Tianjin Capital Environmental Protection Company Limited
天 津 創 業 環 保 股 份 有 限 公 司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 1065)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007

1 IMPORTANT

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

This result announcement is the summary of the 2007 annual report of the Company. For detailed information, please read the 2007 annual report of the Company carefully.

1.2 Mr. Xie Rong, the independent non-executive Director, has not attended this Board meeting due to other business and has instructed the independent non-executive Director, Mr. Ko Poming, to vote on his behalf.

1.3 PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers issued standard unqualified audit report of the Company.

1.4 Ms. Ma Baiyu, the Company's chairman, Mr. Gu Qifeng, the officer in charge of the accounting work and Ms. Chen Yinxing, the officer in charge of the accounting department (the chief accountant), have declared that they are responsible for the truthfulness and completeness of the financial reports contained in this 2007 annual report.

2 COMPANY INFORMATION

2.1 Basic information

Short form of the A shares	Tianjin Capital
Code of the A shares	600874
Stock Exchange for listing of the A shares	Shanghai Stock Exchange (the "**SSE**")
Short form of the H shares	Tianjin Capital
Code of the H shares	1065
Stock Exchange for listing of the H shares	The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")
Registered address and principal office address	No. 45 Guizhou Road, Heping District, Tianjin, the People's Republic of China (the "**PRC**"); TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal Code	300381
Internet website	http://www.tjcep.com
E-mail address	tjcep@tjcep.com

2.2 Contact person and method

	Company secretary to the Board (PRC)	**Company secretary to the Board (Hong Kong)**	**Securities Affairs Representative**
Name	Ms. Fu Yana	Mr. Kwan Man Fai	Ms. Guo Fengxian
Correspondence address	TCEP Building 76 Weijin South Road Nankai District Tianjin the PRC	22/F, Worldwide House, Central, Hong Kong	TCEP Building 76 Weijin South Road Nankai District Tianjin the PRC
Telephone number	86-22-2393 0128	852-2218 0920	86-22-2393 0128
Facsimile number	86-22-2393 0126	852-2501 0028	86-22-2393 0126
E-mail address	fu_yn@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

3 ACCOUNTING DATA AND BUSINESS STATISTICS HIGHLIGHTS

(For each of the three years ended 31 December 2007 as prepared in accordance with the Accounting Standards for Business Enterprise of the PRC (the "**PRC GAAP**").)

3.1 Principal accounting information

Unit: '000
Currency: RMB

Principal accounting information	**2007**	**2006**	**Increased/ (decreased) from last year (%)**	**2005**
Operating income	1,004,117	812,184	23.63	619,405
Total profit	274,959	236,006	16.51	259,981
Net profit attributable to shareholders of the Company	183,813	158,689	15.83	177,475
Net profit after deduction of extraordinary items attributable to shareholders of the Company	184,791	153,966	15.96	177,007
Net cash flow from operating activities	255,914	197,462	29.6	97,180
	At the end of 2007	**At the end of 2006**	**Increase/ (decrease) from last year (%)**	**At the end of 2005**
Total assets	5,886,672	5,882,459	0.07	4,545,853
Owners' equity (or shareholders' equity)	3,008,038	2,502,969	20.18	2,330,493

3.2 Principal financial ratio

Unit: Yuan
Currency: RMB

Principal financial ratio	2007	2006	Increase/(decrease) from last year (%)	2005
Basic earnings per share	0.13	0.12	8.33	0.13
Diluted earnings per share	0.13	0.12	8.33	0.13
Basic earnings per share after deduction of extraordinary items	0.13	0.12	8.33	0.13
Weighted average return ratio on equity	6.67	6.57	Increase by 0.1 percentage points	7.6
Weighted average return ratio on equity after deduction of extraordinary items	6.71	6.37	Increase by 0.34 percentage points	7.6
Net cash flow from operating activities per share	0.18	0.15	20	0.07
	At the end of 2007	**At the end of 2006**	**Increase/(decrease) from last year (%)**	**At the end of 2005**
Net per share attributable to shareholders of the Company	2.03	1.79	13.41	1.71

4 CHANGES IN THE SHARE CAPITAL AND SHAREHOLDERS OF THE COMPANY

4.1 Table of changes in shares in the Company

√ applicable ☐ Not applicable

Unit: shares

	Before the changes in share capital		Increase/decrease during this period (+,-)					After the changes	
	Quantity	Percentage (%)	New shares issued	Bonus issue	Transfer of surplus to capital	Others	Sub-total	Quantity	Percentage (%)
A. Restricted shares									
1. State-owned shares	797,152,609	59.91				-66,533,005	-66,533,005	730,619,604	51.19
2. State-owned legal persons shares									
3. Shares held by other domestic entities	38,485,000	2.89				-38,485,000	-38,485,000	0	0
Including:									
Shares held by domestic legal persons	38,485,000	2.89				-38,485,000	-38,485,000	0	0
Shares held by domestic natural persons									
4. Shares held by foreign entities									
Including:									
Shares held by overseas legal persons									
Shares held by overseas natural persons									
Total restricted shares	835,637,609	62.80				-105,018,005	-105,018,005	730,619,604	51.19
B. Non-restricted circulating shares									
1. RMB ordinary shares	155,028,410	11.65				201,580,416	201,580,416	356,608,826	24.99
2. Domestic listed foreign shares									
3. Overseas listed foreign shares	340,000,000	25.55						340,000,000	23.82
4. Others									
Total non-restricted circulating shares	495,028,410	37.20				201,580,416	201,580,416	696,608,826	48.81
C. Total number of shares	1,330,666,019	100				96,562,411	96,562,411	1,427,228,430	100

Table of changes in restricted shares

√ applicable ☐ Not applicable

Unit: shares

Name of shareholder	Number of restricted shares at the beginning of the year	Number of restricted shares released during the year	Number of restricted shares increased during the year	Number of restricted shares at the end of the year	Reasons for restriction	Release date
Tianjin Municipal Investment Company Limited ("**TMICL**")	797,152,609	66,533,005	0	730,619,604	Share segregation reforms undertakings	20 April 2007
Other non-circulating share shareholders	38,485,000	38,485,000	0	0	Share segregation reforms undertakings	20 April 2007
Total	835,637,609	105,018,005	0	730,619,640	—	—

4.2 Number of shareholders and their shareholdings

Unit: shares

Total number of shareholders as at the end of the reporting period		108,337, among which 72 are shareholders of circulating H shares			
Shareholdings of the top ten shareholders					
Shareholders	**Nature of the Shareholders**	**Percentage of shareholding (%)**	**Total number of Shares held**	**Number of restricted shares held**	**Number of Shares pledged or frozen**
TMICL	State-owned Shareholder	54.30	774,984,445	730,619,604	Pledged 279,520,000
HKSCC Nominees Limited	Others	23.68	338,016,900	0	Unknown
Zhou Jun	Others	0.41	5,797,255	0	Unknown
Senyang Railway Coal Dealing Co., Ltd.	Others	0.21	3,041,880	0	Unknown
BOC — Shanghai Shenzhen '300 Index Securities Investment Fund	Others	0.17	2,360,991	0	Unknown
Yu Fei	Others	0.12	1,760,000	0	Unknown
Wang Ming Li	Others	0.11	1,569,832	0	Unknown
Galaxy Securities Co. Ltd	Others	0.11	1,500,000	0	Unknown
Pan Zhi Hong	Others	0.07	1,001,720	0	Unknown
Jia Hua Zhang	Others	0.07	1,000,000	0	Unknown

Shareholdings of the top ten non-restricted circulating Shares Shareholders		
Shareholders	**Number of the non-restricted circulating Shares held**	**Type of Shares**
HKSCC Nominees Limited	338,016,900	H Shares
TMICL	44,364,841	Ordinary Rmb Shares
Zhou Jun	5,797,255	Ordinary Rmb Shares
Senyang Railway Coal Dealing Co., Ltd.	3,041,880	Ordinary Rmb Shares
BOC — Shanghai Shenzhen '300 Index Securities Investment Fund	2,360,991	Ordinary Rmb Shares
Yu Fei	1,760,000	Ordinary Rmb Shares
Wang Ming Li	1,569,832	Ordinary Rmb Shares
Galaxy Securities Co. Ltd	1,500,000	Ordinary Rmb Shares
Pan Zhi Hong	1,001,720	Ordinary Rmb Shares
Jia Hua Zhang	1,000,000	Ordinary Rmb Shares
Notes on the connected relationship or parties acting in concert among the above Shareholders	It is not certain whether there is any connected relationship among the top 10 shareholders. It is not certain whether there is any connected relationship between the top 10 unrestricted circulating shares shareholders and the top 10 shareholders.	

4.3 Information of the controlling shareholder and ultimate shareholder of the Company

4.3.1 Change in the controlling shareholder and ultimate shareholder

√ applicable ☐ not applicable

Name of new ultimate shareholder: Tianjin City Infrastructure Construction and Investment Group Company Limited ("**Tianjin Investment Group**")

4.3.2 Details of the controlling shareholder and ultimate shareholders

(1) Description of the legal person controlling shareholder

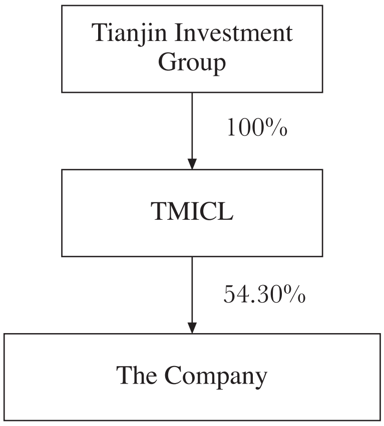
Name: TMICL
Legal representative: Ma Baiyu
Registered capital: RMB 1,820,000,000
Date of incorporation: 20 January 1998

Principal operations or management activities:	The investment, construction, operation and management of city infrastructure, road construction and auxiliary facilities with internal funds; development, operation and leasing of real estates; property management; investment and management in Yin He Park with internal funds; leasing of facilities (except motor vehicles); 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) (in accordance with the State regulations for specific projects and operations).

(2) Description of the utlimate shareholder

Name:	Tianjin Investment Group
Legal representative:	Wang Zhou Xi
Registered Share capital:	RMB16,100,000,000
Date of incorporation:	23 July 2004
Principal operations or management activities:	It uses its own funds to invest in the development and reconstruction of seas and rivers, railways, city roads and bridges, underground tube network, urban environmental infrastructure facilities; investment and planning; corporate management and consultation; market establishment and development services; leasing of self-owned housing; leasing of infrastructural facilities and the development and operation of public facilities projects; operating infrastructure franchise under the authorisation of the government and franchise transfer; production, development and operation of construction materials, decoration materials, mechanical and electrical products (not including vehicles); construction investment consultation (in accordance with the State regulations for specific projects and operations).

4.3.3 Flowchart on the shareholding interests and relationship of control between the Company and its utlimate shareholder



5 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Changes in shareholdings of Directors, Supervisors and senior management and their remuneration

Unit: Shares

Name	Position	Gender	Age	Commencement and end of employment	Shareholding at beginning of year	Shareholding at the end of year	Reason for changes	Total remuneration received from the Company during the period *(RMB10,000)*	Options granted during the reporting period for motivational purposes				Received from units of shareholders or other connecting units
									Number of options exercisable	Number of options exercised	Exercise price	Market price of shares at the end of the period	
Ma Baiyu	Chairman	F	46	19-12-2006 to 18-12-2009	0	0	-	15	-	-	-	-	Yes
Gu Qifeng	Vice Chairman and general manager	M	42	19-12-2006 to 18-12-2009	0	0	-	54.79	-	-	-	-	No
An Pindong	Director	M	40	19-12-2006 to 18-12-2009	0	0	-	10	-	-	-	-	Yes
Wang Zhanying	Director	M	53	19-12-2006 to 18-12-2009	6,850 Domestic Shares	6,850 Domestic Shares	-	10	-	-	-	-	Yes
Tan Zhaofu	Director	M	53	19-12-2006 to 18-12-2009	0	0	-	10	-	-	-	-	Yes
Fu Yana	Director, deputy general manager and Board secretary	F	37	19-12-2006 to 18-12-2009	0	0	-	36.38	-	-	-	-	No

Name	Position	Gender	Age	Commencement and end of employment	Shareholding at beginning of year	Shareholding at the end of year	Reason for changes	Total remuneration received from the Company during the period *(RMB10,000)*	Options granted during the reporting period for motivational purposes				Received from units of shareholders or other connecting units
									Number of options exercisable	Number of options exercised	Exercise price	Market price of shares at the end of the period	
Ko Poming	Independent Non-executive Director	M	50	19-12-2006 to 18-12-2009	0	0	-	HK$200,000	-	-	-	-	No
Gao Zongze	Independent Non-executive Director	M	69	19-12-2006 to 15-4-2008	0	0	-	HK$200,000	-	-	-	-	No
Wang Xiangfei	Independent Non-executive Director	M	57	19-12-2006 to 15-4-2008	0	0	-	HK$200,000	-	-	-	-	No
Zhang Wenhui	Chairman of Supervisory Committee	M	53	19-12-2006 to 18-12-2009	0	0	-	40.94	-	-	-	-	No
Zhang Mingqi	Supervisor	M	51	19-9-2007 to 18-9-2007	0	0	-	15.71	-	-	-	-	No
Nie Youzhuang	Supervisor	M	39	19-12-2006 to 18-12-2009	959 Domestic Shares	959 Domestic Shares	-	17.4	-	-	-	-	No
Xu Zhiyong	Supervisor	M	37	16-10-2005 to 15-10-2008	0	0	-	16.02	-	-	-	-	No
Wang Yanmin	Supervisor	F	42	19-12-2006 to 18-12-2009	0	0	-	16.57	-	-	-	-	No
Zhang Baoxiang	Supervisor	M	45	19-12-2006 to 18-12-2009	0	0	-	20.87	-	-	-	-	No
Luo Lianfang	Deputy general manager	M	60	19-12-2006 to 20-9-2007	0	0	-	27.26	-	-	-	-	No
Lin Wenbo	Deputy general manager	M	51	19-12-2006 to 18-12-2009	0	0	-	41.97	-	-	-	-	No
Zhu Yanbo	Deputy general manager	M	60	19-12-2006 to 20-9-2007	0	0	-	26.86	-	-	-	-	No
Liu Wenya	Deputy general manager	M	50	19-12-2006 to 18-12-2009	0	0	-	38.26	-	-	-	-	No
Deng Biao	Chief engineer	M	42	19-12-2006 to 18-12-2009	0	0	-	26.98	-	-	-	-	No
Chen Yinxing	Chief accountant	F	34	19-12-2006 to 18-12-2009	0	0	-	26.63	-	-	-	-	No

Name	Position	Gender	Age	Commencement and end of employment	Shareholding at beginning of year	Shareholding at the end of year	Reason for changes	Total remuneration received from the Company during the period *(RMB10,000)*	Options granted during the reporting period for motivational purposes				Received from units of shareholders or other connecting units
									Number of options exercisable	Number of options exercised	Exercise price	Market price of shares at the end of the period	
Chang Xiaolan	Chief economist	F	40	19-12-2006 to 18-12-2009	0	0	-	26,45	-	-	-	-	No
Guo Hui	Deputy general manager	M	34	19-12-2006 to 18-12-2009	0	0	-	25.52	-	-	-	-	No
Jia Liang	Deputy general manager	M	43	19-12-2006 to 18-12-2009	0	0	-	20.44	-	-	-	-	No
Kwan Man Fai	Company secretary (Hong Kong)	M	39	19-12-2006 to 18-12-2009	0	0	-	US$20,000	-	-	-	-	No
Total	/	/	/	/	7,809 Domestic Shares	7,809 Domestic shares	/	594.84	/	/	/	/	/

The Directors, Supervisors and senior management have not held share options of the Company and have not been granted restrictive shares.

6 DIRECTORS' REPORT

6.1 MANAGEMENT DISCUSSION AND ANALYSIS

(1) REVIEW OF OPERATIONS OF THE COMPANY DURING THE REPORTING PERIOD

1. An overview of the overall operations of the Company during the reporting period

In 2007, the Company and its subsidiaries (the "**Group**") started implementing the 5-year strategic plan. The Company also laid down the foundation for future development as a group during the year. The Company insists on making development as its main task and market development as its core and fully strengthens its own business flow management, reinforces cost control and the audit of operations, perfects the performance assessment system and reward mechanism, and fully utilizes the enthusiasm and creativeness of employees at large. The Group's overall operating position is stable and in an upward trend.

In 2007, the Group recorded income from principal operations of RMB981 million, increasing 21.56% when comparing the figure of 2006, and recorded net profit of RMB183.8 million, increasing 15.83% when comparing the figure of 2006.

2. Analysis of the Company's principal businesses and its operating conditions

The principal businesses of the Company are: the construction, design, management, operation, technological consultation and auxiliary services of sewage water treatment plant and their related infrastructural facilities; the construction, design, toll collection, repair and maintenance, management, technological consultant of toll roads and auxiliary services in relation to the operation of the South-eastern Half Ring Road of the Middle Ring of Tianjin, Tianjin City Indebted Road Construction for Vehicle-passage Toll Collection Office and their related auxiliary facilities; the development and operation of environmental protection technology and products.

(1) Description of the principal businesses of the Company

a. Sewage water processing business

During the reporting period, the sewage water processing plants invested and operated by the Group had a processing capacity of 2.485 million cubic metres per day. The plants processed a total of 570 million cubic metres of sewage water during the reporting period and recorded an income of RMB 853 million.

The Company processed 340.12 million cubic metres sewage water for the whole year in the Tianjin region pursuant to the "Sewage Water Processing Agreement" and "Sewage Water Processing Interim Service Agreement" and recorded an income of RMB656.45 million, with a year-on-year growth of 10.95%. The increase in processing volume was, on one hand, due to the increase in water input in Xianyanglu Sewage Water Treatment Plant, and on the other hand, due to the commencement of normal operation of the Beicang Sewage Water Treatment Plant from 1 June 2006 and as a result, the processing volume of that plant increased significantly in 2007.

During the reporting period, the sewage water processing business of the Company's subsidiaries provided sewage water processing services pursuant to the sewage water processing licence agreements and sewage water processing service agreements entered into with local governments. The six sewage water treatment plants, namely Guiyang Xiaohe Sewage Water Treatment Plant, Qujing Lianjiangkou Sewage Water Treatment Plant, Fuyang No.1 Sewage Water Treatment Plant, Baoying Xianhe Sewage Water Treatment Plant, Honghu Sewage Water Treatment Plant and Hangzhou Qige Sewage Water Treatment Plant, in aggregate processed sewage water of 230.86 million cubic metres and received an income of RMB196.63 million from processing sewage water, an increase of 66.72% and 111.93% over the same period last year respectively. The increase in water processing volume mainly came from the companies in Hangzhou and the companies in Honghu; the companies in Hangzhou commenced commercial operation in November 2006 and the companies in Honghu commenced commercial operations in July 2006. During the reporting period, the Company completed investment of RMB35 million in the construction of Chibi Sewage Water Treatment Plant. As at the end of 2007, 65.04% of the investment plans of the project has been completed.

During the reporting period, the Group achieved an aggregate additional entrustment operating capacity of 240,000 cubic metres per day, reaching an entrustment operating capacity of 380,000 cubic metres per day. Income from entrustment operation services was RMB13 million. Nine projects in respect of trial operations, technological services and training, etc. were completed.

During the reporting period, an agreement was officially signed in respect of the joint tender in Han Gu Ying Cheng Sewage Water Treatment Plant at Tianjin Binhai Xin Qu DBO project. The joint tender in the master contracting project of the 2nd phrase Zhan Jiang City Chi Kan Sewage Water Purification Plant (50,000 cubic metres per day) was won.

During the reporting period, the Company won the tender of Shandong Wen Deng Sewage Water Processing Plant TOT project (80,000 cubic metres per day, the price of asset transfer amounted to 120 million). Wendeng Capital Water Company Limited was incorporated. The project commenced commercial operation on 1 January 2008.

During the reporting period, the Company was awarded the BOT project in respect of the Tianjin Jing Hai Tian Yu Science and Technology Park Sewage Water Processing Plant (15,000 cubic metres per day) and Tianjin Jing Hai Capital Water Company Ltd. was incorporated. The project has started construction.

During the reporting period, the Company won the tender in the TOT project of the Xi'an City Sewage Water Processing Plant and Xi'an City Beishiqiao Purification Centre (two plants with a total capacity of 310,000 cubic metres per day, the price of asset transfer amounted to RMB643 million). On 18 March 2008, the project company officially signed the Asset Transfer Agreement, Sewage Water Processing Services Agreement, License Agreement and Staff Reallocation Agreement.

During the reporting period, the Company obtained Level 1 qualification for industrial waste water operation, creating a favourable condition for the Company's entering into the industrial waste water treatment area. In January 2008, the Company's Beicang Sewage Water Treatment Plant project participated in the national merit awards 2007 and was awarded the silver merit prize.

b. Recycled water business

During the reporting period, Zhong Shui Company's Jizhuangji Recycled Water Plant recorded water sales of 3.28 million cubic metres and recorded income from recycled water sales of RMB 4.27 million, representing a growth of 81.43% and 82.53% respectively over the same period last year. The significant growth in water sales was due to: first, new customers with higher water usage volume; second, some users of temporary water became users of all-purpose water, following which their water usage volume recorded a significant increase.

During the reporting period, the Group's Beicang Recycled Water Plant and Dong Jiao Recycled Water Plant had completed underground construction, and completed investments amounted to RMB30.92 million. The Xianyanglu Recycled Water Plant has commenced trial operations.

c. Tap water business

During the reporting period, the tap water uploading volume of Qujing Capital Water Co., Ltd. was 34 million cubic metres, which was level with the same period last year, and recorded income from the tap water business of RMB 28 million. The training and retention of professional technical personnel and management personnel of the Group has safeguarded the supply of talents for the development of the Group's tap water business.

d. Operations of toll collection business

During the reporting period, the Company recorded an income of RMB69.76 million from the toll collection business, a slight increase from income of RMB65.89 million for 2006. Since the change of toll collection arrangement to subcontracting toll collection on 1 July 2003, income has been stable, and there have been no major changes. Pursuant to the "subcontracting toll collection agreement" entered into between the Company and Tianjin City Indebted Road Construction for Vehicle-passage Toll Collection Office, the toll collection office will provide toll collection service to the Company and is responsible for the operation, management, repair and maintenance of toll stations.

(2) Principal businesses by industry

Unit: '000
Currency: RMB

By industry or by product	Operating income	Cost of operations	Profit margin from operations (%)	Increase/ decrease in operating income compared to last year (%)	Increase/ decrease in cost of operations compared to last year (%)	Increase/ decrease in profit margin from operations compared to last year (%)
Industry						
Income from sewage operating treatment	853,080	359,873	57.81	24.64	31.42	Decrease by 2.18 percentage points
Toll fee income	69,760	22,797	67.32	5.87	46.17	Decrease by 9.01 percentage points
Income from provision of tap water	27,879	20,765	25.52	-10.44	-15.39	Increase by 4.36 percentage points
Income from water recycling pipe connection and water supply	28,671	19,998	30.25	20.65	38.13	Decrease by 8.82 percentage points
Income from sales of construction materials	1,638	1,657	-1.16	-23.96	-16.44	Decrease by 9.1 percentage points

(3) Principal businesses by region

Unit: '000
Currency: RMB

Region	Operating income	Increase/decrease in operating income compared to last year (%)
Tianjin	782,740	14.52
Guizhou	32,497	23.34
Qujing	42,330	1.97
Fuyang	26,097	52.94
Baoying	10,226	138.7
Hangzhou	105,292	252.11
Honghu	8,197	70.77

3. **Description of material change in asset composition and principal financial data during the reporting period as compared with the corresponding period of last year (prepared in accordance with the PRC GAAP)**

As at 31 December 2007, the total assets of the Group amounted to RMB5,886.672 million, an increase of 0.07% or RMB4.213 million over 2006; the total liabilities amounted to RMB2,878.634 million; total shareholders' equity was RMB3,008.038 million. A net profit of RMB183.813 million was recorded in 2007. The following is an analysis of items with more significant changes:

Unit: '000
Currency: RMB

Items	Amount at the end of the period	Amount at the beginning of the period	Changes (+/-)	Percentage change (%)	Details of changes
Accounts receivables	442,944	43,210	399,734	925.10	During the reporting period, the Group's income increased significantly, and return payments in the second half of the year will primarily come in the first quarter of 2008. Our subsidiaries in Hangzhou, Baoying and Honghu were in construction period for several months and have not yet operated. The above reasons resulted in the accounts receivables significantly less than that in the same period last year.
Prepayments	57,964	11,430	46,534	407.12	During the reporting period, subsidiaries of the Company such as Tianjin Water Recyling Company Limited and the newly established Wendeng Capital Water Company Limited were engaged in new construction projects, which led to an increase in prepayments of construction and equipment.

Items	Amount at the end of the period	Amount at the beginning of the period	Changes (+/-)	Percentage change (%)	Details of changes
Construction-in -progress	193,130	415,418	-222,288	-53.51	During the reporting period, Jizhuangji Sewage Water Treatment Plant of Tianjin City underwent an expansion and the works on the external piping network of Xianyanglu Sewage Water Treatment Plant, Beicang Sewage Water Treatment Plant and Dong Nan Plant have basically completed. Only a little part has not yet been completed. They are at the final stage. An estimated consolidation for that uncompleted part was done in late 2007 and the financial statement was completed. In addition, the remaining construction-in-progress of our subsidiary in Baoying at the beginning of the year has been consolidated. The above reasons resulted in a more significant decrease in the construction-in-progress at the end of the year.
Short-term borrowings	155,000	691,000	-536,000	-77.57	During the reporting period, the Company actively adjusted its liability structure, repaid part of its short-term borrowings, decreased the proportion of current liabilities in order to increase its working capital and optimize its asset structure.
Advance payments	171,341	79,417	91,924	115.75	During the reporting period, Tianjin Water Recyling Company Limited and the newly established Wendeng Capital Water Company Limited, etc. were engaged in new construction projects, which led to an increase in advance payments of construction and equipment.

Items	Amount at the end of the period	Amount at the beginning of the period	Changes (+/-)	Percentage change (%)	Details of changes
Bonds payables	—	374,844	-374,844	-100	During the reporting period, the Company has issued an announcement regarding the redemption of all outstanding A Share Convertible Bonds of the Company ("**A Share Convertible Bonds**") as at 27 August 2007; and the A Share Convertible Bonds were delisted on 7 September 2007 (for details of the delisting and changes in shares, please refer to the Group's announcement dated 3 September 2007). The above matter has resulted in changes related to A Share Convertible Bonds such as changes in balance of bonds payables, capital and capital reserve fund, etc.
Share capital	1,427,228	1,330,666	96,562	7.26	For explanation, please see "Bonds payables".

Items	2007	2006	Change (+/-)	Percentage Change (%)	Details of changes
Operating income	1,004,117	812,184	191,933	23.63	During the period, the Company recorded an increase in income and since our subsidiaries in Hangzhou, Baoying and Honghu were in construction period for several months and had not commenced operation, operating income were relatively lower in the same period last year.
Operating costs	432,789	332,160	100,629	30.30	The increase corresponds to the increase in operating income.
Finance costs	146,283	125,048	21,235	16.98	During the reporting period, all construction-in-progress of Jizhuangji, Xianyanglu, Beicang, etc. were at final stage. An estimated consolidation for the little remaining uncompleted part was done in late 2007, There is an increase in corresponding expended borrowing interests compared to the previous period. At the same time, total borrowings of the Company also increased, resulting in an increase in finance charges.

Items	2007	2006	Change (+/-)	Percentage Change (%)	Details of changes
Investment gains	2,693	4,474	-1,781	-39.81	They represent the investment gains accounted for by our subsidiary, Tianjin Capital Environmental Protection (Hong Kong) Limited, in respect of the equity interests in respect of Tianjin International Machinery Co., Ltd. and the investment losses recognized in respect of the withdrawal of investment by our subsidiary, Tianjin Water Recyling Company Limited.

4. Description of the substantial changes in cash flow of the Company during the reporting period as compared over with the corresponding period of last year:

Unit: '000
Currency: RMB

Items	2007	2006	Change (+/-)	Percentage change (%)	Details of changes
Net cash flow from operating activities	255,914	197,462	58,452	29.60	During the reporting period, income from the Company and our subsidiaries in Baoying, Hangzhou and Honghu increased significantly compared with the previous period, and with the year-on-year increase of cash flow from operating activities, relevant expenses were compensated and resulted in the net increase in cash flow.
Net cash flow from investment activities	-285,475	-1,228,701	943,226	-76.77	During the reporting period, the Company's outflow of funds in respect of external investments and acquisitions has decreased compared with the previous period, resulting in a more significant increase in the net amount.
Net cash flow from financing activities	-364,212	1,005,871	-1,370,083	-136.21	During the reporting period, the Company actively adjusted its capital structure, repaid part of its short-term loans, which resulted in a decrease in such net cash flow during the reporting period.

Items	2007	2006	Change (+/-)	Percentage change (%)	Details of changes
Net increase in cash and cash equivalent	-393,773	-25,368	-368,405	1,452.24	The cash flow position of the three main businesses above, especially the significant increase of cash flow from financing activities during the period, has resulted in a more significant reduction in net increase in cash during this period as compared to the previous period.

5. Operations and results of the major companies in which the Company has controlling interests and has invested

(1) Operations and results of the companies in which the Company has controlling interests

Unit: '000
Currency: RMB

Company names	Principal place of business	Major products or services	Registered capital	Kind of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Water Recyling Company Limited	Tianjin	Production and sales of recycled water, development and construction of facilities for recycled water; manufacture, installation, commissioning and operation of equipment for recycled water	100,000	Limited Company	98%	403,843.30	1,041.02
Guizhou Capital Company Limited	Guiyang, Guizhou	Development, construction, operation and management of urban sewage water treatment plants, drinking water treatment plants and their facilities and solid waste treatment facilities; research, development and marketing of environmental conservation technology; consultancy services of water treatment facilities and environmental conservation project	100,000	Limited Company	95%	165,395.12	2,262.74
Chibi Capital Water Company Limited	Chibi, Hubei	Development, construction, operation and management of urban sewage processing plant, drinking water treatment plants and the facilities, solid waste processing and waste water recycling facilities; research and development and marketing of environmental technology, consultation services related to projects such as water processing facilities, environmental projects, urban projects, highway projects and transportation projects.	35,000	Limited Company	95%	94,047.15	1,075.73

Company names	Principal place of business	Major products or services	Registered capital	Kind of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Capital New Materials Company Limited	Tianjin	Manufacture and sales of construction materials, new compound material products and polymer material products; technical consultation on new piping materials.	37,500	Limited Company	70.67%	22,698.11	-9,360.92
Baoying Capital Water Company Limited	Yangzhou, Jiangsu	Development, construction, operation and management of urban sewage processing plant and drinking water plant and accessory facilities, solid waste processing facilities; research and development and marketing of environmental technology, consultation services related to projects such as water processing facilities, environmental projects, urban projects, highway projects and transportation projects.	38,000	Limited Company	70%	102,801.17	-1,720.57
Honghu Capital Water Company Limited	Honghu, Hubei	Development, construction, operation and management of urban sewage processing plant and drinking water plant and accessory facilities, solid waste processing facilities; research and development and marketing of environmental technology, consultation services related to projects such as water processing facilities, environmental projects, urban projects, highway projects and transportation projects.	20,000	Limited Company	90.1%	55,826.18	902.20
Qujing Capital Water Company Limited	Qujing, Yunnan	Development, construction, operation and management of urban sewage processing plant and drinking water plant and accessory facilities, solid waste processing facilities; research and development and marketing of environmental technology, consultation services related to projects such as water processing facilities, environmental projects, urban projects, highway projects and transportation projects.	120,000	Limited Company	90.07%	298,372.10	2,979.54
Fuyang Capital Water Company Limited	Fuyang, Anhui	Development, construction, operation and management of urban sewage processing plant and drinking water plant and accessory facilities, solid waste processing facilities, research and development and marketing of environmental technology, consultation services related to projects such as water processing facilities, environmental projects, urban projects, highway projects and transportation projects.	45,000	Limited Company	98%	118,560.48	4,631.54

Company names	Principal place of business	Major products or services	Registered capital	Kind of legal entity	Percentage of interest	Scale of assets	Net profit
Hangzhou Tianchuang Water Co., Ltd.	Hangzhou, Zhejiang	Sewage water processing and recycled water plant operation, and maintenance and technical services, ancillary services such as technology and training	257,445	Limited Company	70%	543,163.82	6,953.41
Tianjin Capital Environmental Protection (Hong Kong) Company Limited	Hong Kong	Treatment and recyding and utilization of sewage water	US$7,840,000	Limited Company	100%	67,465.75	1,692.43
Wendeng Capital Water Company Limited	Wendeng, Shandong	Sewage water treatment and its ancillary facilities, solid waste treatment facilities, development, construction, operation and management of water recycling facilities; research and development and promotion of environmental protection technology; consultation services related to projects such as water processing facilities, environmental projects, urban projects, highway projects and transportation projects.	48,000	Limited Company	100%	48,000	Yet to commence commercial operation
Tianjin Jing Hai Capital Water Company Ltd.	Jinghai, Tianjin	Sewage water treatment, urban sewage water treatment plants and ancillary facilities of tap water plants, development, construction, operation and management of solid waste treatment facilities; research and development and promotion of environmental protection technology; consultation services related to projects such as water processing facilities, environmental projects.	2,000	Limited Company	100%	2,000	Under construction

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

As at the end of the reporting period, the Company invested RMB2,000,000 in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. Its principal activities comprise senior executive insurance services, senior executive personnel services (employment agent service, financial guarantee consultation service, personal creditworthiness assessment), enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. In 2007, the principal activities of this company recorded a profit, and recorded an income from the sale of its building. The Company recorded a net profit of RMB48.5239 million.

As at the end of the reporting period, the Company invested RMB2,000,000 in Tianjin Baotong Light Mass Materials Company Limited, representing 20% of its registered capital. The principal activities of this company are the production and sales of high resistance and light mass materials and its products. That company continued to record a loss in 2007, its net profit amounted to -RMB1.3835 million.

6. The Company's Technology

During the reporting period, the Group implemented the "Special Business Plan on the Company's Technological Development (2007-2011)". The plan has clearly defined the objectives of adherence to technological independence and innovation and technology-based production and operation. The concept of "Complete Technology Improvement" was introduced for the first time, proposing the Group's direction in technological development and the implementation of such objectives in different stages.

During the reporting period, the Group has started 18 technology topics and projects and completed assessment, check and delivery of 7 technology topics, including two technology topics of the Ministry of Construction of the State, one technology topic of the Urban Construction Committee, 4 topics on Urban Highways Authority. Two topics have been successfully reported, including one topic of the Ministry of Construction of the State, one topic for the Tianjin Urban Construction Committee. We were the first to undertake the compilation work on the standards of "Operation, Maintenance and Technology Safety Regulations of Urban Sewage Water Treatment Plants".

During the reporting period, the Group's post-doctoral technology research work station was officially opened. The Group was approved as the "Technology Research Base of Sewage Water Treatment and Recycled Water Utilization of the Tianjin City Construction System". The Post-doctoral work station and technology research base enabled the Company's research and development centre to become a professional organization for state and municipal technological research and development, training of talents and transferring technological achievements, which has a significant effect on the further implementation of personnel strategies, reinforcing the establishment of professional technological talents teams and setting up innovative enterprises of the Group.

(2) An outlook to the Company's future development

1. Development trend of the industry in which the Company is engaged and the market competition situation faced

In 2007, the shortage of water resources and the frequent incidents of water pollution have drawn a bigger concern for water resources environment pollution. The establishment of the new Ministry of Environmental Protection has also demonstrated that the PRC has upgraded the priority of environmental protection and energy saving to a national strategic level. The water industry of the PRC is still under a phase of growth and market concentration is relatively low, without a leader in the industry, and regional monopolization is distinct. And as the market gradually matures, the categorization of industries and division of market will become a steering direction.

For long term, as the mode of water projects returns to the licensed operation system from the equity transfer mode, water businesses at the municipal level will undergo further service restructuring. The cost supervision policy exerted on the water industry by the State has set up higher standards in respect of the professional operation ability of service providers. At the same time, policy series such as Green Loan, Green Budget, Green Insurance and Green Securities introduced under the energy-saving and discharge reduction strategy have placed tremendous pressure on the development of enterprises that cause a high level of pollution and consume a lot of energy. Such policies will also push up the market demand of professional operational services related to industrial waste water.

2. The Company's future development opportunities, development strategies and operation plans in the coming year

Development opportunities: Energy-saving, discharge reduction and environmental protection strategies, and the continual development of the water market have provided the Company with good opportunities for development.

Development strategies: In 2008, water companies faced opportunities and challenges of development of the industry. The Company will continue to purify the water environment for the daily living of the human race and uphold its organizational mission of raising water quality, and put great efforts in achieving the strategic objectives of becoming domestically leading and internationally renowned professional water investment operators.

Operation plans in the coming year:

(1) to make sure projects that have already commenced commercial operations will complete the relevant water businesses in accordance with the requirements set out in the agreements, and the timely commercial operation of the Xi'an Project.

(2) to launch the upgrading and reconstruction work of the sewage water treatment plant in the Tianjin region, the completion of BOT projects (Chibi, Jinghai projects, etc.) with a proposed investment of RMB51 million in 2008, DBO projects in accordance with the quality and quantity set out in the contracts, and to monitor the progress of the water recycling plants in Dong Jiao, Beicang and Xianyang. The three water recycling plants above have a proposed investment of RMB82 million in 2008.

(3) to put greater efforts in expanding the national water market to achieve the goal of processing 300,000 cubic metres of water per day.

(4) to organize and establish a professional construction technology consultant company to extend the business chain of the Company's water service.

3. Capital demands and application plans

The Company's current financing sources can basically satisfy the needs of the Company's annual operation plans. As competition in the water market intensifies, there exists certain opportunities for merger and acquisition in the industry. Considering the Company's market development goals, the Company is also seeking appropriate merger and acquisition opportunities to lay down a good foundation for the future growth of the Company. The Company will obtain the funds that the relevant projects may require from its current financing sources.

4. Analysis on risk factors

In July 2005, the Tianjin Municipal Government issued the "Administrative Measures on Licensed Operations of Public Utilities of Tianjin Municipality" ("Administrative Measures"). Under Rule 22, license(s) for operating existing urban public utilities projects within the scope of requirements can directly be granted to the original operator after a review by the department in charge of municipal construction and administration and obtaining approval from the Municipal People's Government, and a license agreement will be signed between the department in charge of municipal construction administration and the operator.

The Group has submitted an application for an operating license for the four sewage water treatment plants at the central region of Tianjin City to the construction administration and management department of Tianjin City. The Company expects to sign the license agreement within 2008, and the Company will publish an announcement in due course as required.

The major provisions of the "Administrative Measures" in respect of the license right are as follow:

a. Licensed operators of new projects shall be ascertained by tendering;

b. The municipal construction administration and management authorities shall be authorized to take charge of organizing licensed operations of municipal public utilities;

c. The licensed operators shall implement the municipal public utility product prices and service charge standards of the State and the city.

d. The term of the licensed operation shall not exceed 30 years.

e. Having been reviewed by the municipal construction administrative and management authorities and approved by the Municipal People's Government, the existing municipal public utility projects can be directly granted to the existing operators for licensed operations, and licensed operation agreements shall be entered into between the municipal construction administrative and management authorities with the operators.

6.2 Principal business — Industry and Products

Please refer to 6.1 above.

6.3 Analysis of the geographical segments for the principal operations

Please refer to 6.1 above.

6.4 Use of proceeds from subscription

√ applicable ☐ not applicable

The Company raised proceeds amounted to RMB1,165.39 million by issuing A Share Convertible Bonds in 2004 and RMB823.902 million was sold back in 2005. A total of RMB341.49 million was used as at 31 December 2007, of which RMB100.85 million was used in this year. The Company has used all the raised proceeds.

Use of proceeds on projects undertaken

Unit: 0000
Currency: RMB

Name of project undertaken	Construction project of Xianyanglu Sewage Water Treatment Plant	Jizhuangji Sewage Water Treatment Plant (Expansion) work (including the water drainage project near Dong Nan Jiao)	Construction project of Beicnag Sewage Water Treatment Plant	Total
Proposed investment amount	62,000	32,100	14,900	109,000
Any change in the project	No	No	No	—
Actual investment amount	11,712	13,485	8,952	34,149
Progress of project	As of today, a small part of construction project has not yet completed and at their final stage. At the end of 2007, preliminary estimation were made to that part of uncompleted project and a financial budget was completed. At present, completion examination of this construction-in-progress is still underway.	As of today, a small part of construction project has not yet completed and at their final stage. At the end of 2007, preliminary estimation were made to that part of uncompleted project and a financial budget was completed. At present, completion examination of this construction-in-progress is still underway.	As of today, a small part of construction project has not yet completed and at their final stage. At the end of 2007, preliminary estimation were made to that part of uncompleted project and a financial budget was completed. At present, completion examination of this construction-in-progress is still underway.	—
Conform to project progress?	No	No	Yes	—
Reasons for not conforming to project progress	Due to the outbreak of SARS in 2003 and the complicated purchasing procedures of foreign invested banks, etc, the progress of construction of the two projects under construction above experienced delays relative to the planned progress as set out in the share issuing prospectus. Subsequently, the construction went smoothly without further delays.			—
Earnings from projects	Since three projects under construction have not yet been examined upon completion during the reporting period, and are charging in accordance with the "Sewage Water Processing Interim Service Agreement", therefore cannot be compared to the predicted earnings set on in the prospectus.			—

Changes in projects

☐ applicable √ not applicable

6.5 Major investments made out of funds other than proceeds from subscription

√ applicable ☐ not applicable

Wendeng Capital Water Company Limited ("Wendeng Water") was incorporated in Wendeng City, Shandong Province in April 2007 with a registered capital of RMB48 million, and the Company holds 100% of its shareholding. On 19 December 2007, Wendeng Water and the Environmental Bureau and Construction Bureau of Wendeng City of Shandong Province entered into the Asset Transfer Agreement and Licensed Operation Agreement, respectively, to acquire the assets of phases 1 and 2 of Wendeng Sewage Water Treatment Plant amounting to RMB120 million (RMB60 million each) under the TOT mode, and the licensed operation period is 30 years. Processing capacity is 80,000 cubic metres per day, 40,000 cubic metres per day for phase 1 (to be adjusted to 30,000 cubic metres per day after the reconstruction) and 40,000 cubic metres per day for phase 2 (to be adjusted to 50,000 cubic metres per day after the reconstruction). Commercial operations will commence on 1 January 2008.

Tianjin Jing Hai Chuang Ye Water Company Limited ("Jing Hai Water") was incorporated in October 2007 with a registered capital of RMB2 million and the Company holds 100% of its shareholding. The project is located at the Tian Yu Science and Technology Park. Jing Hai Water established and operated the Jing Hai Tian Yu Sewage Water Treatment Plant under the BOT mode, with a total investment of RMB40 million and a licensed operation period of 25 years. Its short-term capacity is 15,000 cubic metres per day and long-term capacity is 50,000 cubic metres per day. Construction of the main body is planned to be completed by the end of 2008.

6.6 The statement from the Board concerning the qualified opinion on audit report issued by the auditors

☐ applicable √ not applicable

6.7 The Board's proposal on the profit appropriation or transfer of capital reserve fund

As audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company, the net profit attributable to the Company in 2007 was RMB183.81 million. Pursuant to the relevant requirements of the Company Law of the PRC and the Article of Association of the Company, a Statutory Common Reserve in the amount of RMB15.58 million was taken out, adding the undistributed profit of RMB740.61 million at the beginning of the year, and less 2006 cash dividends of RMB56.11 million distributed in 2007, the actual distributable profits attributable to shareholders for this year was RMB852.73 million. According to the profit appropriation proposal 2007, a cash dividend of RMB0.40 (tax inclusive) per 10 shares will be distributed to all shareholders. Such proposal will be submitted to the annual general meting 2007 for consideration and approval before implementation.

No transfer from the capital reserve fund to share capital was made for 2007.

6.8 The Company has profit during the reporting period but no profit appropriation was proposed

□ applicable √ not applicable

7 SIGNIFICANT EVENTS

7.1 Acquisition of assets

√ applicable □ not applicable

Please refer to 6.5 above.

7.2 Disposal of assets

□ applicable √ not applicable

7.3 Material guarantees

√ applicable ☐ not applicable

Unit: RMB'0,000
Currency: RMB

Guarantee provided to external parties by the Company (not including guarantee provided to the subsidiaries of the Company)	
Total amount of guarantee provided during the reporting period	0
Total amount of outstanding guarantee provided as at the end of the reporting period	0
Guarantee provided to the subsidiaries of the Company	
Total amount of guarantee provided to the subsidiaries during the reporting period	6,000
Total amount of outstanding guarantee provided to the subsidiaries as at the end of the reporting period	83,500
Total amount of guarantee granted by the Company (including guarantee provided to the subsidiaries of the Company)	
Total amount of guarantee	83,500
Percentage of the total amount of guarantee to the net assets of the Company (%)	27.7%
Of which:	
Amount of guarantee provided to the Shareholders, ultimate controller and other related parties	0
Amount of guarantee provided directly or indirectly for the borrowers with gear ratio of over 70%	0
Total amount of guarantee exceeding 50% of net assets	0
Total amount of the above three guarantees	0

7.4 Substantial connected transactions

7.4.1 Connected transaction related to daily operation

√ applicable ☐ not applicable

During the reporting period, pursuant to the "Sewage Water Processing Agreement" and "Sewage Water Processing Interim Service Agreement" (" **Two Agreements** ") entered into between the Company and Tianjin Sewage Company (" **TSC** "), the Company processed 340.12 million cubic metres sewage water and recorded an income of RMB656.45 million.

In September 2005, the Tianjin Municipal Government implemented the "Administrative Measures on Licensed Operations of Public Utilities of

Tianjin Municipality" (" **Administrative Measures** "), which provides that "license(s) for operating existing urban public utilities projects within the scope of requirements can directly be granted to the original operator after a review by the department in charge of municipal construction and administration and obtaining approval from the Municipal People's Government. A license agreement will be signed between the department in charge of municipal construction and administration and the operator". The sewage water treatment plants in Dongjiao, Xianyanglu, Jizhuangzi and Beicang operated by the Company now are within the abovementioned scope of requirements. In late 2005, the Company has already applied to the Tianjin Construction Administration Committee (" **Tianjin Construction Committee** ") for the licensed operation of the above four sewage water treatment plants.

Tianjin Construction Committee issued a written confirmation to the Company on 17 April 2008 confirming that during the transitional period from the implementation date of the Administrative Measures to the signing of the new licensed operation agreement by the Company and Tianjin Construction Committee, the Company continues to use the above four sewage water treatment plants to provide sewage water treatment services. TSC was entrusted by the Tianjin Construction Committee to examine the quality and quantity of the processed sewage water and pay the sewage water service fees pursuant to the Two Agreements pending the implementation of the new licensed operation agreement after its signing. According to the said written confirmation by Tianjin Construction Committee and after obtaining profession opinion from lawyers, the Company considers that during the transitional period from the implementation date of the Administrative Measures to the signing of the new licensed operation agreement by the Company and Tianjin Construction Committee, the ultimate contracting parties of the above Two Agreements are the Company and Tianjin Construction Committee. Since Tianjin Construction Committee is a government department and is not a connected person of the Company, the sewage water processing business under the above Two Agreements is not connected transactions during the reporting period and the said transitional period.

7.4.2 Connected debts and liabilities

☐ applicable √ not applicable

7.4.3 Misappropriation and repayment plan of funds in 2007

☐ applicable √ not applicable

7.4.4 Proposal for claiming damages proposed by the Board in case that the listing company has not completed the repayment work for misappropriation of fund as at the end of 2007

☐ applicable √ not applicable

7.5 Financial management on trust

☐ applicable √ not applicable

7.6 Implementation of undertakings

7.6.1 Undertakings made by the Company or shareholders with 5% or more shareholding during the reporting period or through the reporting period

√ applicable ☐ not applicable

Share segregation reform undertakings and their performance:

(1) Pursuant to the requirements under Article 27 in the "Administration method in respect of Share Segregation Reform of Listed Companies", all the original non-circulating shares shall not be traded or transferred within 12 months commencing from the date of implementation of the Share Segregation Reform.

(2) TMICL undertakes that upon expiry of the aforesaid commitment period, the number of shares sold through the SSE shall not exceed 5% of the total number of Shares of the Company within 12 months and shall not exceed 10% within 24 months.

(3) In the event if the amount of shares sold through the SSE attained 1% of the total number of issued shares, an announcement shall be made within two working days of the occurrence of such event.

During the reporting period, TMICL was in strict compliance with the undertakings and there were no breach of undertakings.

7.6.2 The Company has made profit estimation to its assets or projects, and the profit estimation period is within the reporting period, and the Company will give explanation on whether its assets or projects reach its profit forecast.

☐ applicable √ Not applicable

7.7 Material litigation and arbitration

☐ applicable √ not applicable

7.8 Analysis and explanation of other major events and their effect and solutions

7.8.1 Securities investment

☐ applicable √ not applicable

7.8.2 Shareholding of other listed companies held

☐ applicable √ Not applicable

7.8.3 Shareholding of non-listed financial enterprises held

☐ applicable √ Not applicable

7.8.4 Trading of shares of other listed companies

☐ applicable √ Not applicable

8 REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee believes that the Company is operating in accordance with the laws and the Company's financial position, use of proceeds, transactions in respect of acquisition and disposal of asset and connected transactions do not have any problems.

9 FINANCIAL INFORMATION

9.1 Audit Opinion

Financial Report	☐ unaudited	√ audited
Audit opinion	√ Standard unqualified opinion	☐ Non-standard opinion

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

FOR THE YEAR ENDED 31 DECEMBER 2007
CONSOLIDATED INCOME STATEMENT
(All amounts in Rmb thousand unless otherwise stated)

	Note	**2007**	**2006** *(Restated)*
Revenue	2(a)	981,028	807,381
Business tax		(42,384)	(37,063)
Cost of sales	3	(425,090)	(330,438)
Gross profit		513,554	439,880
Other income	2(a)	12,111	10,174
Administrative costs	3	(107,711)	(93,964)
Operating profit		417,954	356,090
Finance costs	4	(146,182)	(124,558)
Share of profits of an associate		3,187	4,474
Profit before income tax		274,959	236,006
Income tax expense	5	(92,387)	(79,572)
Profit for the year		182,572	156,434
Attributable to:			
Equity holders of the Company		183,813	158,689
Minority interests		(1,241)	(2,255)
		182,572	156,434
Earnings per share for profit attributable to the equity holders of the Company during the year (in Rmb per share)	6		
- basic		Rmb0.13	Rmb0.12
- diluted		Rmb0.13	Rmb0.12
Dividend	7	57,089	56,105

AS AT 31 DECEMBER 2007

CONSOLIDATED BALANCE SHEET

(All amounts in Rmb thousand unless otherwise stated)

	Note	**2007**	**2006**
ASSETS			
Non-current assets			
Property, plant and equipment		3,261,450	3,288,848
Investment properties		137,588	113,925
Land use rights		676,912	704,466
Investment in an associate		63,979	61,660
Available-for-sale financial assets		4,000	6,000
Deferred income tax assets		—	2,288
Trade receivables due after one year	8	697,763	749,973
Other non-current assets		118,698	142,146
		4,960,390	5,069,306
Current assets			
Inventories		6,634	7,839
Trade receivables	8	442,944	43,210
Other receivables and prepayments		136,733	28,360
Cash and bank balances		339,971	733,744
		926,282	813,153
Total assets		5,886,672	5,882,459
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,427,228	1,330,666
Other reserves		613,203	321,654
Retained earnings		852,737	734,538
- Proposed final dividend		57,089	56,105
- Undistributed		795,648	678,433
		2,893,168	2,386,858
Minority interests		114,870	116,111
Total equity		3,008,038	2,502,969

	Note	**2007**	**2006**
LIABILITIES			
Non-current liabilities			
Borrowings		1,793,523	2,157,980
Deferred income tax liabilities		-	2,362
		1,793,523	2,160,342
Current liabilities			
Trade and other payables	9	312,700	253,258
Current income tax liabilities		62,299	67,376
Borrowings		710,112	898,514
		1,085,111	1,219,148
Total liabilities		2,878,634	3,379,490
Total equity and liabilities		5,886,672	5,882,459
Net current liabilities		(158,829)	(405,995)
Total assets less current liabilities		4,801,561	4,663,311

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in Rmb thousand unless otherwise stated)

1 **Basis of preparation**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and have been prepared under the historical cost convention. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

(a) *Going concern*

As at 31 December 2007, the Group and the Company's current liabilities exceeded their current assets by approximately Rmb 159 million and 138 million, respectively.

Taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the directors of the Company are of the opinion that the Group has sufficient working capital to meet its current funding requirements. The directors believe that the Company will continue as a going concern. Consequently, the directors have prepared the accounts on a going concern basis.

(b) *Standards, amendment and interpretations effective in 2007 and relevant to the Group:*

HKAS 1(Amendment)	Presentation of financial statements - Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 10	Interim financial reporting and impairment

(c) *Standard and interpretations effective in 2007 but not relevant to the Group*

HK(IFRIC) Int 7	Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies
HK(IFRIC) Int 9	Re-assessment of embedded derivatives

The adoption of the above did not have a material impact on the financial statements of the Group other than disclosure changes.

(d) *Standard, amendment and interpretations to the existing standards that are not yet effective and have not been early adopted by the Group*

HKAS 1(Revised)	Presentation of financial statements (effective from 1 January 2009)
HKAS 23 (Amendment)	Borrowing costs (effective from 1 January 2009)
HKAS 27 (Revised)	Consolidation and separate financial statements (effective from 1 July 2009)
HKFRS 2 (Amendment)	Share-based payment — Vesting conditions and cancellations (effective from 1 January 2009)
HKFRS 3 (Revised)	Business combination (effective from 1 July 2009)
HKFRS 8	Operating segments (effective from 1 January 2009)

HK(IFRIC) - Int 11	HKFRS 2 — Group and treasury share transactions (effective from 1 March 2007)
HK(IFRIC) - Int 12	Service concession arrangements (effective from 1 January 2008)
HK(IFRIC) - Int 13	Customer loyalty programmes (effective from 1 July 2008)
HK(IFRIC) - Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008)

The Group is in the process of making an assessment of the impact of these standard, amendment and interpretations on the financial statements of the Group in the initial application whilst the adoption of HK(IFRIC) -Int 12 on 1 January 2008 may impact the classification and measurement of those assets related to sewage water processing and toll road operation.

2 Revenue and segment information

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

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

	2007	**2006**
Revenue (Note 2(b))	981,028	807,381
Other income		
- Subsidy income	2,340	8,000
- Rental income from investment property	9,771	2,174
	12,111	10,174
Total	993,139	817,555

(b) *Business segment analysis*

	2007	2006
Revenue		
Sewage water processing	853,080	684,446
Tolls (note(i))	69,760	65,890
Tap water processing	27,879	31,128
Water recycling and pipeline connection	28,671	23,764
Construction materials	1,638	2,153
	981,028	807,381
Segment result		
Sewage water processing	243,058	196,558
Tolls	36,896	42,211
Tap water processing	(5,988)	(2,758)
Water recycling and pipeline connection	(183)	760
Construction materials	(6,623)	(12,484)
Others	4,612	7,245
	271,772	231,532
Share of profit of an associate	3,187	4,474
Profit before taxation	274,959	236,006
Taxation	(92,387)	(79,572)
Net profit after tax	182,572	156,434

Note:

(i) The tolls income of Rmb70 million represented the minimum toll fee guaranteed under the Toll Fee Collection Subcontracting Agreement (2006: Rmb66 million).

(ii) Pursuant to the PRC tax rules, the Group is subject to PRC business tax levied at 5% of operating revenue and government surcharges levied at 10% of the amount of business tax. The business tax and government surcharges related to revenues derived from the Group during the year ended 31 December 2007 amounting to Rmb44 million (2006: Rmb37 million).

Other segment items included in the income statements are as follows:

	Year ended 31 December 2007	2006
Depreciation		
Sewage water processing	136,822	89,234
Tolls	8,453	3,453
Tap water processing	10,093	9,176
Water recycling and pipeline connection	7,851	7,414
Sale of construction materials	902	2,123
Others	9,715	8,137
	173,836	119,537
Amortisation		
Sewage water processing	18,644	14,634
Tolls	4,373	4,266
Sale of construction materials	39	85
Others	860	817
	23,916	19,802
Impairment		
Sale of construction materials	5,240	7,760

The segment assets and liabilities at 31 December and capital expenditure for the year then ended are as follows:

	2007	2006
Total assets		
Sewage water processing	4,579,507	4,712,314
Tolls	312,430	323,397
Tap water processing	234,957	242,630
Water recycling and pipeline construction	425,947	296,891
Construction materials	3,149	33,845
Associate	63,979	61,660
Unallocated	266,703	211,722
	5,886,672	5,882,459
Total liabilities		
Sewage water processing	2,377,638	2,976,306
Tolls	12,149	17,020
Tap water processing	149,478	152,790
Water recycling and pipeline construction	323,979	212,752
Construction materials	2,136	12,922
Unallocated	13,254	7,700
	2,878,634	3,379,490
Capital expenditure		
Sewage water processing	118,629	821,028
Tap water processing	946	236,149
Water recycling	41,882	57,065
Construction materials	—	1,191
Unallocated	4,213	13,864
	165,670	1,129,297

No geographical segment analysis is presented since all of the Group's operations are in the PRC.

3 **Expense by nature**

Expenses included in cost of sales and administrative costs are analyzed as follows:

	2007	**2006**
Depreciation and amortisation expenses	197,752	139,339
Utilities	104,410	82,009
Employee benefits	67,523	55,138
Repair and maintenance expenses	28,739	29,775
Raw materials and consumables used	27,298	24,827
Management fee to Toll Fee Collection Office	9,308	8,164
Impairment of assets	5,240	7,760
Auditors' remuneration	3,400	3,840
Loss on sale of property, plant and equipment	2,875	971
Outgoings in relation to investment properties	920	487
Operating lease rentals for land and buildings	115	2,648
Others	85,221	69,444
	532,801	424,402

4 **Finance costs**

	2007	**2006**
Interest expense on:		
- bank borrowings	158,259	113,070
- convertible bonds wholly repayable within five years	—	29,761
Less: Capitalised interest	(4,227)	(12,870)
	154,032	129,961
Less: Interest income	(7,850)	(5,403)
	146,182	124,558
Interest rate per annum at which finance costs were capitalised	7.3%	6.1%

5 **Income tax expense**

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong (2006: Nil) as at the year ended 31 December 2007. PRC income tax ranges from concessionary rate of 7.5% to statutory rate of 33% (2006: 33%).

	2007	2006
Tax charge comprises:		
Current PRC income tax	92,461	85,189
Deferred income tax	(74)	(5,617)
	92,387	79,572

6 **Earnings per share**

Basic earnings per share is calculated based on the profit attributable to equity holders of the Company of Rmb184 million (2006: Rmb159 million) and weighted average number of ordinary shares of 1,387 million shares in issue during the year (2006: 1,331 million shares).

Diluted earnings per share is calculated using the same basis as described above for calculating basic earnings per share after adjusting for the Company's Bonds (Note 19(d)) which are fully converted to ordinary shares or redeemed during this year as follows:

	2007	2006
Profit attributable to equity holders of the Company	183,813	158,689
Finance costs on convertible debt (net of tax)	—	13,787
Profit used to determine diluted earnings per share	183,813	172,476
Weighted average number of ordinary shares in issue (million)	1,387	1,331
Adjustments for — assumed conversion of convertible debt (million)	40	96
Weighted average number of ordinary shares for diluted earnings per share (million)	1,427	1,427
Diluted earnings per share (Rmb per share)	0.13	0.12

7 **Dividend**

	2007	2006
2007 proposed dividend: Rmb0.4 for every 10 shares held (2006: paid of RMB0.4 for every 10 shares held)	57,089	56,105

On 29 April 2008, the board of directors proposed a dividend of Rmb0.4 for every 10 shares held. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

8 Trade receivables

	Group		Company	
	2007	**2006**	**2007**	**2006**
Due from TSC for:				
- Water processing services	616,043	283,788	616,043	283,788
- Construction of plants	466,185	466,185	466,185	466,185
	1,082,228	749,973	1,082,228	749,973
Less: Portion deemed non-current (note (e))	(697,763)	(749,973)	(697,763)	(749,973)
	384,465	—	384,465	—
Due from others	58,479	43,210	17,440	16,473
Current portion	442,944	43,210	401,905	16,473

(a) Under the Co-operative Agreement between the Company and TSC, TSC agrees to sell to the Company certain of its property, plant and equipment upon completion of their construction and receipt of relevant verification reports, at their carrying value. On 17 April 2004, TSC confirmed its intention to settle its debt due to the Company with these mentioned assets.

The construction of these assets was completed in late 2005, and based on third party completion of costs verification reports dated 27 December 2007, the Tianjin Finance Bureau approved the verified value of these completed assets at about Rmb698 million (2006: The estimated carrying value then was Rmb750 million, which included about Rmb50 million exchange loss absorbed by TSC in 2007).

(b) On 17 April 2007, Tianjin Construction Administration Committee ("TJCAC") (天津市建設管理委員會), the government body overseeing the management of construction and operation of infrastructure in Tianjin, reconfirmed that the Tianjin Municipality has agreed to the settlement of the Company's debts in manner as agreed by TSC in (a) above. In addition, the remaining debt outstanding after such assets settlement will be settled by way of cash.

(c) In January 2008, the Company has requested TJCAC to accelerate the settlement of the Company's debts. The final settlement is still pending relevant governmental authorities' approvals, the timing of which is not totally within the Company's control.

(d) On 8 April 2008, TJCAC confirmed that there will be no legal obstacle to the above mentioned assets settlement.

(e) On the basis that the assets settlement will eventually be finalised, about Rmb698 million due from TSC as at 31 December 2007, representing the verified cost of the assets, has been reclassified to non-current trade receivables (2006: Rmb750 million).

Based on the above mentioned confirmations, the Directors believe that the amount due from TSC is eventually fully recoverable.

The Group in general grants a credit period range from 30 to 90 days. Management considered trade receivables les than one year past due are not impaired as all trade receivables are due from government bodies of the PRC. Aging of trade receivable is as follows:

	Group		Company	
	2007	**2006**	**2007**	**2006**
Within one year	442,944	43,210	401,905	16,473
One to two years	—	749,973	—	749,973
Over two years	697,763	—	697,763	—
	1,140,707	793,183	1,099,668	766,446

9 **Trade payables**

As at 31 December 2007, the Group's trade payables are approximately Rmb12 million (2006: Rmb10 million) and the majority of trade payables are aged within one year.

9.3 Significant differences between financial information reported under HKFRSs and the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC

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

10 SALE AND PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

11 CODE OF CORPORATE GOVERNANCE

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 of Corporate Governance as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

12 MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of practice in respect of securities transactions conducted by the directors ("Model Code") 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. During the reporting period, all Directors have complied with the Model Code in relation to securities transactions conducted by the Directors.

13 PUBLIC FLOAT

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

14 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.

15 AUDIT COMMITTEE

On 31st July 2001, the Board approved the establishment of an audit committee (the "Audit Committee") to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2007 with the Directors.

By Order of the Board
Tianjin Capital Environment Protection Company Limited
Ma Baiyu
Chairman

Tianjin, the PRC
29th April 2008

As at the date of this announcement, the Board comprises executive Directors: Ms. Ma Baiyu, Mr. An Pindong, Mr. Gu Qifeng, Mr. Wang Zhanying, Mr. Tan Zhaofu and Ms. Fu Yana and independent non-executive Directors: Mr. Ko Poming, Mr. Xie Rong and Mr. Di Xiaofeng.