727</u>	<u>—</u>	<u>—</u>
Current:					
Current portion of long-term bank borrowings	(a)	282,350	281,330	—	68,500
Current portion of long-term debenture	(c)	698,250	—	698,250	—
Current portion of long-term payable	(d)	23,216	22,891	23,216	22,891
		<u>1,003,816</u>	<u>304,221</u>	<u>721,466</u>	<u>91,391</u>
Short-term borrowings	(b)	<u>—</u>	<u>50,000</u>	<u>—</u>	<u>50,000</u>
Other current liabilities	(e)	<u>3,810</u>	<u>4,251</u>	<u>—</u>	<u>—</u>

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

(16) 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 2015	31 December 2014	31 December 2015	31 December 2014
Borrowings from:				
China Construction Bank Industrial and Commercial Bank of China	300,000	489,600	—	143,600
State Development Bank	237,236	413,236	—	50,000
China Minsheng Bank	109,900	253,200	—	126,000
Agriculture Bank of China	99,000	99,000	—	—
Industrial Bank	50,400	275,110	—	199,000
Bank of China	45,000	—	—	—
Tianjin Rural Commercial Bank	15,000	20,000	—	—
China Ever bright Bank	—	97,000	—	97,000
China Merchants Bank	—	85,000	—	85,000
Bohai Bank	—	50,000	—	50,000
Baoying Rural Credit Cooperatives Union	—	43,750	—	43,750
	—	20,000	—	—
	<u>856,536</u>	<u>1,845,896</u>	<u>—</u>	<u>794,350</u>

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

	Note	Group		Company	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
Pledge	(i)	25,000	22,000	—	—
Guarantee	(iii)	25,000	24,000	—	—
Unsecured		<u>232,350</u>	<u>235,330</u>	<u>—</u>	<u>68,500</u>
		<u>282,350</u>	<u>281,330</u>	<u>—</u>	<u>68,500</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings (Continued)

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

	Note	Group		Company	
		31 December 2015	31 December 2014	31 December 2015	31 December 2014
Pledge	(ii)	50,000	85,000	—	—
Guarantee	(iv)	200,000	225,000	—	—
Unsecured		324,186	1,254,566	—	725,850
		<u>574,186</u>	<u>1,564,566</u>	<u>—</u>	<u>725,850</u>

- (i) As at 31 December 2015, the current portion of bank pledge borrowings of Rmb25 million (31 December 2014: Rmb22 million), was secured by the concession services right of tap water and sewage processing fees (note4 (12) (a)).
- (ii) As at 31 December 2015, non-current portion of bank pledge borrowings of Rmb50 million (31 December 2014: Rmb85 million), was secured by the concession services right of tap water and sewage processing fees (note4 (12) (a)).
- (iii) As at 31 December 2015, current portion of bank guarantee borrowings of Rmb25 million (2014: Rmb24 million) was secured by the guarantee of City Infrastructure Construction and Investment (note6 (5) (b)).
- (iv) As at 31 December 2015, non-current portion of bank guarantee borrowings of Rmb200 million (2014: Rmb225 million) was secured by the guarantee of City Infrastructure Construction and Investment (note6 (5) (b)).
- (v) These long term bank borrowings bear interest rates between 4.410% and 6.150% in 2014 (2014: between 5.535% and 7.530%).
- (vi) These borrowings mature as follows:

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Within 1 year	282,350	281,330	—	68,500
1 to 2 years	235,650	783,530	—	494,250
2 to 5 years	245,536	633,236	—	231,600
Over 5 years	93,000	147,800	—	—
	<u>856,536</u>	<u>1,845,896</u>	<u>—</u>	<u>794,350</u>

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

(16) 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 2014
Industrial and Commercial Bank of China	2006-11-23	2016-11-22	RMB	4.41%	43,000
Industrial and Commercial Bank of China	2008-01-31	2016-06-21	RMB	5.54%	26,200
China Construction Bank	2009-05-26	2016-05-26	RMB	5.65%	25,000
China Construction Bank	2008-09-28	2016-09-27	RMB	4.89%	25,000
Industrial and Commercial Bank of China	2011-01-31	2016-05-18	RMB	5.90%	23,900
					<u>143,100</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 2014
China Construction Bank	2008-09-28	2022-09-27	RMB	4.89%	200,000
China Construction Bank	2006-05-26	2018-05-26	RMB	5.65%	50,000
State Development Bank	2009-12-10	2022-12-09	RMB	4.90%	40,000
State Development Bank	2009-12-29	2021-05-16	RMB	4.90%	28,000
Industrial Bank	2015-07-27	2024-07-26	RMB	5.40%	27,250
					<u>345,250</u>

(ix) Long-term bank borrowings

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

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
6 months or less	—	99,000	—	99,000
6 - 12 months	<u>856,536</u>	<u>1,746,896</u>	<u>—</u>	<u>695,350</u>
	<u>856,536</u>	<u>1,845,896</u>	<u>—</u>	<u>794,350</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(a) Long-term bank borrowings (Continued)

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

	Group and Company	
	31 December 2015	31 December 2014
Floating rate expiring within 1 year	1,250,000	—
Floating rate expiring over 1 year	265,000	964,000
	1,515,000	964,000

(b) Short-term borrowings

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Borrowings from:				
Postal Saving Bank Of China	—	50,000	—	50,000

Summary of terms of short-term borrowings:

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Unsecured	—	50,000	—	50,000

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(c) Long-term debenture

Long-term Debenture	31 December 2014	Additions	Decrease	Transfer to current portion	31 December 2015
Par value	1,400,000	—	—	(700,000)	700,000
Transaction cost	(11,025)	—	4,200	1,750	(5,075)
	<u>1,388,975</u>	<u>—</u>	<u>4,200</u>	<u>(698,250)</u>	<u>694,925</u>

General information on Long-term Debenture:

	Book Value	Issuing Date	Maturity	Issue amount
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 2014	Interest accrued		31 December 2015
		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)	<u>20,351</u>	<u>38,150</u>	<u>(38,150)</u>	<u>20,351</u>
	<u>28,098</u>	<u>84,630</u>	<u>(84,630)</u>	<u>28,098</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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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) 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 2015			31 December 2014		
	Payable	Unrecognized financial charges	Total	Payable	Unrecognized financial charges	Total
Payable for assets acquisition	488,779	(195,786)	292,993	488,144	(202,799)	285,345

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

	Maturity date	Original balance	Effective interest rate	Ending balance	Current portion
Tianjin Sewage Company (“Sewage Company”)	20 March 2041	430,314	5.94%	269,777	23,216

Balance of the long-term payable to Sewage Company is the consideration payable in respect of the acquisition of sewage processing assets from Sewage Company, 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”), Sewage Company sold to the Company the certain sewage processing assets. The down payment is 261 million, and remaining payments will be settled in Renminbi translating at exchange rates prevailing on each repayment date over the remaining years. The fair value of the initial recognition of the payable balance is based on discounting future cash payments using an effective interest rate of 5.94%.

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

	Group and Company	
	31 December 2015	31 December 2014
JPY	194,989	190,410
US dollar	98,004	94,935
	<u>292,993</u>	<u>285,345</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(16) 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)

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

	Group and Company	
	31 December 2015	31 December 2014
2014		
JPY	353,791	352,902
US dollar	134,988	135,242
	<u>488,779</u>	<u>488,144</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.

- (iv) The long-term payable mature as follows, and as at 31 December 2015, the current portion of long-term payable of RMB 23 million was classified as current liabilities.

	Group and Company	
	31 December 2015	31 December 2014
Within 1 year	23,216	22,891
1 to 2 years	22,414	22,047
2 to 5 years	63,177	61,828
Over 5 years	184,186	178,579
	<u>292,993</u>	<u>285,345</u>

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

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

(e) Other liabilities

	Group		Company	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Non-current:				
– Cooling service fee	44,000	46,000	—	—
– Government loan for water recycling plants construction (note(i))	4,545	7,727	—	—
– Others	93	—	—	—
	<u>48,638</u>	<u>53,727</u>	<u>—</u>	<u>—</u>
Current:				
– Current portion of government loan for water recycling plants construction (note(i))	3,182	3,182	—	—
– Others	628	1,069	—	—
	<u>3,810</u>	<u>4,251</u>	<u>—</u>	<u>—</u>

- (i) A loan was taken from Tianjin Municipal and Highway Management Bureau by Tianjin Recycled Water Co., Ltd, the subsidiary of the Company during 2003 specifically for construction of recycled water plants. The loan is repayable in equal installments over eleven years from 2007. The current portion of the long-term loan is Rmb 3 million at the end of 2016 (2015: Rmb 3 million). The interest is one-year deposit rate plus 0.3% premium.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(17) 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 2014	Additions	Demolition loss (note(i))	Recognised in other gains-net	31 December 2015	Relating to assets/costs
Sewage water processing plants:						
– Xianyanglu (upgrading project)	68,531	—	—	(2,363)	66,168	assets
– Project of the solution and maintainance of water pollution	762	3,527	—	(102)	4,187	costs
– Dongjiao (upgrading project)	48,088	—	—	(1,658)	46,430	assets
– Jin Gu	805,069	—	(33,009)	(27,377)	744,683	assets
Water recycling plants in:						
– Dongjiao	23,781	—	—	(675)	23,106	assets
– Bei Chen	20,212	—	—	(525)	19,687	assets
Others	724	247	—	(34)	937	costs
Total-Company	<u>967,167</u>	<u>3,774</u>	<u>(33,009)</u>	<u>(32,734)</u>	<u>905,198</u>	
Heating and cooling supply service project:	95,947	—	—	(4,308)	91,639	assets
Water recycling plants:						
– Xianyanglu (water recycling project)	14,341	196	—	(428)	14,109	assets
– Jin Gu	121,820	316	(911)	(2,928)	118,297	assets
Sewage water processing plants:						
– Bei Shi Qiao (upgrading project)	7,605	5,205	—	—	12,810	assets
Others	2,321	2,039	—	(739)	3,621	costs
Total	<u>1,209,201</u>	<u>11,530</u>	<u>(33,920)</u>	<u>(41,137)</u>	<u>1,145,674</u>	

- (i) Deferred revenue of Rmb 33,920 thousand is used to offset the demolition loss of Jizhuangzi sewage water processing plant and water recycling plant in in 2015 by the Group.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(18) 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 2015	31 December 2014
Deductible temporary difference (Note4(13))	73,992	42,403
Deductible loss carry-forwards	77,351	90,660
	151,343	133,063

- (iii) 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
2015	—	16,475
2016	24,476	27,553
2017	18,204	18,204
2018	10,372	10,372
2019	18,056	18,056
2020	6,243	—
	77,351	90,660

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

(18) DEFERRED INCOME TAX

(b) *Deferred income tax liabilities*

	Group			
	31 December 2015		31 December 2014	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>105,810</u>	<u>423,240</u>	<u>86,778</u>	<u>347,112</u>
Revised within 1 year	—	—	—	—
Revised over 1 year	<u>105,810</u>	—	<u>86,778</u>	—

	Company			
	31 December 2015		31 December 2014	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of fixed assets	<u>46,104</u>	<u>184,416</u>	<u>36,584</u>	<u>146,336</u>
Revised within 1 year	—	—	—	—
Revised over 1 year	<u>46,104</u>	—	<u>36,584</u>	—

(19) 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 2014 and 2015	<u>1,087,228</u>	<u>340,000</u>	<u>1,427,228</u>

All the "A" and "H" shares rank pari passu in all respects.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(c) Undistributed profits

	2015		2014	
	Amount	Appropriation/ distribution ratio	Amount	Appropriation/ distribution ratio
Undistributed profits at the beginning of the year	1,965,882	—	1,793,699	—
Add: net profit attributable to owners of the parent for the current year	330,537	—	308,168	—
Less: appropriation for statutory surplus reserves	(19,313)	10%	(21,807)	10%
Ordinary share dividends payable	(99,906)	—	(114,178)	—
	<u>2,177,200</u>		<u>1,965,882</u>	
Undistributed profits at the end of the year	<u>2,177,200</u>		<u>1,965,882</u>	

A dividend in respect of year ended 31 December 2014 of Rmb 0.70 (gross tax) every 10 shares, total shares of 1,427 million shares on 16 July 2015, amounting to a total dividend of Rmb 0.1 billion, was approved at the Annual General Meeting on 25 May 2015.

On 29 March 2016, the Directors proposed a dividend of Rmb 0.7 (gross tax) for every 10 shares held, total shares of 1,427 million, amounting to a total dividend of Rmb 0.1 billion. In 2015, 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.

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(21) NON-CONTROLLING INTERESTS

	31 December 2015		2015	2015
	Non-controlling interest ratio	Non-controlling interest	Non-controlling interest income	Declared distribution of cash dividend this year
Hangzhou Tianchuang Capital Water Co., Ltd. (Hangzhou Company)	30%	153,414	11,211	—
Qijing Capital Water Co., Ltd. (Qijing Company)	13.45%	31,528	1,993	—
Others		32,696	738	—
		<u>217,638</u>	<u>13,942</u>	<u>—</u>

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

Summarized balance sheet

	31 December 2015				Net assets
	current assets	non-current assets	current liability	non-current liability	
Hangzhou Company	128,623	686,510	183,911	119,844	511,378
Qijing Company	102,396	310,004	76,471	105,818	230,111
	<u>231,019</u>	<u>996,514</u>	<u>260,382</u>	<u>225,662</u>	<u>741,489</u>

	31 December 2014				Net assets
	current assets	non-current assets	current liability	non-current liability	
Hangzhou Company	45,483	641,176	99,746	232,903	354,010
Qijing Company	76,388	325,004	55,876	130,232	215,284
	<u>121,871</u>	<u>966,180</u>	<u>155,622</u>	<u>363,135</u>	<u>569,294</u>

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

(21) NON-CONTROLLING INTERESTS

Summarized income statement

	2015				Total comprehensive income
	Revenue	Profit before income tax	Income tax expense	Net profit	
Hangzhou Company	165,978	47,888	(10,519)	37,369	37,369
Qujing Company	99,182	20,339	(5,513)	14,826	14,826
	<u>265,160</u>	<u>68,227</u>	<u>(16,032)</u>	<u>52,195</u>	<u>52,195</u>
	2014				
	Revenue	Profit before income tax	Income tax expense	Net profit	Total comprehensive income
Hangzhou Company	164,278	25,646	(4,241)	21,405	21,405
Qujing Company	101,506	22,974	(5,761)	17,213	17,213
	<u>265,784</u>	<u>48,620</u>	<u>(10,002)</u>	<u>38,618</u>	<u>38,618</u>

Summarized cash flows

	2015				
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at beginning of the year	Cash and cash equivalents at end of the year
Hangzhou Company	97,810	(98,867)	54,042	27,716	80,701
Qujing Company	34,045	(447)	(30,948)	4,763	7,413
	<u>131,855</u>	<u>(99,314)</u>	<u>23,094</u>	<u>32,479</u>	<u>88,114</u>
	2014				
	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at beginning of the year	Cash and cash equivalents at end of the year
Hangzhou Company	81,393	(9,905)	(88,920)	45,148	27,716
Qujing Company	5,222	(42)	(6,511)	6,094	4,763
	<u>86,615</u>	<u>(9,947)</u>	<u>(95,431)</u>	<u>51,242</u>	<u>32,479</u>

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

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) INCOME FROM AND COST FOR OPERATIONS

	Group			
	2015		2014	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Income from principal operations	1,753,667	1,081,275	1,671,132	979,297
Other operating income	180,539	120,669	156,947	105,478
	<u>1,934,206</u>	<u>1,201,944</u>	<u>1,828,079</u>	<u>1,084,775</u>

	Company			
	2015		2014	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Income from principal operations	868,031	475,612	867,593	427,341
Other operating income	126,062	80,828	115,594	64,808
	<u>994,093</u>	<u>556,440</u>	<u>983,187</u>	<u>492,149</u>

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

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

	Group			
	2015		2014	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Processing of sewage water and construction of related facility	1,292,019	784,166	1,278,880	720,204
Water recycling and connection project	185,401	126,934	164,734	129,658
Heating and cooling service	69,793	42,571	67,570	40,424
Tap water supplying	63,712	44,715	61,515	49,605
Sale of environmental protection equipment	46,733	42,724	28,163	28,695
Others	96,009	40,165	70,270	10,711
	<u>1,753,667</u>	<u>1,081,275</u>	<u>1,671,132</u>	<u>979,297</u>

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

	Group			
	2015		2014	
	Income from operations	Cost of operations	Income from operations	Cost of operations
Tianjin	1,204,377	710,930	1,136,504	604,086
Hangzhou	163,825	100,287	163,650	108,660
Qijing	96,962	65,358	99,755	64,579
Xi'an	94,598	74,083	81,887	67,921
Others	193,905	130,617	189,336	134,051
	<u>1,753,667</u>	<u>1,081,275</u>	<u>1,671,132</u>	<u>979,297</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(22) INCOME FROM AND COST FOR OPERATIONS

(b) Income from and cost of other operating

	Group			
	2015	2015	2014	2014
	Income from operations	Cost of operations	Income from operations	Cost of operations
Entrust operation income	121,708	98,253	113,402	86,091
Technical service	38,577	8,076	25,786	7,819
Rental	11,098	5,705	10,624	5,179
Others	9,156	8,635	7,135	6,389
	<u>180,539</u>	<u>120,669</u>	<u>156,947</u>	<u>105,478</u>

(c) As at 31 December 2015, the income from the top five customers is analyzed as below:

The total revenue of the Group's top 5 customers is Rmb1,221 million for the year ended 31 December 2015, which account for about 63% of the Group's total revenue (2014: Rmb1,201 million and 65%).

	Revenue	% of total balance
TWAB	798,257	42%
Hangzhou Sewage Company	163,825	8%
Qijing City Water General Company	96,962	5%
Xi'an Urban Infrastructure Construction Investment Group Co., Ltd.	94,598	5%
Tianjin Municipal and Highway Management Bureau	67,027	3%
	<u>1,220,669</u>	<u>63%</u>

- (i) Operating revenue from customer TSC account for about 80% of the Group's total revenue, the rest is immaterial.

(23) BUSINESS TAX AND SURCHARGES

	Group		Company	
	2015	2014	2015	2014
Business tax	16,486	13,980	8,942	7,770
City construction and maintenance fee	9,268	1,224	5,105	540
Education fee surcharge and others	7,535	1,015	4,375	467
	<u>33,289</u>	<u>16,219</u>	<u>18,422</u>	<u>8,777</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(24) SELLING EXPENSES AND ADMINISTRATIVE EXPENSES

	Group			
	2015		2014	
	Administrative expenses	Selling expenses	Administrative expenses	Selling expenses
Amortization	1,144	—	894	—
Utilities	1,794	—	1,926	—
Employee wages	66,599	2,315	62,730	—
Depreciation	4,094	24	5,574	—
Repair and maintenance expenses	4,214	—	4,275	—
Other taxes	6,525	—	5,939	—
Travelling, meeting and entertainment expenses	4,336	37	4,959	—
Consulting service fee	3,427	493	1,092	—
Office allowance	2,519	32	2,698	—
Auditors' remuneration	4,200	—	4,200	—
Expenses of Board of directors	3,185	—	3,642	—
Others	3,329	265	5,486	—
	<u>105,366</u>	<u>3,166</u>	<u>103,415</u>	<u>—</u>

	Company			
	2015		2014	
	Administrative expenses	Selling expenses	Administrative expenses	Selling expenses
Amortization	827	—	839	—
Utilities	1,427	—	1,565	—
Employee wages	40,509	—	38,402	—
Repair and maintenance expenses	2,371	—	2,812	—
Depreciation	2,116	—	2,362	—
Other taxes	2,270	—	2,122	—
Travelling, meeting and entertainment expenses	1,350	—	1,338	—
Consulting service fee	3,007	—	1,248	—
Office allowance	728	—	1,023	—
Auditors' remuneration	4,200	—	4,200	—
Expenses of Board of directors	3,148	—	3,642	—
Others	651	—	1,857	—
	<u>62,604</u>	<u>—</u>	<u>61,410</u>	<u>—</u>

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

For the year ended 31 December 2015
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(25) COST AND EXPENSES BY NATURE

	Group		Company	
	2015	2014	2015	2014
Amortization	272,667	247,294	137,396	118,992
Utilities	273,663	247,912	136,332	106,227
Employee wages	243,403	200,728	99,870	100,063
Depreciation	44,728	86,921	19,966	38,805
Repair and maintenance expenses	107,192	96,129	58,331	54,984
Sewage mud processing fee	62,767	46,031	53,246	36,036
Raw materials and consumables used	96,984	60,031	43,030	32,881
Cost of recycling water pipeline connection service	42,938	35,358	—	—
Construction cost of sewage water plants	29,749	33,705	2,568	10,059
Network Maintenance	18,351	19,255	9,340	9,340
Factory environment, detection and fire prevention fee	25,006	22,457	11,575	9,722
Toll road management fee	7,120	7,120	7,120	7,120
Other taxes	18,542	13,626	10,998	6,497
Travelling, meeting and entertainment expenses	10,381	11,128	2,894	3,072
Consulting service fee	9,238	5,728	5,435	3,193
Office allowance	5,070	4,788	1,652	1,825
Auditors' remuneration	4,200	4,200	4,200	4,200
Expenses of Board of directors	3,185	3,642	3,148	3,642
Others	35,292	42,137	11,943	6,901
	<u>1,310,476</u>	<u>1,188,190</u>	<u>619,044</u>	<u>553,559</u>

(26) FINANCIAL EXPENSES - NET

	Group		Company	
	2015	2014	2015	2014
Interest expenses of borrowings	197,420	229,122	135,621	164,258
Less: Capitalized interest	—	—	—	—
Net interest expenses	197,420	229,122	135,621	164,258
Less: Interest income	(26,853)	(18,660)	(37,792)	(28,165)
– long-term receivables	(11,089)	(11,343)	(11,089)	(11,343)
– bank deposits	(15,764)	(7,317)	(8,950)	(2,376)
– interests from inter-company loan	—	—	(17,753)	(14,446)
Exchange loss/(gain) (note(a))	7,394	(27,947)	7,394	(27,947)
Others	4,894	5,111	4,435	4,378
	<u>182,855</u>	<u>187,626</u>	<u>109,658</u>	<u>112,524</u>

- (a) As at 31 December 2015, the long-term payables denominated in Japanese Yen and USD are translated into Rmb at the stipulated exchange rates and recognized the unrealized exchange gains of about Rmb7 million (31 December 2014: exchange gains of about Rmb28 million).

11. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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For the year ended 31 December 2015
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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(27) IMPAIRMENT LOSS

	Group		Company	
	2015	2014	2015	2014
Impairment of intangible assets	18,278	17,010	—	—
Impairment of other current assets	10,981	6,900	27,947	2,010
Provision for bad debts	2,330	—	—	—
Provision of impairment for long-term investment	—	—	10,981	21,900
	<u>31,589</u>	<u>23,910</u>	<u>38,928</u>	<u>23,910</u>

(28) NON-OPERATING INCOME

	Group		Non-recurring Profit or Loss Recognized in 2015
	2015	2014	
Government grants(note(a))	149,376	799,561	75,057
Gains on disposals of non-current assets	38	64	38
Others	5,065	1,251	5,065
	<u>154,479</u>	<u>800,876</u>	<u>80,160</u>

	Company		Non-recurring Profit or Loss Recognized in 2015
	2015	2014	
Government grants(note(a))	110,424	684,454	65,743
Gains on disposals of non-current assets	—	3	—
Others	129	424	129
	<u>110,553</u>	<u>684,881</u>	<u>65,872</u>

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4 NOTES TO THE FINANCIAL STATEMENTS (Continued)

(28) NON-OPERATING INCOME (Continued)

(a) Government grants

	Group		Relating to assets/costs
	2015	2014	
VAT refunds (note3)	74,319	—	costs
Offset of demolition loss (note4(17))	33,920	776,392	costs
Grant of sewage water processing plants (note4(17))	31,398	11,602	assets
Grant of water recycling plants(note4(17))	4,556	3,669	assets
Grant of heating and cooling supply service project (note4(17))	4,308	4,308	assets
Others (note4(17))	875	3,590	costs
	<u>149,376</u>	<u>799,561</u>	

	Group		Relating to assets/costs
	2015	2014	
VAT refunds (note3)	44,681	—	costs
Offset of demolition loss (note4(17))	33,009	669,110	costs
Grant of sewage water processing plants (note4(17))	31,398	11,602	assets
Grant of water recycling plants(note4(17))	1,200	1,200	assets
Others (note4(17))	136	2,542	costs
	<u>110,424</u>	<u>684,454</u>	

(29) NON-OPERATING EXPENSES

	Group		Non-recurring Profit or Loss Recognized in 2015
	2015	2014	
Demolition loss(note4(17))	33,920	776,392	33,920
Loss on disposals of fixed assets	34	1,876	34
Others	991	204	991
	<u>34,945</u>	<u>778,472</u>	<u>34,945</u>

	Company		Non-recurring Profit or Loss Recognized in 2015
	2015	2014	
Demolition loss(note4(17))	33,009	669,110	33,009
Loss on disposals of fixed assets	—	265	—
Others	782	3	782
	<u>33,791</u>	<u>669,378</u>	<u>33,791</u>

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

(30) INCOME TAX

	Group		Company	
	2015	2014	2015	2014
Current income tax	126,671	97,751	90,855	69,755
Deferred income tax	19,032	17,801	9,520	14,093
	<u>145,703</u>	<u>115,552</u>	<u>100,375</u>	<u>83,848</u>

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

	Group	
	2015	2014
Total profit	<u>490,182</u>	<u>433,264</u>
Calculated at applicable income tax rates (25%)	122,545	108,316
Effect of different income tax rates applicable to certain subsidiaries	(809)	(1,856)
Income not subject to tax	(5,576)	(3,974)
Expenses not deductible for taxation purposes	16,811	5,310
Utilization of previously deductible tax losses for which no deferred income tax was recognized	(4,888)	(2,735)
Current year tax temporary differences for which no deferred income tax asset was recognized	7,897	5,977
Under provision in prior year	8,162	—
Current year tax losses for which no deferred income tax asset was recognized	1,561	4,514
Income tax expenses	<u>145,703</u>	<u>115,552</u>

(31) EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb331 million (2014: Rmb308 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2014: 1,427 million shares).

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

	Group	
	2015	2014
Profit attributable to owners of the parent	<u>330,537</u>	<u>308,168</u>
Weighted average number of ordinary shares in issue (thousand shares)	<u>1,427,228</u>	<u>1,427,228</u>
Basic and diluted earnings per share (Rmb Yuan)	<u>0.23</u>	<u>0.22</u>

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

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

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

	Group		Company	
	2015	2014	2015	2014
Net profit	344,479	317,712	193,141	218,072
Adjustments for:				
Provision of impairment	31,589	23,910	38,928	23,910
Depreciation of fixed assets and investment properties	44,728	86,921	19,966	38,805
Amortization of intangible assets	272,667	247,294	137,396	118,992
(Gains)/losses on disposals of fixed assets and intangible assets	(4)	1,812	—	265
Financial expenses-net	204,814	201,175	125,262	121,865
Investment losses/(income)	5,349	1,274	(8,713)	(2,000)
Demolition loss	33,920	776,392	33,009	669,110
Amortization of deferred revenue	(75,057)	(799,561)	(65,743)	(684,454)
Increase in deferred tax liabilities	19,032	17,801	9,520	13,910
(Increase)/decrease in inventories	(12,759)	43,643	639	3,530
Decrease/(Increase) in operating receivables	1,250,430	(487,119)	1,300,226	(420,817)
Increase in operating payables	191,491	178,115	74,664	31,372
Net cash flows from operating activities	<u>2,310,679</u>	<u>609,369</u>	<u>1,858,295</u>	<u>132,560</u>
Net changes in cash and cash equivalents				
Cash at end of year	1,328,575	814,892	596,699	292,731
Less: cash at beginning of year	<u>(814,892)</u>	<u>(994,982)</u>	<u>(292,731)</u>	<u>(342,090)</u>
Net increase/(decrease) in cash and cash equivalents	<u>513,683</u>	<u>(180,090)</u>	<u>303,968</u>	<u>(49,359)</u>

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

	Group		Company	
	2015	2014	2015	2014
Cash				
Including: Cash in hand	128	333	13	13
Cash in bank available at anytime	1,328,447	814,559	596,686	292,718
Cash and cash equivalents shown in the cash flow statements	<u>1,328,575</u>	<u>814,892</u>	<u>596,699</u>	<u>292,731</u>

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

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

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

	Group		Company	
	2015	2014	2015	2014
Interest income from bank deposits	15,764	7,317	8,950	2,376
Release of deposit on project bids	1,409	2,500	937	2,500
Subsidies received	5,813	1,487	3,774	50
Others	5,065	1,251	128	423
	<u>28,051</u>	<u>12,555</u>	<u>13,789</u>	<u>5,349</u>

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

	Group		Company	
	2015	2014	2015	2014
Travelling, meeting and entertainment expenses	4,373	4,958	1,350	1,338
Consulting service fee	9,205	6,687	7,208	5,519
Expense of board of directors	3,185	3,885	3,148	3,642
Repair and maintenance expenses	4,214	3,108	2,371	1,645
Others	22,802	17,724	14,372	16,953
	<u>43,779</u>	<u>36,362</u>	<u>28,449</u>	<u>29,097</u>

(e) Net cash received on disposals of fixed assets

	Group	
	2015	2014
Carrying value of disposals of fixed assets	91	115,598
Offset deferred revenue	—	(107,282)
Losses on disposals of fixed assets	4	(1,812)
Net cash received on disposals of fixed assets	<u>95</u>	<u>6,504</u>

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

	Group		Company	
	2015	2014	2015	2014
Land compensation fund received	<u>—</u>	<u>300,000</u>	<u>—</u>	<u>300,000</u>

(e) Cash paid relating to other investing activities mainly includes:

	Group		Company	
	2015	2014	2015	2014
Demolition loss paid	<u>8,205</u>	<u>—</u>	<u>7,294</u>	<u>—</u>

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5 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, tap water operations and sale of environmental protection equipment. 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 provide technical services etcetera. These are not separately presented within the reportable operating segments, but included in the 'all other segments' column. The environmental protection equipment is mainly the achievement of technology research. From the year of 2015, sale of environmental protection equipment segment was separately disclosed and disclosure information for the corresponding period of time was represented accordingly. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

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

(a) Segment information as at and for the year ended 31 December 2015 is as follows:

	Sewage processing and facility construction services					Tap water	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants	Recycled water	Heating and cooling				
Income from third parties (note 4(22))	801,005	163,825	327,189	185,401	69,793	63,712	46,733	276,548	1,934,206
Cost of sales from third parties	(454,452)	(100,287)	(229,427)	(126,934)	(42,571)	(44,715)	(42,724)	(160,834)	(1,201,944)
Interest income (note 4(26))	8,947	637	1,992	3,961	84	11	—	11,221	26,853
Interest expenses (note 4(26))	(117,868)	(16,825)	(48,220)	(246)	(6,471)	(5,710)	—	(2,080)	(197,420)
Results before share of profits of an associate	240,861	46,053	39,620	52,947	23,027	11,009	(1,949)	83,963	495,531
Investment loss from associate (note 4(9) (c))	—	—	—	—	—	—	—	(5,349)	(5,349)
Depreciation	(131)	—	(19)	(37,437)	(399)	—	(616)	(6,126)	(44,728)
Amortization	(136,569)	(40,322)	(69,181)	(203)	(13,965)	(9,636)	(16)	(2,775)	(272,667)
Total profit	240,861	46,053	39,620	52,947	23,027	11,009	(1,949)	78,614	490,182
Income tax expense	(88,159)	(10,519)	(10,119)	(15,312)	(5,857)	(3,541)	296	(12,492)	(145,703)
Net profit	152,702	35,534	29,501	37,635	17,170	7,468	(1,653)	66,122	344,479
Segment assets	4,484,801	805,611	2,002,545	1,422,690	469,850	227,198	48,734	587,873	10,049,302
Segment liabilities	2,877,487	210,755	690,793	1,134,419	206,453	54,493	22,825	233,324	5,430,549
Long-term equity investment	—	—	—	—	—	—	—	25,998	25,998
Non-current assets addition other than related to long-term investment	188	84,920	150,106	2,831	92	—	—	2,732	240,869

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

For the year ended 31 December 2015
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5 SEGMENT REPORTING (Continued)

(b) Segment information as at and for the year ended 31 December 2014 is as follows:

	Sewage processing and facility construction services						Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants	Recycled water	Heating and cooling	Tap water			
Income from third parties (note 4(22))	796,351	163,650	318,879	164,734	67,570	61,515	28,163	227,217	1,828,079
Cost of sales from third parties	<u>(379,724)</u>	<u>(108,660)</u>	<u>(231,820)</u>	<u>(129,658)</u>	<u>(40,424)</u>	<u>(49,605)</u>	<u>(28,695)</u>	<u>(116,189)</u>	<u>(1,084,775)</u>
Interest income (note 4(26))	2,372	464	1,924	2,351	121	18	41	11,369	18,660
Interest expenses (note 4(26))	<u>(146,979)</u>	<u>(20,792)</u>	<u>(43,432)</u>	<u>(434)</u>	<u>(8,167)</u>	<u>(7,463)</u>	—	<u>(1,855)</u>	<u>(229,122)</u>
Results before share of profits of an associate	250,640	25,129	44,967	27,380	21,651	2,229	(3,507)	66,049	434,538
Investment loss from associate (note 4(9) (c))	—	—	—	—	—	—	—	(1,274)	(1,274)
Depreciation	(380)	(2,701)	(22,529)	(52,309)	(387)	(1,806)	(270)	(6,539)	(86,921)
Amortization	<u>(118,154)</u>	<u>(36,249)</u>	<u>(66,384)</u>	<u>(545)</u>	<u>(13,336)</u>	<u>(9,827)</u>	—	<u>(2,799)</u>	<u>(247,294)</u>
Total profit	250,640	25,129	44,967	27,380	21,651	2,229	(3,507)	64,775	433,264
Income tax expense	<u>(74,753)</u>	<u>(4,241)</u>	<u>(7,298)</u>	<u>(10,648)</u>	<u>(5,493)</u>	<u>(3,475)</u>	<u>(318)</u>	<u>(9,326)</u>	<u>(115,552)</u>
Net profit	<u>175,887</u>	<u>20,888</u>	<u>37,669</u>	<u>16,732</u>	<u>16,158</u>	<u>(1,246)</u>	<u>(3,825)</u>	<u>55,449</u>	<u>317,712</u>
Segment assets	<u>5,774,822</u>	<u>677,996</u>	<u>1,864,435</u>	<u>1,284,451</u>	<u>398,570</u>	<u>218,916</u>	<u>22,352</u>	<u>617,940</u>	<u>10,859,482</u>
Segment liabilities	<u>3,868,171</u>	<u>276,649</u>	<u>756,348</u>	<u>1,072,181</u>	<u>244,937</u>	<u>64,036</u>	<u>11,704</u>	<u>227,476</u>	<u>6,521,502</u>
Long-term equity investment	—	—	—	—	—	—	—	31,347	31,347
Non-current assets addition other than related to long-term investment	<u>365,582</u>	<u>844</u>	<u>218,885</u>	<u>119,437</u>	<u>15,934</u>	—	<u>3,009</u>	<u>1,466</u>	<u>725,157</u>

The Group's revenue from external customers comes from China.

The non-current assets are located within China.

The revenue from sewage processing and facility construction services segment of RMB798 million is derived from a single customer, accounting for 41% of the Group's total revenue (2014:RMB789 million, 47%).

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6 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) General information of the parent company

Type	Place of registration	Legal representative	Nature of business
Municipal Investment Limited Company	Tianjin, the PRC	An Pin Dong	Development and management of municipal infrastructures

The Company's ultimate controlling party is company TICIG.

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

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Municipal Investment	1,820,000	—	—	1,820,000

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

	31 December 2015		31 December 2014	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Municipal Investment	50.14%	50.14%	50.14%	50.14%

(2) Information of subsidiaries

The general information and other related information of the subsidiaries is set out in note 4 (9) (a).

(3) Information of associates

The general information and other related information of the associates is set out in note 4 (9) (c).

11. Financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises
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6 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 Subway Group Limited company	Controlled by the same ultimate parent company
Tianjin Haihe Construction Developing Investment Co.,Ltd.	Controlled by the same ultimate parent company
Tianjin City Infrastructure Investment Construction Consulting 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	2015		2014	
		Amount	% of similar transactions	Amount	% of similar transactions
Tianjin Machinery & Electric Equipment Imp.&Exp. Co.,Ltd	Purchase of equipment	21,705	99.38%	26,544	12.12%

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6 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	2015		2014	
		Amount	% of similar transactions	Amount	% of similar transactions
City Infrastructure Construction and Investment	Commission income from contract operation	59,515	48.90%	61,118	53.89%
City Infrastructure Construction and Investment	Commission income from agent construction	3,000	0.23%	2,000	0.20%
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	37,801	54.16%	33,718	49.90%
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	4,867	6.97%	5,576	8.25%
Tianjin Haihe Construction Developing Investment Co.,Ltd.	Construction of sewage water facility	1,514	0.12%	—	—

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.

(b) Guarantee:

Guarantor	Guarantee	Amount	Starting Date	Due Date	Completed (Y/N)
City Infrastructure Construction and Investment	Xi'an Capital Water Co., Ltd	225,000	28 September 2008	27 September 2022	N

(c) Key management compensation

	2015	2014
Key management compensation	11,884	10,128

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

6 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Receivables from and payables to related parties

Receivables from related parties

Project name	Trade receivables from related parties	31 December 2015	31 December 2014
Trade receivables	- Tianjin Lecheng Properties Limited	12,540	18,422
Trade receivables	- City Infrastructure Construction and Investment	28,489	16,388
Trade receivables	- Tianjin Metro Resources Investment Co., Ltd.	7,349	4,975
Trade receivables	- Tianjin City Resource Operation Co., Ltd.	401	401
Trade receivables	- Tianjin Haihe Construction Developing Investment Co.,Ltd.	303	—
		<u>303</u>	<u>—</u>

Payables from related parties

Project name	Payables from related parties	31 December 2015	31 December 2014
Other payables	- Tianjin Machinery &Electric Equipment Imp.&Exp. Co.,Ltd	11,715	3,221
		<u>11,715</u>	<u>3,221</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 which were signed but not necessarily shown on balance sheet are as follows:

	31 December 2015	31 December 2014
Guarantee Received		
City Infrastructure Construction and Investment	225,000	249,000
	<u>225,000</u>	<u>249,000</u>

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

6 SIGNIFICANT RELATED PARTY RELATIONSHIPS AND 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, 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 cash equivalents and borrowings are with state controlled banks.

7 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	31 December	31 December	31 December
	2015	2014	2015	2014
	Rmb’ million	Rmb’ million	Rmb’ million	Rmb’ million
Sewage water processing plants in:				
– Bei Shi Qiao and Deng Jia Cun	—	110	10	14
– Hang Zhou Qi Ge	170	—	165	—
– Xiao He Chang	—	11	—	16
– Wen Deng	—	1	—	10
– Ying Nan	—	—	—	1
	<u>170</u>	<u>122</u>	<u>175</u>	<u>41</u>

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK

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

(a) **Market risk:**

(i) *Foreign currency risk:*

The Group has no significant foreign currency risk as the operations and customers of the Group are located in the PRC with most of the operating assets and transactions denominated and settled in RMB. All of the Group's borrowings are denominated in RMB. The sole foreign currency exposure of the Group arises from fluctuation of US dollar and Japanese Yen pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from TSC (note 4(16) (d) (ii)).

At 31 December 2015, 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 (2014: 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 Rmb7 million (2014: Rmb7 million) higher/lower.

(ii) *Interest rate risk:*

The Group's interest rate risk arises mainly from cash and cash equivalents, 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.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(a) Market risk: (Continued)

(ii) Interest rate risk: (Continued)

	Fixed	Group Floating	Total	Fixed	Company Floating	Total
At 31 December 2015						
Other non-current liabilities due within 1 year:						
Long-term borrowings due within 1 year	—	282,350	282,350	—	—	—
Long-term debenture due within 1 year	698,250	—	698,250	698,250	—	698,250
Long-term payables due within 1 year	14,854	8,362	23,216	14,854	8,362	23,216
Long-term borrowings	—	574,186	574,186	—	—	—
Long-term payables	180,134	89,643	269,777	180,134	89,643	269,777
Long-term debenture	694,925	—	694,925	694,925	—	694,925
	<u>1,588,163</u>	<u>954,541</u>	<u>2,542,704</u>	<u>1,588,163</u>	<u>98,005</u>	<u>1,686,168</u>
At 31 December 2014						
Short-term borrowings	—	50,000	50,000	—	50,000	50,000
Other non-current liabilities due within 1 year:						
Long-term borrowings due within 1 year	—	281,330	281,330	—	281,330	281,330
Long-term payables due within 1 year	15,136	7,755	22,891	15,136	7,755	22,891
Long-term borrowings	—	1,564,566	1,564,566	—	725,850	725,850
Long-term payables	175,274	87,180	262,454	175,274	87,180	262,454
Long-term debenture	1,388,975	—	1,388,975	1,388,975	—	1,388,975
	<u>1,579,385</u>	<u>1,990,831</u>	<u>3,570,216</u>	<u>1,579,385</u>	<u>939,285</u>	<u>2,518,670</u>

At 31 December 2015, 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 Rmb7 million (2014: Rmb15 million).

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(b) Credit risk:

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

The Group manages credit risk on bank deposits by placing the majority of its cash and cash equivalents 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.

All of the major customers of the Group are PRC government agencies or holding companies. Thus, the management considers that the credit risk of accounts receivables 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 2015, the Company had given guarantees of approximately Rmb820 million (2014: Rmb1,004 million) to banks of certain subsidiaries in respect of their banking facilities, of which Rmb549 million of the facilities had been drawn by the subsidiaries. The Directors consider the subsidiaries to be financially resourceful to settle their obligations.

(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.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(c) Liquidity risk: (Continued)

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	Between1 and 2 years	Between 2 and5 years	Over 5 years	Total	Carrying value
At 31 December 2015						
Long-term borrowings	321,396	260,559	280,867	95,950	958,772	856,536
Long-term payables	23,216	22,414	63,177	183,656	292,463	292,993
Other liabilities	3,437	4,695	—	—	8,132	7,727
Trade and other payables	558,411	—	—	—	558,411	558,411
Debenture payable	780,757	38,150	715,896	—	1,534,803	1,393,175
Dividend payable	32,426	—	—	—	32,426	32,426
At 31 December 2014						
Long-term borrowings	390,885	858,878	722,747	157,455	2,129,965	1,845,896
Long-term payables	23,595	24,079	75,807	364,661	488,142	285,345
Other liabilities	3,542	3,437	4,920	—	11,899	10,909
Trade and other payables	720,752	—	—	—	720,752	720,752
Short-term borrowings	52,940	—	—	—	52,940	50,000
Debenture payable	84,630	784,630	776,300	—	1,645,560	1,388,975
Dividend payable	60,337	—	—	—	60,337	60,337

(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.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

8 FINANCIAL INSTRUMENT AND RISK (Continued)

(d) Capital risk management (Continued)

The Group's strategy is to maintain a gearing ratio of about 20% - 60%. The gearing ratio of the Group is as follows:

	31 December 2015	31 December 2014
Total borrowings:	2,550,431	3,581,125
Short-term borrowings	—	50,000
Long-term borrowings	856,536	1,845,896
Debenture payable	1,393,175	1,388,975
Long-term Payables	292,993	285,345
Other non-current assets-Government loan and others	7,727	10,909
Less: Cash	<u>(1,328,575)</u>	<u>(814,892)</u>
Net debt	1,221,856	2,766,233
Total equity	<u>4,618,753</u>	<u>4,337,980</u>
Total capital	<u>5,840,609</u>	<u>7,104,213</u>
Gearing ratio	<u>21%</u>	<u>40%</u>

There is a decrease in gearing ratio of the Group during 2015, because of the payment for long-term borrowings using receivables collected.

(e) Fair value estimation

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

There is no assets and liabilities of the Group measured at fair value.

(i) *Assets and liabilities not measured at fair value but for which the fair value is disclosed*

Financial assets and liabilities of the Group measured at amortised cost mainly include receivables, short-term borrowings, payables, long-term borrowings debenture payable and long-term payables.

The carrying amount of the other financial assets and liabilities of the Group not measured at fair value is a reasonable approximation of their fair value.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

(1) EXTRAORDINARY PROFIT AND LOSS STATEMENT

	2015	2014
Gains/(losses) on disposals of non-current assets	4	(1,812)
Government grants	75,057	799,561
Demolition loss	(33,920)	(776,392)
Other non-operating income and expenses	4,074	1,047
	<u>45,215</u>	<u>22,404</u>
Effect amount of income tax	(11,304)	(5,601)
Effect amount of non-controlling interest(after tax)	(611)	82
	<u>33,300</u>	<u>16,885</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 of the Group.

(3) RATE OF RETURN ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average income rate of net assets (%)		Basic/Diluted earnings per share	
	2015	2014	2015	2014
Net profit attribute to the ordinary shareholders of the company	7.73	7.57	0.23	0.22
Net profit exclude extraordinary profit and loss attribute to the ordinary shareholders of the company	6.95	7.15	0.21	0.20



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 set out on pages 193 to 258, which comprise the consolidated balance sheet as at 31 December 2015, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

12. Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the shareholders of

Tianjin Capital Environmental Protection Group Company Limited (Continued)

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

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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2016

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

As at 31 December 2015

(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2015	2014
ASSETS			
Non-current assets			
Land use rights	8	15,426	15,866
Property, plant and equipment	6	454,453	492,661
Intangible assets	7	6,244,750	6,306,097
Investment properties	9	101,263	104,936
Investments accounted for using the equity method	10b	25,998	31,347
Available-for-sale financial assets	11	2,000	2,000
Long-term receivables	12	319,463	326,147
Other non-current assets		8,051	8,461
		7,171,404	7,287,515
Current assets			
Inventories	14	27,151	14,392
Trade receivables	15	1,239,446	2,563,114
Prepayments	16	139,727	106,412
Other receivables	17	74,531	5,707
Other current assets	13	47,168	62,250
Restricted cash	18	21,300	5,200
Cash and cash equivalents	18	1,328,575	814,892
		2,877,898	3,571,967
Total assets		10,049,302	10,859,482

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

As at 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 31 December	
		2015	2014
EQUITY			
Equity attributable to owners of the Company			
Share capital	19	1,427,228	1,427,228
Other reserves	20	796,687	777,374
Retained earnings		2,177,200	1,965,882
		<u>4,401,115</u>	<u>4,170,484</u>
Non-controlling interests		<u>217,638</u>	<u>167,496</u>
Total equity		<u>4,618,753</u>	<u>4,337,980</u>
LIABILITIES			
Non-current liabilities			
Borrowings	21	1,543,433	3,223,722
Deferred revenue	23	1,145,674	1,209,201
Deferred income tax liabilities	24	105,810	86,778
Other non-current liabilities	22	44,093	46,000
		<u>2,839,010</u>	<u>4,565,701</u>
Current liabilities			
Trade payables	25	82,599	54,319
Advances from customers	25	874,880	776,190
Wages payables		21,809	13,650
Income tax and other taxes payables	25	96,387	26,400
Dividend payable		32,426	60,337
Other payables	25	476,440	666,433
Borrowings	21	1,006,998	358,472
		<u>2,591,539</u>	<u>1,955,801</u>
Total liabilities		<u>5,430,549</u>	<u>6,521,502</u>
Total equity and liabilities		<u>10,049,302</u>	<u>10,859,482</u>

The notes on pages 198 to 258 are integral part of these consolidated financial statements.

The financial statements on pages 193 to 258 were approved by the Board of Directors on 29 March 2016 and were signed on its behalf:

Liu Yujun

Lin Wenbo

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December	
		2015	2014
Revenue	5(a)	1,753,667	1,671,132
Business tax expense and surcharge	26	(33,289)	(16,219)
Cost of sales	27	<u>(1,112,864)</u>	<u>(1,003,207)</u>
Gross profit		607,514	651,706
Selling expenses	27	(3,166)	—
Administrative expenses	27	(105,366)	(103,415)
Other income - net	5(b)	59,870	51,469
Other gains - net	31	<u>119,534</u>	<u>22,404</u>
Operating profit		678,386	622,164
Finance income		26,853	46,607
Finance expenses		<u>(209,708)</u>	<u>(234,233)</u>
Finance expenses - net	29	(182,855)	(187,626)
Share of loss of investment accounted for using equity method	10b	<u>(5,349)</u>	<u>(1,274)</u>
Profit before income tax		490,182	433,264
Income tax expense	30	<u>(145,703)</u>	<u>(115,552)</u>
Profit/total comprehensive income for the year		<u>344,479</u>	<u>317,712</u>
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		330,537	308,168
Non-controlling interests		<u>13,942</u>	<u>9,544</u>
		<u>344,479</u>	<u>317,712</u>
Earnings per share for profit attributable to the owners of the Company (in RMB Yuan)			
– basic	32	<u>0.23</u>	<u>0.22</u>
– diluted	32	<u>0.23</u>	<u>0.22</u>

The notes on pages 198 to 258 are integral part of these consolidated financial statements.

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

	Note	Attributable to owners of the Company			Sub-total	Non-controlling interests	Total
		Share capital	Other reserves	Retained earnings			
Balance at 1 January 2014		1,427,228	755,567	1,793,699	3,976,494	158,050	4,134,544
Comprehensive income							
– Profit for the year		—	—	308,168	308,168	9,544	317,712
Transactions with owners							
– Profit appropriation to statutory reserves	20	—	21,807	(21,807)	—	—	—
– Dividends relating to 2013		—	—	(114,178)	(114,178)	(98)	(114,276)
Total transactions with owners		—	21,807	(135,985)	(114,178)	(98)	(114,276)
Balance at 31 December 2014		1,427,228	777,374	1,965,882	4,170,484	167,496	4,337,980
Comprehensive income							
– Profit for the year		—	—	330,537	330,537	13,942	344,479
Transactions with owners							
– Contribution from non-controlling Interests		—	—	—	—	37,000	37,000
– Profit appropriation to statutory reserves	20	—	19,313	(19,313)	—	—	—
– Dividends relating to 2014		—	—	(99,906)	(99,906)	(800)	(100,706)
Total transactions with owners		—	19,313	(119,219)	(99,906)	36,200	(63,706)
Balance at 31 December 2015		1,427,228	796,687	2,177,200	4,401,115	217,638	4,618,753

The notes on pages 198 to 258 are integral part of these consolidated financial statements.

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards Consolidated Statement of Cash Flows

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Cash flows from operating activities			
Cash generated from operations	34	2,441,339	697,433
Income tax paid		(146,424)	(95,381)
Bank deposit interest received	29	15,764	7,317
Net cash generated from operating activities		<u>2,310,679</u>	<u>609,369</u>
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(468,645)	(638,737)
(Increase)/decrease in restricted cash		(16,100)	2,067
Payment on relocation costs		(8,205)	—
Land compensation fund received		—	300,000
Proceeds from disposal of property, plant and equipment	34	95	6,504
Dividends received		—	674
Net cash used in investing activities		<u>(492,855)</u>	<u>(329,492)</u>
Cash flows from financing activities			
Capital contributions by non-controlling interests		37,000	—
Proceeds from borrowings		145,000	829,651
Repayments of borrowings		(1,187,542)	(1,004,903)
Interest paid		(169,982)	(194,211)
Dividends paid to Company's shareholders		(127,817)	(90,004)
Dividends paid to non-controlling interests		(800)	(500)
Net cash used in financing activities		<u>(1,304,141)</u>	<u>(459,967)</u>
Net increase/(decrease) in cash and cash equivalents		513,683	(180,090)
Cash and cash equivalents at beginning of year		<u>814,892</u>	<u>994,982</u>
Cash and cash equivalents at end of year	18	<u><u>1,328,575</u></u>	<u><u>814,892</u></u>

The notes on pages 198 to 258 are integral part of these consolidated financial statements.

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES

Tianjin Capital Environmental Protection Group Company Limited (the ‘Company’) was established on 8 June 1993 in Tianjin, the People’s Republic of China (the ‘PRC’) as a joint stock limited liability company. The holding company and the ultimate holding company of the Company are Tianjin Municipal Investment Company Limited (‘Municipal Investment’) and Tianjin City Infrastructure Construction and Investment Group Company Limited (‘City Infrastructure Construction and Investment’) respectively. The address of its registered office is No.45 Guizhou Road, Heping District, Tianjin. The Company’s H-shares are listed on The Stock Exchange of Hong Kong Limited and the A-shares are listed on The Shanghai Stock Exchange.

The principal activities of the Company and its subsidiaries (collectively the ‘Group’) include processing of sewage water, construction and management of related facility, supply of tap water and recycled water, supply of heating and cooling, and construction and management of related facility as described below:

(a) Processing of sewage water

Pursuant to relevant agreements (‘Service concession right agreements’), the Group currently provides sewage processing services via the following plants:

Plant	Location	Agreement date	Customer
Guiyang	Guizhou	16 September 2004	Guiyang City Administration Bureau
Baoying	Jiangsu	13 June 2005	Baoying Construction Bureau
Chibi	Hubei	15 July 2005	Chibi Construction Bureau
Fuyang	Anhui	18 December 2005	Anhui Fuyang Construction Committee
Qujing	Yunnan	25 December 2005	Qujing City Water General Company
Honghu	Hubei	29 December 2005	Honghu Construction Bureau
Hangzhou	Zhejiang	20 November 2006	Hangzhou Sewage Company
Jinghai	Tianjin	12 September 2007	Tianjin Tianyu Science Technology Park
Wendeng	Shandong	19 December 2007	Wendeng Construction Bureau
Xi’an	Shaanxi	18 March 2008	Xi’an Infrastructure Investment Group
Anguo	Hebei	14 October 2008	An Guo Municipal Government
Xianning	Hubei	16 October 2008	Xianning Construction Committee
Yingdong	Anhui	10 August 2009	Fuyang Yingdong Construction Bureau
Qujing	Yunnan	16 August 2011	Qujing Housing and Urban Construction Bureau
Chaohu	Anhui	25 August 2011	Hanshan Housing and Urban Construction Bureau
Jingu	Tianjin	18 February 2014	Tianjin Urban-rural Construction Commission (‘TUCC’) and Tianjin Water Authority Bureau (‘TWAB’)
Xianyanglu	Tianjin	18 February 2014	TUCC and TWAB
Dongjiao	Tianjin	18 February 2014	TUCC and TWAB
Beicang	Tianjin	18 February 2014	TUCC and TWAB

Based on the sewage water processing agreements and the supplemental agreements, initial prices for sewage water processing are predetermined, thereafter processing prices may be revised taking into account various factors including renovation of equipment, additional investment, power and energy and labour force, and significant changes in government policy.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

1 COMPANY PROFILE AND PRINCIPAL ACTIVITIES (Continued)

(b) Construction and management of sewage water facility

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

(c) Supply of tap water

Pursuant to the relevant agreements, the Group provides tap water supply service initially at pre-determined price and the prices as pre-determined may be revised subsequently taking into account various cost factors.

(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 provision of related research and development and technical consultation services.

(e) Heating and cooling supply services

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

The Group has signed a service concession agreement with Tianjin Urban-rural Construction Commission of providing heating and cooling supply services to third party named Tianjin City Cultural Center.

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 all applicable Hong Kong Financial Reporting Standards ('HKFRS') and have been prepared under the historical cost convention.

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Changes in accounting policies and disclosures

- (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 2015 but have no material impact on the Group:

HKFRSs (Amendments)	Annual Improvements 2012
HKFRSs (Amendments)	Annual Improvements 2013
HKAS19 (Amendment)	Employee Benefits – Defined Benefit Plans: Employee Contributions

The adoption of these amendments has no significant impact on the results and financial position of the Group.

- (b) In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Chapter 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

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

For the year ended 31 December 2015
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

2.1.1 Changes in accounting policies and disclosures (Continued)

(c) New standards and interpretations not yet adopted

The following new standards and amendments which have been issued but are not yet effective have not been early adopted by the Group:

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle ¹
HKAS 1 (Amendment)	Presentation of Financial Statements – Disclosure Initiative ¹
HKAS 16 (Amendment) and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
HKAS 16 (Amendment) and HKAS 41 (Amendment)	Bearer Plants ¹
HKAS 27 (2011) (Amendment)	Separate Financial Statements - Equity Method in Separate Financial Statements ¹
HKFRS 9 (2014)	Financial Instruments ²
HKFRS 10 (Amendment) and HKAS 28 (2011) (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 10 (Amendment), HKFRS 12 (Amendment) and HKAS 28 (2011) (Amendment)	Investment Entities: Applying the Consolidation Exception ¹
HKFRS 11 (Amendment)	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operation ¹
HKFRS 14	Regulatory Deferral Accounts ¹
HKFRS 15	Revenue from Contracts with Customers ²

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Effective date not yet determined

The Group is in the process of making an assessment of the impact of these new standards and amendments on the consolidated financial statements of the Group in the initial application.

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

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 re-measured, and its subsequent settlement is accounted for within equity.

For the year ended 31 December 2015
(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)

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 consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. 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.

(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.

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

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 a dividend 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. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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 is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profits or losses is recognised in the consolidated 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 recognises the amount adjacent to 'share of profit/(loss) of investments accounted for using equity method' in the consolidated income statement.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates (Continued)

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 consolidated 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 Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated 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 consolidated income statement within 'finance income or expense'. All other foreign exchange gains and losses are included in the consolidated income statement with in 'Other gains – net'.

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation (Continued)

(c) Group companies

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

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

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

2.6 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 consolidated income statement during the financial period in which they are incurred.

13. Financial Statements prepared in accordance with Hong Kong Financial Reporting Standards

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment (Continued)

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 rate of residual value	Annual rate of depreciation
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 (Note 2.10).

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

Construction-in-progress ('CIP') 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 capitalisation. CIP 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 CIP is lower than its carrying value, the carrying value shall be reduced to its recoverable amount.

2.7 Investment properties

Investment property, principally comprising buildings, is held for long-term lease yields and that is not occupied by the Group. 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.

13. Financial Statements prepared in accordance with Hong Kong
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Notes to the Consolidated Financial Statements

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets

(a) *Service concession 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 recognise a financial asset to the extent that it has an unconditional contractual right to receive a guaranteed minimum volume from the grantor. Concession right as intangible assets is recognised for the right under these service concession arrangements by the Group, which are amortised on a straight-line basis over the terms of operation ranging from 25 to 30 years.

(b) *Technical know-how and software*

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

2.9 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: 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) 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 receivables', 'other receivables' and 'cash and cash equivalents' in the consolidated balance sheet (Note 2.15 and 2.16).

(b) Available-for-sale financial assets

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

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 consolidated 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 consolidated 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 consolidated 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, in the event of default, insolvency or bankruptcy of the company or the counterparty.

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 or a group of 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of financial assets (Continued)

(a) *Assets carried at amortised cost* (Continued)

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.

(b) *Assets classified as available-for-sale financial assets*

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, if any such evidence exists 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. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale financial assets 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 consolidated income statement.

For equity investments, 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 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 the consolidated income statement – 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.

13. Financial Statements prepared in accordance with Hong Kong
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 individual contract basis. Where positive, this amount is recognised in assets as work in progress. Where negative, it is recognised in liabilities.

Except for inventories of construction contract, costs of 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 value 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.

2.15 Trade and other receivables

Trade and other receivables are amounts due from customers for tap water 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 allowance 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.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated 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.

2.20 Borrowing costs

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.

13. Financial Statements prepared in accordance with Hong Kong
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets are included in deferred revenue as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Current and deferred income tax (Continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 consolidated 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 when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is 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.

(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 tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Employee benefits

The Group operates various post-employment schemes, including employee compensation, defined contribution pension plans and termination benefits.

(a) *Employee compensation*

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.

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 fair value.

(b) *Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) *Termination benefit*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 services*

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

(b) *Construction contract*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the percentage of completion of the contract activity at the consolidated 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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue recognition (Continued)

(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 when the tap water and recycled water are delivered to customers.

(d) *Sales of pipeline connection for recycled water*

Revenue from the sales of pipeline connection for recycled water is recognised when the connection is finished and recycled water is capable of being delivered to customers.

(e) *Sales of environmental protection equipment*

Revenue from the sales of environmental protection equipment is recognised when the Group has delivered and installed the equipment to the location specified in the sales contract and the customer has confirmed the acceptance of the equipment.

(f) *Contract operation income*

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

(g) *Technical services income*

The Group sells technical services to other companies. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(h) *Rental income*

Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the period of the lease.

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.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3 FINANCIAL RISK MANAGEMENT

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

(a) Market risk

(i) Foreign 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 ('USD') and Japanese Yen ('JPY') pursuant to the long-term payment scheme set out in the asset transfer agreement of foreign loan financed assets from Tianjin Sewage Company ('Sewage Company') (Note 21(d)).

At 31 December 2015, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, post-tax profit for the year would have been RMB4 million (2014: RMB4 million) lower/higher. Similarly, if RMB had weakened/strengthened by 5% against JPY with all other variables held constant, post-tax profit for the year would have been RMB7 million (2014: RMB7 million) lower/higher.

(ii) Interest rate risk

The Group's interest rate risk arises mainly from borrowings and long-term payables. Borrowings and long-term payables obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

The tables below set out the Group's exposure to interest rate risks. Included in the tables are the 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)

	Fixed	Floating	Total
At 31 December 2015			
<i>Other current liabilities</i>			
– Current portion of long-term bank borrowings	—	282,350	282,350
– Current portion of long-term bonds	698,250	—	698,250
– Current portion of long-term payables	14,854	8,362	23,216
<i>Long-term borrowings</i>	—	574,186	574,186
<i>Long-term payables</i>	180,134	89,643	269,777
<i>Long-term bonds</i>	694,925	—	694,925
<i>Total</i>	<u>1,588,163</u>	<u>954,541</u>	<u>2,542,704</u>
At 31 December 2014			
<i>Short-term borrowings</i>	—	50,000	50,000
<i>Other current liabilities:</i>			
– Current portion of long-term bank borrowings	—	281,330	281,330
– Current portion of long-term payables	15,136	7,755	22,891
<i>Long-term borrowings</i>	—	1,564,566	1,564,566
<i>Long-term payables</i>	175,274	87,180	262,454
<i>Long-term bonds</i>	1,388,975	—	1,388,975
<i>Total</i>	<u>1,579,385</u>	<u>1,990,831</u>	<u>3,570,216</u>

At 31 December 2015, 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 RMB7 million (2014: RMB15 million).

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

(b) Credit risk

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

The Group manages credit risk on bank deposits by placing the majority of its cash and cash equivalents with state owned/listed banks in the PRC. The Group does not have 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. Therefore, directors are of the view that the credit risk is limited.

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3 FINANCIAL RISK MANAGEMENT (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 (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal consolidated balance sheet ratio targets and, if applicable external regulatory or legal requirements.

The Group's financial liabilities (inclusive of interests) are analysed into relevant maturity groupings based on the remaining period at the consolidated 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	Carrying value
At 31 December 2015						
<i>Long-term bank borrowings</i>	321,396	260,559	280,867	95,950	958,772	856,536
<i>Long-term payables</i>	23,216	22,414	63,177	183,656	292,463	292,993
<i>Other current and non-current liabilities</i>	3,437	4,695	—	—	8,132	7,727
<i>Trade and other payables</i>	558,411	—	—	—	558,411	558,411
<i>Long-term bonds</i>	780,757	38,150	715,896	—	1,534,803	1,393,175
<i>Dividend payable</i>	32,426	—	—	—	32,426	32,426
At 31 December 2014						
<i>Long-term bank borrowings</i>	390,885	858,878	722,747	157,455	2,129,965	1,845,896
<i>Long-term payables</i>	23,595	24,079	75,807	364,661	488,142	285,345
<i>Other current and non-current liabilities</i>	3,542	3,437	4,920	—	11,899	10,909
<i>Trade and other payables</i>	720,752	—	—	—	720,752	720,752
<i>Short-term borrowings</i>	52,940	—	—	—	52,940	50,000
<i>Long-term bonds</i>	84,630	784,630	776,300	—	1,645,560	1,388,975
<i>Dividend payable</i>	60,337	—	—	—	60,337	60,337

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3 FINANCIAL RISK MANAGEMENT (Continued)

(d) Capital management

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

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

Consistent with others in the industry, 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.

For the year ended 31 December 2015, the Group's strategy is to maintain a gearing ratio of 20% - 60%. The gearing ratio of the Group is as follows:

	As at 31 December	
	2015	2014
Total borrowings	2,550,431	3,581,125
Less: Cash and cash equivalents (Note 18)	(1,328,575)	(814,892)
Net debt	1,221,856	2,766,233
Total equity	4,618,753	4,337,980
Total capital	5,840,609	7,104,213
Gearing ratio	21%	40%

As at 31 December 2015, the gearing ratio of the Group declined compared to last year mainly due to the repayments of external bank borrowings.

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3 FINANCIAL RISK MANAGEMENT (Continued)

(e) Fair value estimation

Financial instruments carried at fair value as at 31 December 2015 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group has no assets or liabilities measured at fair value as at 31 December 2015.

The carrying values of financial assets and financial liabilities approximate their fair values.

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) Estimated provision for doubtful debts

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade and other receivables. Provisions are applied to these receivables where events or changes in circumstance indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debt expenses in the year in which such estimate has been made.

(b) Income taxes

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 recognises income taxes in each region based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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5 SEGMENT INFORMATION

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

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

	2015	2014
Revenue	1,753,667	1,671,132
Other income - net	59,870	51,469
Total	<u>1,813,537</u>	<u>1,722,601</u>

(b) Analysis of other income - net

	2015		2014	
	Income	Cost	Income	Cost
Contract operation service	121,708	(98,253)	113,402	(86,091)
Technical services	38,577	(8,076)	25,786	(7,819)
Rental	11,098	(5,705)	10,624	(5,179)
Other	9,156	(8,635)	7,135	(6,389)
	<u>180,539</u>	<u>(120,669)</u>	<u>156,947</u>	<u>(105,478)</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 for the purpose of allocating resources and assessing performance.

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, tap water operations and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment is mainly the achievement of technology research. From the year of 2015, sale of environmental protection equipment segment was separately disclosed and disclosure information for the corresponding period was re-presented accordingly. The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

Other services include contract operation services, lease of office building or apartments and provide technical services etcetera. 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

The managers operating meeting assesses the performance of the operating segments based on a measure of net profit after tax, which is measured in the approach 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 2015 and 2014 respectively is as follows:

(i) For the year ended 31 December 2015

	Sewage processing and facility construction services			Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	801,005	163,825	327,189	185,401	69,793	63,712	46,733	155,879	1,813,537
Segment expense	(560,144)	(117,772)	(287,569)	(132,454)	(46,766)	(52,703)	(48,682)	(71,916)	(1,318,006)
Results before share of profits of an associate	240,861	46,053	39,620	52,947	23,027	11,009	(1,949)	83,963	495,531
Share of investment accounted for using the equity method (Note 10(b))									(5,349)
Profit before tax									490,182
Income tax expense									(145,703)
Profit for the year									<u>344,479</u>
Segment assets	4,484,801	805,611	2,002,545	1,422,690	469,850	227,198	48,734	561,875	10,023,304
Investment accounted for using the equity method (Note 10(b))	—	—	—	—	—	—	—	25,998	25,998
Total assets	<u>4,484,801</u>	<u>805,611</u>	<u>2,002,545</u>	<u>1,422,690</u>	<u>469,850</u>	<u>227,198</u>	<u>48,734</u>	<u>587,873</u>	<u>10,049,302</u>
Total liabilities	<u>2,877,487</u>	<u>210,755</u>	<u>690,793</u>	<u>1,134,419</u>	<u>206,453</u>	<u>54,493</u>	<u>22,825</u>	<u>233,324</u>	<u>5,430,549</u>
Other information									
– Interest income (Note 29)	8,947	637	1,992	3,961	84	11	—	11,221	26,853
– Interest expenses (Note 29)	(117,868)	(16,825)	(48,220)	(246)	(6,471)	(5,710)	—	(2,080)	(197,420)
– Depreciation	(131)	—	(19)	(37,437)	(399)	—	(616)	(6,126)	(44,728)
– Amortization	(136,569)	(40,322)	(69,181)	(203)	(13,965)	(9,636)	(16)	(2,775)	(272,667)
– Capital expenditures	(188)	(84,920)	(150,106)	(2,831)	(92)	—	—	(2,732)	(240,869)

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5 SEGMENT INFORMATION (Continued)

(c) Operating segment analysis (Continued)

(ii) 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	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	796,351	163,650	318,879	164,734	67,570	61,515	28,163	121,739	1,722,601
Segment expense	(545,711)	(138,521)	(273,912)	(137,354)	(45,919)	(59,286)	(31,670)	(55,690)	(1,288,063)
Results before share of profits of an associate	250,640	25,129	44,967	27,380	21,651	2,229	(3,507)	66,049	434,538
Share of investment accounted for using the equity method (Note 10(b))									(1,274)
Profit before tax									433,264
Income tax expense									(115,552)
Profit for the year									317,712
Segment assets	5,774,822	677,996	1,864,435	1,284,451	398,570	218,916	22,352	586,593	10,828,135
Investment accounted for using the equity method (Note 10(b))	—	—	—	—	—	—	—	31,347	31,347
Total assets	5,774,822	677,996	1,864,435	1,284,451	398,570	218,916	22,352	617,940	10,859,482
Total liabilities	3,868,171	276,649	756,348	1,072,181	244,937	64,036	11,704	227,476	6,521,502
Other information									
– Interest income (Note 29)	2,372	464	1,924	2,351	121	18	41	11,369	18,660
– Interest expenses (Note 29)	(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)	(270)	(6,539)	(86,921)
– Amortization	(118,154)	(36,249)	(66,384)	(545)	(13,336)	(9,827)	—	(2,799)	(247,294)
– Capital expenditures	(365,582)	(844)	(218,885)	(119,437)	(15,934)	—	(3,009)	(1,466)	(725,157)

(iii) The Group's revenue from external customers comes from China.

The non-current assets are located within China.

The revenue from sewage processing and facility construction services segment of RMB798 million is derived from a single customer, accounting for 41% of the Group's total revenue (2014:RMB789 million, 47%).

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6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and constructions (note (i))	Machinery and equipment	Motor vehicles and others	Construction in progress	Total
<i>Cost</i>					
At 1 January 2014	2,006,261	2,183,553	227,036	1,152,078	5,568,928
Additions	14,625	4,142	271	689,800	708,838
Transfers	108,553	97,293	7,833	(213,679)	—
Transfer to intangible assets (Note 7)	(1,754,150)	(1,889,823)	(153,528)	(1,618,262)	(5,415,763)
Disposals	(85,657)	(86,397)	(16,645)	(5,804)	(194,503)
At 31 December 2014	289,632	308,768	64,967	4,133	667,500
Additions	—	4,228	1,633	233,880	239,741
Transfers	—	7,040	—	(7,040)	—
Transfer to intangible assets (Note 7)	—	—	—	(228,030)	(228,030)
Adjustments to original costs	(8,773)	—	—	—	(8,773)
Disposals	—	(27)	(1,009)	—	(1,036)
At 31 December 2015	280,859	320,009	65,591	2,943	669,402
<i>Accumulated depreciation</i>					
At 1 January 2014	(704,857)	(525,267)	(98,602)	—	(1,328,726)
Charges for the year (Note (i))	(22,067)	(48,270)	(12,911)	—	(83,248)
Transfer to intangible assets (Note 7)	664,970	445,811	53,253	—	1,164,034
Disposals	20,963	42,107	10,031	—	73,101
At 31 December 2014	(40,991)	(85,619)	(48,229)	—	(174,839)
Charges for the year (Note (i))	(12,506)	(25,389)	(3,160)	—	(41,055)
Disposals	—	27	918	—	945
At 31 December 2015	(53,497)	(110,981)	(50,471)	—	(214,949)
<i>Net book value</i>					
At 31 December 2015	227,362	209,028	15,120	2,943	454,453
At 31 December 2014	248,641	223,149	16,738	4,133	492,661

(i) The Group's depreciation expense of property, plant and equipment of RMB37 million (2014: RMB77 million) has been charged in 'cost of sales' and RMB4 million (2014: RMB6 million) in 'administrative expenses'.

(ii) As at 31 December 2015, the certificate of legal title to the building and land use rights included in property, plant and equipment, investment properties and land use rights with carrying amount of RMB127 million (cost of RMB175 million) (31 December 2014: carrying amount of RMB132 million and cost of RMB175 million) has yet to be obtained. As these assets are supported by legal sale and purchase agreements, the management of the Company is of the view that the legal titles will be received in due course without additional significant cost to the Group.

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6 PROPERTY, PLANT AND EQUIPMENT

(a) Movement of significant projects of construction in progress (Continued)

Name	Budgeted amount	31 December 2014	Increase in current year	Transfer to property, plant and equipment	Transfer to intangible assets	31 December 2015	Proportion of expenditures incurred to budgeted amount	Source of funds
Hangzhou								
– Qige sewage water plants upgraded project	430,000	—	84,920	—	(84,920)	—	22%	Self-raised
Xi'an								
– Dengjiacun and Beishiqiao sewage water plants upgraded project	181,620	—	113,725	—	(113,725)	—	100%	Self-raised
Other projects		4,133	35,235	(7,040)	(29,385)	2,943		
Total		4,133	233,880	(7,040)	(228,030)	2,943		

(i) In 2015, there was no borrowing costs capitalised in the construction in progress (2014: Nil).

(b) Construction in progress

The progress of significant projects of construction in progress as at 31 December 2015 is analysed as follows:

	Construction progress	Remark
Hangzhou		
–Sewage water processing plant upgrading project – Qige	22%	Estimated by percent of cost incurred to total project budget
Xi'an		
–Sewage water processing plant upgrading project –Dengjiacun and Beishiqiao	100%	Estimated by percent of cost incurred to total project budget

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7 INTANGIBLE ASSETS

	Concession rights	Technical know-how and software	Total
Cost			
At 1 January 2014	3,322,411	11,366	3,333,777
Transfer from property, plant and equipment (Note 6)	2,633,467	—	2,633,467
Transfer from construction in progress (Note 6)	1,618,262	—	1,618,262
Transfer from land use rights (Note 8)	402,047	—	402,047
Transfer to other current assets	(76,348)	—	(76,348)
Other additions	21,442	681	22,123
Disposals	(716,372)	(726)	(717,098)
At 31 December 2014	7,204,909	11,321	7,216,230
Transfer from construction in progress (Note 6)	228,030	—	228,030
Additions	987	141	1,128
At 31 December 2015	7,433,926	11,462	7,445,388
Amortisation			
At 1 January 2014	(669,970)	(4,007)	(673,977)
Charges for the year	(245,740)	(857)	(246,597)
Disposals	27,312	139	27,451
At 31 December 2014	(888,398)	(4,725)	(893,123)
Charges for the year	(271,629)	(598)	(272,227)
At 31 December 2015	(1,160,027)	(5,323)	(1,165,350)
Impairment			
At 31 December 2014	(17,010)	—	(17,010)
Charges for the year	(18,278)	—	(18,278)
At 31 December 2015	(35,288)	—	(35,288)
Net book value			
At 31 December 2015	6,238,611	6,139	6,244,750
At 31 December 2014	6,299,501	6,596	6,306,097

- (i) On 31 December 2015, certain concession right with a carrying amount of approximately RMB201 million (a cost of RMB302 million) (31 December 2014: carrying amount of RMB211 million with cost of RMB302 million) has been used as collateral for the loan of RMB75 million (31 December 2014: RMB97 million) (Note 21(a) (i)).
- (ii) The remaining amortisation period of concession rights ranges from 13 to 28 years.
- (iii) Amortisation of RMB271.6 million (2014: RMB245.7 million) has been charged to the 'cost of sales' and RMB0.6 million (2014: RMB0.9 million) has been charged to 'administrative expenses'.

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8 LAND USE RIGHTS

All the Group's land use rights are located in the PRC and are held on a medium term leases of 25 to 50 years. The Group's interests in land use rights represent prepaid operating lease payments and their carrying values are analysed as follows:

Cost

At 1 January 2014	583,057
Transfer to intangible assets (Note 7)	(554,178)
Disposals	(11,038)
	<hr/>
At 31 December 2014 and 31 December 2015	17,841

Amortisation

At 1 January 2014	(156,708)
Transfer to intangible assets (Note 7)	152,131
Charges for the year	(697)
Disposals	3,299
	<hr/>
At 31 December 2014	(1,975)
Charges for the year	(440)
	<hr/>
At 31 December 2015	(2,415)

Net book value

At 31 December 2015	15,426
	<hr/>
At 31 December 2014	15,866
	<hr/>

9 INVESTMENT PROPERTIES

Cost

At 31 December 2014 and 31 December 2015	137,374
	<hr/>

Accumulated depreciation

At 1 January 2014	(28,765)
Charges for the year	(3,673)
	<hr/>
At 31 December 2014	(32,438)
Charges for the year	(3,673)
	<hr/>
At 31 December 2015	(36,111)

Net book value

At 31 December 2015	101,263
	<hr/>
At 31 December 2014	104,936
	<hr/>

As at 31 December 2015, the Group's investment properties include two office buildings with net book value of RMB101 million located in Tianjin, the PRC, owned by the Group and used for long-term lease. The fair value of the office building used for long-term lease at 31 December 2015 was approximately RMB210 million (31 December 2014: RMB201 million).

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10A SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2015:

	Place of registration and operation	Nature of business and business scope	Registered capital	Equity interest holding/voting rights (%)	Enterprise type
Qujing Capital Water Co., Ltd.	Qujing, PRC	Sewage processing, tap water supply	178,983	87/87	Limited company
Guizhou Capital Water Co., Ltd.	Guizhou, PRC	Sewage processing	120,000	95/95	Limited company
Baoying Capital Water Co., Ltd.	Baoying, PRC	Sewage processing	53,000	70/70	Limited company
Hang Zhou Tianchuang Capital Water Co., Ltd.	Hangzhou, PRC	Sewage processing	377,445	70/70	Limited company
Tianjin Capital New Materials Co., Ltd.	Tianjin, PRC	Production and sales of new types of construction	37,500	71/71	Limited company
Fuyang Capital Water Co., Ltd.	Fuyang, PRC	Sewage processing	107,100	100/100	Limited company
Tianjin Capital Environmental Protection (Hong Kong) Co., Ltd.	Hong Kong, PRC	Sewage processing	62,987	100/100	Limited company
Wendeng Capital Water Co., Ltd.	Wendeng, PRC	Sewage processing	61,400	100/100	Limited company
Tianjin Jinghai Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	12,000	100/100	Limited company
Tianjin Water Recycling Co., Ltd.	Tianjin, PRC	Production and sales of recycled water and technical consulting for water recycling business	100,000	100/100	Limited company
Xi'an Capital Water Co., Ltd.	Xi'an, PRC	Sewage processing	334,000	100/100	Limited company
Tianjin Kaiying Environmental Engineering Technology Consultant Co., Ltd.	Tianjin, PRC	Environmental engineering, protection and technical consultation material	20,000	100/100	Limited company
Anguo Capital Water Co., Ltd.	Anguo, PRC	Sewage and tap water	41,000	100/100	Limited company
Wuhan Tianchuang Environmental Protection Co., Ltd.	Wuhan, PRC	Sewage and tap water processing	103,240	100/100	Limited company
Tianjin Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	10,000	100/100	Limited company
Tianjin Zichuang Project Investment Co., Ltd.	Tianjin, PRC	Construction project investment	23,400	100/100	Limited company
Tianjin Jinning Capital Water Co., Ltd.	Tianjin, PRC	Sewage processing	15,000	100/100	Limited company
Tianjin Jiayuanxing Innovative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service property management	60,000	100/100	Limited company
Tianjin Jiayuantian Innovative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service property management	64,000	100/100	Limited company
Tianjin Jiayuansheng Innovative Energy Technology Co., Ltd.	Tianjin, PRC	Energy saving, innovative energy research, consulting and transfer service property management	33,000	100/100	Limited company

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10A SUBSIDIARIES (Continued)

(i) Material non-controlling interests

The total non-controlling interests for the period are RMB218 million (2014: RMB167 million), of which RMB153 million (2014: RMB106 million) is for Hang Zhou Tianchuang Capital Water Co., Ltd. and RMB32 million (2014: RMB30 million) is attributed to Qujing Capital Water Co., Ltd. The non-controlling interests in respect of others are not material.

Summarised financial information on subsidiaries with material non-controlling interests is set out as below:

Summarised balance sheet

	Hang Zhou Tianchuang Capital Water Co., Ltd.		Qujing Capital Water Co., Ltd.	
	2015	2014	2015	2014
Current assets	128,623	45,483	102,396	76,388
Current liabilities	(183,911)	(99,746)	(76,471)	(55,876)
Total current net assets	(55,288)	(54,263)	25,925	20,512
Non-current assets	686,510	641,176	310,004	325,004
Non-current liabilities	(119,844)	(232,903)	(105,818)	(130,232)
Total non-current net assets	566,666	408,273	204,186	194,772
Net assets	511,378	354,010	230,111	215,284

Summarised income statement

	Hang Zhou Tianchuang Capital Water Co., Ltd.		Qujing Capital Water Co., Ltd.	
	2015	2014	2015	2014
Revenue	165,978	164,278	99,182	101,506
Profit before income tax	47,888	25,646	20,339	22,974
Income tax expense	(10,519)	(4,241)	(5,513)	(5,761)
Net profit	37,369	21,405	14,826	17,213
Total comprehensive income	37,369	21,405	14,826	17,213
Total comprehensive income allocated to Non-controlling Interests	11,211	6,422	1,993	2,314
Dividends paid to Non-Controlling Interests	—	—	—	—

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10A SUBSIDIARIES (Continued)

(i) Material non-controlling interests (Continued)

Summarised cash flows

	Hang Zhou Tianchuang Capital Water Co., Ltd.		Qijing Capital Water Co., Ltd.	
	2015	2014	2015	2014
Cash flows from operating activities				
Cash generated from operations	118,510	99,016	44,190	17,043
Interest paid	(11,907)	(17,618)	(5,560)	(7,406)
Income tax paid	(8,793)	(5)	(4,585)	(4,415)
Net cash generated from operating activities	97,810	81,393	34,045	5,222
Net cash used in investing activities	(98,867)	(9,905)	(447)	(42)
Net cash generated from/(used in) financing activities	54,042	(88,920)	(30,948)	(6,511)
Net increase/(decrease) in cash and cash equivalents	52,985	(17,432)	2,650	(1,331)
Cash and cash equivalents at beginning of year	27,716	45,148	4,763	6,094
Cash and cash equivalents at end of year	80,701	27,716	7,413	4,763

10B INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	2015	2014
Beginning of year	31,347	32,621
Share of loss	(5,349)	(1,274)
End of year	25,998	31,347

- (a) Set out below is the associate of the Group as at 31 December 2015, which, in the opinion of the directors, is immaterial to the Group. The Group's shares of the results of its associate and its assets and liabilities, are as follows:

	Registered capital	% of ownership interest	Assets	Liabilities	Net assets	Revenue	Share of loss
2015							
Tianjin International Machinery Co., Ltd.	120,000	27.50	784,427	624,107	160,320	2,272,821	(5,349)
2014							
Tianjin International Machinery Co., Ltd.	120,000	27.50	734,027	560,181	173,846	2,131,004	(1,274)

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10B INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD (Continued)

(b) Tianjin International Machinery Co., Ltd. ('International Machinery') is a Sino-foreign joint venture company registered in the Tianjin Economic-technological Development Area. The principal activities of International Machinery include research and development, production and sale of valve and actuating devices; heater exchanger and the whole set of it; environment protection equipment; engineering technical consultation; trading; manufacturing and sale of general equipment.

(c) Summarised financial information for International Machinery

	31 December 2015	31 December 2014
Net book value of investments	25,998	31,347
Attributable comprehensive income for the year:		
– Net profit	(5,349)	(1,274)
– Other comprehensive income	—	—
Total comprehensive income	(5,349)	(1,274)

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2015	31 December 2014
Unquoted equity investment	<u>2,000</u>	<u>2,000</u>

12 LONG-TERM RECEIVABLES

	31 December 2015	31 December 2014
Receivables from toll concession right	<u>319,463</u>	<u>326,147</u>

Receivables from toll road concession represent amortised cost using effective interest rate method, calculated with reference to a fixed cash flow generated from future traffic flow over the concession period till 2030.

13 OTHER CURRENT ASSETS

	31 December 2015	31 December 2014
Concession right of a subsidiary (note(i))	47,143	58,124
Others	25	4,126
	<u>47,168</u>	<u>62,250</u>

(i) The concession right is attributed to Anguo Capital Water Co., Ltd.

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14 INVENTORIES

	31 December 2015	31 December 2014
Raw materials	9,237	9,597
Finished goods	2,340	2,644
Spare parts and low value consumables	522	472
Construction contract costs	15,052	1,679
	<u>27,151</u>	<u>14,392</u>

15 TRADE RECEIVABLES

	31 December 2015	31 December 2014
Receivables from third parties	1,200,167	2,530,097
Receivables from related parties	48,778	40,186
	<u>1,248,945</u>	<u>2,570,283</u>
Less: allowance for impairment of trade receivables (note(b))	(9,499)	(7,169)
	<u>1,239,446</u>	<u>2,563,114</u>

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

	31 December 2015		31 December 2014	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,108,109	89%	649,382	25%
1 to 2 years	124,862	10%	786,811	31%
2 to 3 years	15,974	1%	795,627	31%
Over 3 years	—	0%	338,463	13%
Total	<u>1,248,945</u>	<u>100%</u>	<u>2,570,283</u>	<u>100%</u>

The average credit period of the Group is about 30 days. As at 31 December 2015, the ageing of trade receivables overdue but not impaired has no material difference from the ageing analysis above.

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

	2015	2014
At 1 January	(7,169)	(7,169)
Additions	(2,330)	—
At 31 December	<u>(9,499)</u>	<u>(7,169)</u>

On 31 December 2015, the total amount of trade receivables due from Qujing City Water General Company in respect of sewage processing fee and tap water fee was RMB103 million. The management estimated and provided RMB9.5 million bad debt provision for those foreseeable uncollectible receivables with ageing over 2 years.

(c) The carrying amounts of the Group's trade receivables are all denominated in RMB.

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16 PREPAYMENTS

The ageing of prepayments is analysed below:

	31 December 2015		31 December 2014	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	74,919	54%	54,987	52%
1 to 2 years	46,007	33%	48,348	45%
Over 2 years	18,801	13%	3,077	3%
	<u>139,727</u>	<u>100%</u>	<u>106,412</u>	<u>100%</u>

As at 31 December 2015, the prepayments with ageing over one year amounting to

RMB65 million (2014:RMB51 million) were mainly prepayments to suppliers for recycled water pipeline connection business.

17 OTHER RECEIVABLES

	31 December 2015	31 December 2014
VAT refund receivables	57,071	—
Deposits	9,301	2,840
Others	8,159	2,867
	<u>74,531</u>	<u>5,707</u>

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

	31 December 2015		31 December 2014	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	69,833	94%	2,296	40%
1 to 2 years	1,445	2%	1,308	23%
2 to 3 years	1,179	1%	362	6%
Over 3 years	2,074	3%	1,741	31%
	<u>74,531</u>	<u>100%</u>	<u>5,707</u>	<u>100%</u>

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18 CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014
Cash on hand	128	333
Cash at bank	1,349,747	819,759
	<u>1,349,875</u>	<u>820,092</u>
Less: Restricted cash (note (a))	(21,300)	(5,200)
Cash and cash equivalents	<u><u>1,328,575</u></u>	<u><u>814,892</u></u>

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	31 December 2015	31 December 2014
RMB	1,341,654	812,205
HK dollar	8,221	7,887
Total	<u><u>1,349,875</u></u>	<u><u>820,092</u></u>

- (a) As at 31 December 2015, RMB21 million (2014: RMB5 million) are restricted guarantee deposits for construction projects.

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19 SHARE CAPITAL

Movement of the Company's authorised, issued and fully paid up capital is set out below. All of the Company's shares are ordinary shares with par value of RMB1.

	Circulating A-shares (thousands)	Circulating H-shares (thousands)	Total number of shares (thousands)	Share Capital
At 31 December 2014 and 2015	1,087,228	340,000	1,427,228	1,427,228

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

20 OTHER RESERVES

	Capital reserve (note(i))	Statutory reserve	Total
Balance at 1 January 2014	382,311	373,256	755,567
Profit appropriation to statutory reserves (note(ii))	—	21,807	21,807
Balance at 31 December 2014	382,311	395,063	777,374
Profit appropriation to statutory reserve (note(ii))	—	19,313	19,313
Balance at 31 December 2015	382,311	414,376	796,687

- (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.
- (ii) In accordance with PRC laws and regulations, Companies established in the PRC are required to transfer at least 10% of their net profit for the year, as determined under the PRC for the year, as determined under the PRC accounting standards, to relevant reserves until the reserve reaches 50% of the registered capital. Such reserves can be used to offset accumulated losses, capitalisation into capital and expansion of production.

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21 BORROWINGS

	31 December 2015	31 December 2014
<i>Non-current:</i>		
Long-term bank borrowings (note(a))	856,536	1,845,896
Less: Current portion (note(a))	(282,350)	(281,330)
	<u>574,186</u>	<u>1,564,566</u>
Long-term bonds (note(c))	1,393,175	1,388,975
Less: Current portion (note(c))	(698,250)	—
	<u>694,925</u>	<u>1,388,975</u>
Long-term payables (note(d))	292,993	285,345
Less: Current portion (note(d))	(23,216)	(22,891)
	<u>269,777</u>	<u>262,454</u>
Other liabilities (note(e))	4,545	7,727
	<u>1,543,433</u>	<u>3,223,722</u>
<i>Total non-current borrowings</i>		
<i>Current:</i>		
Current portion of long-term bank borrowings (note(a))	282,350	281,330
Current portion of long-term bonds (note(c))	698,250	—
Current portion of long-term payables (note(d))	23,216	22,891
	<u>1,003,816</u>	<u>304,221</u>
Short-term bank borrowings (note(b))	—	50,000
Current portion of other liabilities (note(e))	3,182	4,251
	<u>1,006,998</u>	<u>358,472</u>
<i>Total current borrowings</i>		

(a) Long-term bank borrowings

The long-term bank borrowings are summarised as below:

	31 December 2015	31 December 2014
Borrowings from:		
China Construction Bank	300,000	489,600
Industrial and Commercial Bank of China	237,236	413,236
China Development Bank	109,900	253,200
China Minsheng Bank	99,000	99,000
Agriculture Bank of China	50,400	275,110
Industrial Bank	45,000	—
Bank of China	15,000	20,000
Tianjin Rural Commercial Bank	—	97,000
China Ever bright Bank	—	85,000
China Merchants Bank	—	50,000
China Bohai Bank	—	43,750
Baoying Rural Credit Union	—	20,000
	<u>856,536</u>	<u>1,845,896</u>

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21 BORROWINGS (Continued)

(a) Long-term bank borrowings (Continued)

Summary of terms of bank borrowings:

	31 December 2015	31 December 2014
Pledged (note(i))	75,000	107,000
Guarantee (note(ii))	225,000	249,000
Unsecured	556,536	1,489,896
	<u>856,536</u>	<u>1,845,896</u>

- (i) As at 31 December 2015, bank borrowing of RMB75 million (31 December 2014: RMB107 million) is secured by the Group's concession services right (Note 7).
- (ii) As at 31 December 2015, Bank borrowing of RMB225 million (31 December 2014: RMB249 million) is guaranteed by City Infrastructure Construction and Investment (Note 36(5) (b)).
- (iii) The interest rates of the long-term bank borrowings range from 4.410% to 7.205% as at 31 December 2015 (31 December 2014: 5.535% to 7.530%).
- (iv) The carrying amounts of the Group's borrowings are denominated in RMB.
- (v) At 31 December 2015, the Group's borrowings were repayable as follows:

	31 December 2015	31 December 2014
Within 1 year	282,350	281,330
1 to 2 years	235,650	783,530
2 to 5 years	245,536	633,236
Over 5 years	93,000	147,800
	<u>856,536</u>	<u>1,845,896</u>

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21 **BORROWINGS** (Continued)

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

(v) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the year are as follows:

	31 December 2015	31 December 2014
6 months or less	—	99,000
6- 12 months	856,536	1,746,896
	856,536	1,845,896

(vi) The carrying amounts of long-term bank borrowings approximate their fair values as at 31 December 2015 because they bear interest at prevailing market rates throughout their maturity period.

(b) **Short-term bank borrowings - unsecured**

	31 December 2015	31 December 2014
Postal Saving Bank of China	—	50,000
	—	50,000

(c) **Long-term bonds**

	31 December 2014	Additions	Amortization	Bond payable due within 1 year	31 December 2015
Par value	1,400,000	—	—	(700,000)	700,000
Transaction cost	(11,025)	—	4,200	1,750	(5,075)
	1,388,975	—	4,200	(698,250)	694,925

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21 BORROWINGS (Continued)

(c) Long-term bonds (continued)

Long-term bonds are analysed as follows:

	Par value	Issue date	Duration	Issue amount
Corporate bond I(i)	700,000	16 November 2011	5 years	700,000
Corporate bond II(ii)	700,000	29 May 2013	5 years	700,000

Interest accrued/paid for the bonds is analysed as follows:

	Interest accrued/paid			
	31 December 2014	Interest accrued in current year	Interest paid in current year	31 December 2015
Corporate bond I(i)	7,747	46,480	(46,480)	7,747
Corporate bond II(ii)	20,351	38,150	(38,150)	20,351
	<u>28,098</u>	<u>84,630</u>	<u>(84,630)</u>	<u>28,098</u>

- (i) On 16 November 2011, the Company issued a long-term bond at par value of RMB700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The fixed interest rate of 6.64% has been accrual and settled per annum. The bond will be due for repayment on 16 November 2016 which has been reclassified as current liabilities.
- (ii) On 29 May 2013, the Company issued a long-term bond at par value of RMB700 million on the inter-bank market of National Association of Financial Market Institutional Investors of the PRC. The fixed interest rate of 5.45% has been accrual and settled per annum. The bond will be due for repayment on 29 May 2018. The principal will be repaid on maturity.

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

	31 December 2015			31 December 2014		
	Payable	Unrecognised financing charges	Total	Payable	Unrecognised financing charges	Total
Payable to Sewage Company for assets acquisition	<u>488,779</u>	<u>(195,786)</u>	<u>292,993</u>	<u>488,144</u>	<u>(202,799)</u>	<u>285,345</u>

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21 BORROWINGS (Continued)

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

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

	Maturity date	Original balance	Effective interest rate	Ending balance	Current portion
Sewage Company	20 March 2041	430,314	5.94%	269,777	23,216

The balance of the long-term payables to Sewage Company is the consideration payable in respect of the acquisition of sewage processing assets from Sewage Company, net of unrecognised financing charges.

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

	31 December 2015	31 December 2014
JPY	353,791	352,902
US dollar	134,988	135,242
	<u>488,779</u>	<u>488,144</u>

Pursuant to the 'Assets transfer agreement from foreign banks loans about Haihe River Tianjin sewage processing project and Beicang sewage processing project', Sewage Company sold to the Company certain sewage processing assets. The first instalment of RMB261 million settled in cash and the remaining amount is to 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 was at fair value assessed based on discounted future cash payments and the discount rate of 5.94%.

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

(ii) The long-term payables mature as follows, and as at 31 December 2015, the current portion of long-term payables of RMB23 million was classified as current liabilities (31 December 2014: RMB23 million).

	31 December 2015	31 December 2014
Within 1 year	23,216	22,891
1 to 2 years	22,414	22,047
2 to 5 years	63,177	61,828
Over 5 years	184,186	178,579
	<u>292,993</u>	<u>285,345</u>

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21 BORROWINGS (Continued)

(e) Other liabilities

	31 December 2015	31 December 2014
<i>Non-current:</i>	353,791	352,902
– Government loan for water recycling plants construction (note(i))	<u>4,545</u>	<u>7,727</u>
<i>Current:</i>		
– Current portion of government loan for water recycling plants construction (note(i))	3,182	3,182
– Others	<u>—</u>	<u>1,069</u>
	<u>3,182</u>	<u>4,251</u>

- (i) A loan was obtained from Tianjin Municipal Bureau by Tianjin Water Recycling Co., Ltd, a subsidiary of the Company, in 2003 for the purpose of the construction of water recycling plants. The current portion of the long-term loan was RMB3 million as at 31 December 2015(31 December 2014: RMB3 million). The loan is repayable by equal amount instalments over eleven years from 2007. The interest rate is based on the rate for deposits in RMB for period of one year on the quotation date plus 0.3% premium.

(f) As at the balance sheet dates the Group had the following committed undrawn borrowing facilities:

	31 December 2015	31 December 2014
At floating rate expiring within 1 year	1,250,000	—
At floating rate expiring beyond 1 year	<u>265,000</u>	<u>964,000</u>
Total	<u>1,515,000</u>	<u>964,000</u>

22 OTHER NON-CURRENT LIABILITIES

	31 December 2015	31 December 2014
Cooling service fee	44,000	46,000
Others	<u>93</u>	<u>—</u>
	<u>44,093</u>	<u>46,000</u>

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23 DEFERRED REVENUE

Deferred revenue represents the subsidies received from governmental authorities with respects to the Group's certain construction and research and development projects. Details of the deferred revenue are as below:

	31 December 2014	Additions	Additional expenditures of relocation (Note (i))	Recognised in other gains-net (Note 31)	31 December 2015	Relating to assets/costs
Sewage water processing plants:						
– Xianyanglu-upgrading project	68,531	—	—	(2,363)	66,168	assets
– Project of the solution and maintainness of water pollution	762	3,527	—	(102)	4,187	costs
– Dongjiao-upgrading project	48,088	—	—	(1,658)	46,430	assets
– Jingu	805,069	—	(33,009)	(27,377)	744,683	assets
Water recycling plants in:						
– Dongjiao	23,781	—	—	(675)	23,106	assets
– Beicang	20,212	—	—	(525)	19,687	assets
Heating and cooling supply service project:	95,947	—	—	(4,308)	91,639	assets
Water recycling plants:						
– Xianyanglu-water recycling project	14,341	196	—	(428)	14,109	assets
– Jingu	121,820	316	(911)	(2,928)	118,297	assets
Sewage water processing plants:						
– Beishiqiao-upgrading project	7,605	5,205	—	—	12,810	assets
Others	3,045	2,286	—	(773)	4,558	costs
Total	1,209,201	11,530	(33,920)	(41,137)	1,145,674	

- (i) In 2015, deferred revenue was used to offset the additional expenditures on relocation of Jizhuangzi sewage water processing plant and water recycling plant.

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24 DEFERRED TAX LIABILITIES

	31 December 2015		31 December 2014	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Depreciation of property, plant and equipment	<u>105,810</u>	<u>423,240</u>	<u>86,778</u>	<u>347,112</u>

(a) Deferred income tax liabilities were recognised on temporary differences arising between the tax bases of concession right and their carrying amounts, which is to 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:

	2015	2014
At 1 January	86,778	68,977
Charged to income statement (Note 30)	<u>19,032</u>	<u>17,801</u>
At 31 December	<u>105,810</u>	<u>86,778</u>

(c) Unrecognised deferred income tax assets

(i) 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 RMB19 million (2014: RMB11 million) in respect of losses amounting to RMB74 million (2014: RMB42 million).

(ii) The Group did not recognise deferred income tax assets of RMB19 million (31 December 2014: RMB23 million) in respect of tax losses amounting to RMB77 million (31 December 2014: RMB91 million). The amount of tax loss will expire in the following years:

Year	2015	2014
2015	—	16,475
2016	24,476	27,553
2017	18,204	18,204
2018	10,372	10,372
2019	18,056	18,056
2020	<u>6,243</u>	<u>—</u>
	<u>77,351</u>	<u>90,660</u>

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25 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND INCOME TAX AND OTHER TAXES PAYABLES

	31 December 2015	31 December 2014
Trade payables (note(a))	82,599	54,319
Advances from customers (note(b))	874,880	776,190
Other payables (note(c))	476,440	666,433
Income tax and other taxes payables (note(d))	96,387	26,400
	<u>1,530,306</u>	<u>1,523,342</u>

(a) As at 31 December 2015, the majority trade payables were from purchase of inventory aged within one year.

(b) Advances from customers

	31 December 2015	31 December 2014
For pipeline connection services	858,647	762,622
For heating supply service	6,720	5,752
For project Han Gu	5,267	3,267
Others	4,246	4,549
	<u>874,880</u>	<u>776,190</u>

As at 31 December 2015, advances of RMB625 million (31 December 2014: RMB574 million) were aged over one year, which mainly represented advances relating to the recycled water pipeline connection business. The balances had yet to be settled as those projects have not been completed.

(c) Other payables

	31 December 2015	31 December 2014
Construction costs payable	307,810	493,812
Payable for purchases of property, plant and equipment and concession right	13,892	22,745
Interest payable for long-term bonds (Note 21(c))	28,098	28,098
Others	126,640	121,778
	<u>476,440</u>	<u>666,433</u>

As at 31 December 2015, other payables of RMB205 million (31 December 2014: RMB79 million) were aged over one year, which mainly represented payables and deposits for sewage plants upgrading projects.

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25 TRADE PAYABLES, ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND INCOME TAX AND OTHER TAXES PAYABLES (Continued)

(d) Income tax and other taxes payables

	31 December 2015	31 December 2014
Income tax payables	2,237	21,990
VAT payables	78,493	674
Business tax payables	3,783	2,724
Others	11,874	1,012
	<u>96,387</u>	<u>26,400</u>

26 BUSINESS TAX EXPENSES AND SURCHARGES

	2015	2014
Business tax	16,486	13,980
City construction and maintenance tax	9,268	1,224
Surcharge and others	7,535	1,015
	<u>33,289</u>	<u>16,219</u>

27 EXPENSES BY NATURE

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

	2015	2014
Amortisation of intangible assets and land use rights	272,667	247,294
Utilities	235,942	214,036
Employee benefit expenses (Note 28)	207,395	183,379
Depreciation of property, plant and equipment and investment properties	44,728	86,921
Repair and maintenance expenses	90,048	82,369
Raw materials and consumables used	86,718	43,828
Sewage mud processing fee	54,343	42,295
Cost of recycling water pipeline connection service	42,938	35,358
Construction cost of sewage water plants	29,005	28,557
Impairment of other current assets	10,981	6,900
Impairment of intangible assets (Note 7)	18,278	17,010
Provision of trade receivables (Note 15)	2,330	—
Factory environment, detection and fire prevention expenses	23,409	20,842
Network maintenance costs	18,351	19,252
Other taxes	14,213	11,320
Travel, meeting and business entertainment expenses	9,265	9,471
Toll road management fee	7,120	7,120
Consulting service expenses	6,229	4,476
Office expenses	4,704	4,305
Auditors' remuneration	4,200	4,200
Expenses of secretary of the board	3,185	3,642
Others	35,347	34,047
	<u>1,221,396</u>	<u>1,106,622</u>

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28 EMPLOYEE BENEFIT EXPENSES

	2015	2014
Wages and salaries	138,545	126,624
Social security costs	40,155	34,647
Pension costs – defined contribution plans	19,280	18,071
Other benefits	9,415	9,037
	<u>207,395</u>	<u>188,379</u>

(a) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year included one (2014: three) directors whose emoluments are reflected in the analysis shown in Note 38. The emoluments to the remaining four (2014: two) individuals during the year are as follows:

	2015	2014
Salary	2,024	1,120
Discretionary bonuses	551	219
Employer's contribution to a retirement benefit scheme	207	94
Housing fund and other social security contributions	360	144
Estimated money value of other benefits	—	—
Total	<u>3,142</u>	<u>1,577</u>

The emoluments fell within the following bands:

	2015	2014
Emolument bands (in HK dollar)		
HK\$500,000 – HK\$1,000,000	3	2
HK\$1,000,000 – HK\$1,500,000	1	—
	<u>4</u>	<u>2</u>

29 FINANCE EXPENSES – NET

	2015	2014
Interest expenses of borrowings	197,420	229,122
Less: Capitalised interest	—	—
Net interest expenses	197,420	229,122
Less: Interest income	(26,853)	(18,660)
– long-term receivables	(11,089)	(11,343)
– bank deposits	(15,764)	(7,317)
Exchange loss/(gains) (note(a))	7,394	(27,947)
Others	4,894	5,111
	<u>182,855</u>	<u>187,626</u>

(a) For the year ended 31 December 2015, the exchange loss on the long-term payables denominated in JPY and US dollar were RMB7 million (2014: RMB28 million of the exchange gain).

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30 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2014:16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2015	2014
Current income tax	126,671	97,751
Deferred income tax (Note 24)	19,032	17,801
	<u>145,703</u>	<u>115,552</u>

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

	2015	2014
Profit before tax	<u>490,182</u>	<u>433,264</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	121,736	106,460
Income not subject to tax	(5,576)	(3,974)
Expenses not deductible for taxation purposes	16,811	5,310
Utilisation of previously unrecognised tax losses	(4,888)	(2,735)
Current year deductible temporary differences for which no deferred income tax asset was recognised	7,897	5,977
Under provision in prior year	8,162	—
Current year tax losses for which no deferred income tax asset was recognised	<u>1,561</u>	<u>4,514</u>
Tax charge	<u>145,703</u>	<u>115,552</u>

31 OTHER GAINS - NET

	2015	2014
VAT refund	74,319	—
Government grants (Note 23)	41,137	23,169
Gain/(loss) on disposal of property, plant and equipment	4	(1,812)
Others	<u>4,074</u>	<u>1,047</u>
	<u>119,534</u>	<u>22,404</u>

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32 EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit attributable to owners of the Company of RMB331 million (2014: RMB308 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2014: 1,427 million shares).

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares. Diluted earnings per share are calculated using the same bases as described above for calculating basic earnings per share.

	2015	2014
Profit attributable to owners of the Company	330,537	308,168
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (RMB yuan)	0.23	0.22

33 DIVIDENDS

The dividend paid in 2015 and 2014 were RMB129 million (RMB0.07 per share) and RMB91 million (RMB0.08 per share) respectively. A dividend in respect of the year ended 31 December 2015 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 did not reflect this dividend payable.

34 CASH GENERATED FROM OPERATIONS

	2015	2014
Profit before income tax	490,182	433,264
Adjustments for:		
– Amortisation of deferred revenue (Note 23)	(41,137)	(23,169)
– Depreciation and amortisation	317,395	334,215
– Share of loss of investment accounted for using equity method (Note 10b)	5,349	1,274
– Gain/(loss) on disposal of property, plant and equipment (Note 31)	(4)	1,812
– Impairment of other current assets	10,981	6,900
– Impairment of intangible assets	18,278	17,010
– Provision of trade receivables	2,330	—
– Interest income on bank deposit (Note 29)	(15,764)	(7,317)
– Interest expense of borrowings (Note 29)	197,420	229,122
– Exchange loss/(gains) (Note 29)	7,394	(27,947)
Changes in working capital		
– (Increase)/decrease in inventories	(12,759)	43,643
– (Decrease)/increase in trade receivables, other receivables and prepayments	1,250,430	(487,119)
– Increase in trade payables, advance from customers and other payables	211,244	175,745
Cash generated from operations	2,441,339	697,433

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34 CASH GENERATED FROM OPERATIONS (Continued)

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2015	2014
Net book amount	91	115,598
Offset with deferred revenue (note(a))	—	(107,282)
Gain/(loss) on disposal of property, plant and equipment (Note 31)	4	(1,812)
	<u>95</u>	<u>6,504</u>
Proceeds from disposal of property, plant and equipment	<u>95</u>	<u>6,504</u>

(a) The loss on disposal of Jizhuangzi water recycling plants was offset the remaining balance of deferred revenue.

35 COMMITMENTS

The Group's capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	Contracted but not provided for		Authorised but not contracted for	
	31 December 2015 Rmb' million	31 December 2014 Rmb' million	31 December 2015 Rmb' million	31 December 2014 Rmb' million
Sewage water processing plants in:				
– Dengjiacun and Beishiqiao (upgrade project)	—	110	10	14
– Hangzhou (upgrade project)	170	—	165	—
– Xiaohechang (upgrade project)	—	11	—	16
– Wendeng (upgrade project)	—	1	—	10
– Yingnan (upgrade project)	—	—	—	1
	<u>170</u>	<u>122</u>	<u>175</u>	<u>41</u>

36 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
Municipal Investment	Limited liability company	Tianjin, the PRC	An Pindong	Development and management of municipal infrastructures

The Company's ultimate controlling party is City Infrastructure Construction and Investment.

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

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Municipal Investment	1,820,000	—	—	1,820,000

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36 RELATED PARTY TRANSACTIONS (Continued)

(1) Information of the parent of the Company (Continued)

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

	31 December 2015		31 December 2014	
	Shareholding (%)	Voting rights (%)	Shareholding (%)	Voting rights (%)
Municipal Investment	<u>50.14</u>	<u>50.14</u>	<u>50.14</u>	<u>50.14</u>

(2) Information of subsidiaries

The information of the subsidiaries is set out in Note 10a.

(3) Information of associate

The information of an associate is set out in Note 10b.

(4) Information of other related parties

	Relationship with the Group
Tianjin Ziya Recycling Economy Industry Investment & Development Co., Ltd.	Controlled by City Infrastructure Construction and Investment
Tianjin Lecheng Properties Limited	Controlled by City Infrastructure Construction and Investment
Tianjin City Resource Operation Co., Ltd.	Controlled by City Infrastructure Construction and Investment
Tianjin Environment Construction Investment Company Limited	Controlled by City Infrastructure Construction and Investment
Tianjin Metro Resources Investment Co.,Ltd.	Controlled by City Infrastructure Construction and Investment
Tianjin City Infrastructure Construction Project Management & Consultant Co., Ltd.	Controlled by City Infrastructure Construction and Investment
Tianjin Haihe Construction Developing Investment Co.,Ltd.	Controlled by City Infrastructure Construction and Investment
Tianjin Machinery &Electric Equipment Imp.& Exp. Co.,Ltd.	Subsidiary of the associate

(5) Related party transactions

In addition to those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

(a) Purchases of goods and sales of services

Purchases of goods

Related party	Nature of transaction	2015	2014
Tianjin Machinery &Electric Equipment Import & Export Co., Ltd.	Purchase of equipment	<u>21,705</u>	<u>26,544</u>

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36 RELATED PARTY TRANSACTIONS (Continued)

(5) Related party transactions (Continued)

(a) Purchases of goods and sales of services (Continued)

Sales of services

Related party	Nature of transaction	2015	2014
City Infrastructure Construction and Investment	Commission income from contract operation	59,515	61,118
City Infrastructure Construction and Investment	Commission income from construction agent service	3,000	2,000
Tianjin Lecheng Properties Limited	Income from heating and cooling supply	37,801	33,718
Tianjin Metro Resources Investment Co., Ltd.	Income from heating and cooling supply	4,867	5,576
Tianjin Haihe Construction Developing Investment Co., Ltd.	Income from sewage plant construction	1,514	—
		11,707	106,422

The Group's pricing on construction contract service with related parties is based on the reference price for construction market stipulated by the local 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 the government. Other transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

(b) Guarantee:

Guarantor	Guarantee	Amount	Starting date	Due date
City Infrastructure Construction and Investment	Xi'an Capital Water Co., Ltd.	225,000	28 September 2008	27 September 2022

(c) Key management compensation:

	31 December 2015	31 December 2014
Key management compensation	11,884	10,128

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36 RELATED PARTY TRANSACTIONS (Continued)

(6) Year-end balances arising from sales/purchases of services/goods

	31 December 2015	31 December 2014
Receivables from related parties		
– Tianjin Lecheng Properties Limited	12,540	18,422
– City Infrastructure Construction and Investment	28,489	16,388
– Tianjin Metro Resources Investment Co., Ltd.	7,349	4,975
– Tianjin City Resource Operation Co., Ltd.	401	401
– Tianjin Haihe Construction Developing Investment Co., Ltd.	303	—
	11,715	3,221
Payables to related parties		
– Tianjin Machinery & Electric Equipment Imp. & Exp. Co., Ltd.	11,715	3,221
	11,715	3,221

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) Related parties' commitments

	31 December 2015	31 December 2014
Guarantee received from City Infrastructure Construction and Investment	225,000	249,000
	225,000	249,000

(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-owned enterprises').

During the year, the Group's significant transactions with these state controlled entities include processing of sewage water construction and management of related facility processing of tap water and supply of heating. As at 31 December 2015, majority of the Group's cash and cash equivalents and borrowings are dealt with state controlled banks.

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

37 BALANCE SHEET OF THE COMPANY

	As at 31 December	
	2015	2014
ASSETS		
Non-current assets		
Property, plant and equipment	141,424	158,077
Intangible assets	3,500,146	3,637,215
Land use rights	11,394	11,721
Investment properties	78,986	82,154
Investments in subsidiaries	1,557,255	1,353,236
Available-for-sale financial assets	2,000	2,000
Long-term receivables	319,463	326,147
Other non-current assets	181,580	134,468
	<u>5,792,248</u>	<u>5,705,018</u>
Current assets		
Inventories	3,697	4,336
Trade receivables	1,024,181	2,371,956
Prepayments	172	259
Dividend receivables	8,713	—
Other receivables	151,549	95,792
Other current assets	124,043	77,380
Restricted cash	7,500	2,500
Cash and cash equivalents	596,699	292,731
	<u>1,916,554</u>	<u>2,844,954</u>
Total assets	<u>7,708,802</u>	<u>8,549,972</u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	1,427,228	1,427,228
Other reserves (Note (a))	795,164	775,851
Retained earnings (Note (a))	1,756,983	1,683,061
Total equity	<u>3,979,375</u>	<u>3,886,140</u>
LIABILITIES		
Non-current liabilities		
Borrowings	964,702	2,377,279
Deferred revenue	905,198	967,167
Deferred income tax liabilities	46,104	36,584
	<u>1,916,004</u>	<u>3,381,030</u>
Current liabilities		
Trade payables	26,193	21,540
Advances from customers	7,666	6,841
Wages payables	12,667	7,930
Taxes payable	71,522	14,987
Dividend payable	32,426	60,337
Other payables	941,483	1,029,776
Borrowings	721,466	141,391
	<u>1,813,423</u>	<u>1,282,802</u>
Total liabilities	<u>3,729,427</u>	<u>4,663,832</u>
Total equity and liabilities	<u>7,708,802</u>	<u>8,549,972</u>

The balance sheet of the Company was approved by the Board of Directors on 29 March 2016 and was signed on its behalf:

Liu Yujun

Lin Wenbo

13. Financial Statements prepared in accordance with Hong Kong
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Notes to the Consolidated Financial Statements

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

37 BALANCE SHEET OF THE COMPANY (Continued)

Note:

(a) Reserve movement of the Company

	Other reserves	Retained earnings
Balance at 1 January 2014	754,044	1,600,974
Profit for the year	—	218,072
Profit appropriation to statutory reserves	21,807	(21,807)
Dividends relating to 2013	—	(114,178)
	<hr/>	<hr/>
Balance at 31 December 2014	775,851	1,683,061
	<hr/>	<hr/>
Profit for the year	—	193,141
Profit appropriation to statutory reserves	19,313	(19,313)
Dividends relating to 2014	—	(99,906)
	<hr/>	<hr/>
Balance at 31 December 2015	<u>795,164</u>	<u>1,756,983</u>

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

For the year ended 31 December 2015
(All amounts in RMB thousand unless otherwise stated)

38 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of directors of the Company for the year ended 31 December 2015 was as follows:

Name	Fees	Emoluments paid in respect of person's services as a director of the Company				Emoluments paid in respect of director's other services with the management of the affairs of the company				Total
		Salary	Discretionary bonuses	Housing fund and other social security contributions	Employer's contribution to a retirement benefit scheme	Salary	Discretionary bonuses	Housing fund and other social security contributions	Employer's contribution to a retirement benefit scheme	
Executive directors:										
Liu Yujun	—	416	—	71	39	—	—	—	—	526
Zhang Wenhui	—	139	154	19	13	—	—	—	—	325
Lin Wenbo (i)	—	—	—	—	—	555	154	90	52	851
Fu Yana	—	—	—	—	—	460	107	90	52	709
Cao Shuo	—	—	—	—	—	444	80	90	52	666
Non-executive directors:										
Li Jieying	212	—	—	—	—	—	—	—	—	212
Gao Zongze	220	—	—	—	—	—	—	—	—	220
Guan Yimin	212	—	—	—	—	—	—	—	—	212
Wang Xiangfei	8	—	—	—	—	—	—	—	—	8
Guo Yongqing	8	—	—	—	—	—	—	—	—	8
	<u>660</u>	<u>555</u>	<u>154</u>	<u>90</u>	<u>52</u>	<u>1,459</u>	<u>341</u>	<u>270</u>	<u>156</u>	<u>3,737</u>

The remuneration of directors of the Company for the year ended 31 December 2014 was as follows:

Name	Fees	Emoluments paid in respect of person's services as a director of the Company				Emoluments paid in respect of director's other services with the management of the affairs of the company				Total
		Salary	Discretionary bonuses	Housing fund and other social security contributions	Employer's contribution to a retirement benefit scheme	Salary	Discretionary bonuses	Housing fund and other social security contributions	Employer's contribution to a retirement benefit scheme	
Executive directors:										
Zhang Wenhui	—	557	144	72	47	—	—	—	—	820
Lin Wenbo (i)	—	—	—	—	—	557	174	72	47	850
Fu Yana	—	—	—	—	—	446	155	72	47	720
Shi Zhenjuan	—	—	—	—	—	297	165	72	47	581
Non-executive directors:										
Xie Rong	64	—	—	—	—	—	—	—	—	64
Di Xiaofeng	64	—	—	—	—	—	—	—	—	64
Li Jieying	220	—	—	—	—	—	—	—	—	220
Gao Zongze	156	—	—	—	—	—	—	—	—	156
Guan Yimin	156	—	—	—	—	—	—	—	—	156
	<u>660</u>	<u>557</u>	<u>144</u>	<u>72</u>	<u>47</u>	<u>1,300</u>	<u>494</u>	<u>216</u>	<u>141</u>	<u>3,631</u>

(i) The Director is also the General Manager.

14. List of Documents Available for Inspection

1. 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.
2. Original of the report of the auditor sealed by the certified public accountants, signed and sealed by the auditor.
3. Originals of all documents and announcements of the Company publicly disclosed in newspapers designated by the CSRC during the reporting period.
4. The annual report released in other stock markets.