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

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

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

§1 IMPORTANT

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

This results announcement is the summary of the 2010 annual report of the Company. For detailed information, please read the 2010 annual report of the Company carefully.

1.2 PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have issued standard unqualified audit reports of the Company.

1.3 Did the controlling shareholder of the Company and its related parties misappropriate the Company's funds?

No.

1.4 Did the Company provide external guarantees in violation of any specified decision-making procedures?

No.

1.5 Mr. Zhang Wenhui, the Company's chairman, Ms. Shi Zhenjuan, the officer in charge of the accounting work and the officer in charge of the accounting department (the chief accountant), have declared that they are responsible for the truthfulness and completeness of the financial reports contained in the 2010 annual report.

§2 COMPANY INFORMATION

2.1 Basic information

Short form of the A shares	Tianjin Capital
Stock 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
Stock 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 of the Company	No. 45 Guizhou Road, Heping District, Tianjin, the People's Republic of China (the "**PRC**")
Principal office address of the Company	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
Postal Code	300381
Internet website of the Company	http://www.tjcep.com
Email address	tjcep@tjcep.com

2.2 Contact person and method

	Company Secretary to the Board	**Company Secretary in Hong Kong**	**Securities Affairs Representative**
Name	Ms. Fu Yana	Mr. Lo Wai Keung, Eric	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	86-22-23930128	852-22180920	86-22-23930128
Facsimile number	86-22-23930126	852-25010028	86-22-23930126
Email address	fu_yn@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

§3 ACCOUNTING DATA AND BUSINESS STATISTICS HIGHLIGHTS

(For each of the three years ended 31 December 2010 as prepared in accordance with the PRC Accounting Standards For Business Enterprises)

3.1 **Principal accounting information**

Unit: '000
Currency: RMB

	2010	**2009**	**Increase/ Decrease from last year (%)**	**2008**
Operating income	1,467,768.00	1,256,793.00	16.79	1,159,307.00
Total profit	366,826.00	337,721.00	8.62	310,238.00
Net profit attributable to shareholders of the Company	271,160.00	242,978.00	11.60	231,065.00
Net profit after deduction of extraordinary items attributable to shareholders of the Company	301,055.00	246,770.00	22.00	229,756.00
Net cash flow from operating activities	453,303.00	1,390,313.00	-67.40	304,600.00
	31 December 2010	**31 December 2009**	**Increase/ Decrease from the end of last year (%)**	**31 December 2008**
Total assets	8,425,563.00	7,195,648.00	17.09	7,560,263.00
Owners' equity (or shareholders' equity)	3,450,573.00	3,293,591.00	4.77	3,107,702.00

3.2 **Principal financial ratio**

Unit: '000
Currency: RMB

	2010	2009	Increase/ Decrease from last year (%)	2008
Basic earnings per share (Yuan/share)	0.19	0.17	11.76	0.16
Diluted earnings per share (Yuan/share)	0.19	0.17	11.76	0.16
Basic earnings per share after deduction of extraordinary items (Yuan/share)	0.21	0.17	23.53	0.16
Weighted average return ratio on equity (%)	7.86	7.38	Increased by 0.48 percentage points	7.44
Weighted average return ratio on equity after deduction of extraordinary items (%)	8.72	7.49	Increased by 1.23 percentage points	7.39
Net cash flow from operating activities per share (Yuan/share)	0.32	0.97	-67.01	0.21
	31 December 2010	**31 December 2009**	**Increase/ Decrease from the end of last year (%)**	**31 December 2008**
Net asset value per share attributable to shareholders of the Company (Yuan/share)	2.42	2.31	4.76	2.18

Extraordinary profit and loss items

√ applicable ☐ not applicable

Unit: '000
Currency: RMB

Extraordinary profit and loss items	Amount
Gain and loss from disposal of non-current assets	-47,553
Income and expenses from other operations other than the above	7,693
Impact of income tax	9,965
Total	-29,895

§4 CHANGES IN THE SHARE CAPITAL AND SHAREHOLDERS OF THE COMPANY

4.1 Table of changes in shares

√ applicable ☐ not applicable

Unit: shares

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

Table of changes in restricted shares

☐ applicable ✓ not applicabl

4.2 Number of shareholders and their shareholdings

Unit: shares

Total number of shareholders as at the end of the reporting period	105,300, among which 92 are shareholders of H shares				
Shareholdings of the top ten shareholders					
Shareholders	**Nature of the Shareholder**	**Percentage of shareholding (%)**	**Total number of shares held**	**Number of restricted shares held**	**Number of shares pledged or frozen**
Tianjin Municipal Investment Company Limited ("**TMICL**")	State-owned Shareholder	51.83	739,781,100	0	Pledged 251,940,000
HKSCC Nominees Limited	Unknown	23.44	334,580,900	0	Unknown
Zhou Jun	Unknown	0.43	6,177,700	0	Unknown
Shenyang Railway Coal Group Co., Ltd.	Unknown	0.21	3,000,000	0	Unknown
HO MAN PING	Unknown	0.14	2,014,000	0	Unknown
CITIC Trust & Investment Co., Ltd.— Win Win No.4	Unknown	0.09	1,325,721	0	Unknown
Chen Ceng	Unknown	0.09	1,235,000	0	Unknown
Wang Ming Li	Unknown	0.08	1,193,500	0	Unknown
FUNG CHUN KIT	Unknown	0.08	1,130,000	0	Unknown
Shanghai Tian Xi Investment Co., Ltd.	Unknown	0.08	1,130,000	0	Unknown

Shareholdings of the top ten shareholders of non-restricted circulating shares		
Name of shareholder	**Number of the non-restricted circulating shares held**	**Type of shares**
TMICL	739,781,100	Ordinary RMB Shares
HKSCC Nominees Limited	334,580,900	H Shares
Zhou Jun	6,177,700	Ordinary RMB Shares
Shenyang Railway Coal Group Co., Ltd.	3,000,000	Ordinary RMB Shares
HO MAN PING	2,014,000	H shares
CITIC Trust & Investment Co., Ltd.— Win Win No.4	1,325,721	Ordinary RMB Shares
Chen Ceng	1,235,000	Ordinary RMB Shares
Wang Ming Li	1,193,500	Ordinary RMB Shares
FUNG CHUN KIT	1,130,000	H Shares
Shanghai Tian Xi Investment Co., Ltd.	1,130,000	Ordinary RMB Shares
Notes on the connected relationship or parties acting in concert among the above shareholders	It is not certain whether there is any connected relationship among the top 10 shareholders. It is not certain whether there is any connected relationship between the top 10 shareholders of non-restricted circulating shares and the top 10 shareholders.	

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

4.3.1 Change in the controlling shareholder and ultimate controller

☐ applicable √ not applicable

4.3.2 Details of the controlling shareholder and ultimate controller

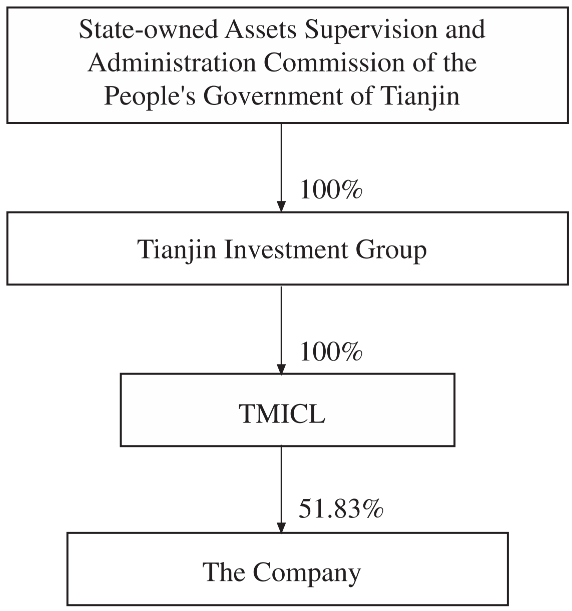
4.3.2.1 Description of the legal person controlling shareholder

Name	TMICL
Legal representative	Xiong Guanyu
Date of incorporation	20 January 1998
Registered capital	RMB 1,820,000,000
Principal operations	The investment, construction, operation and management of city infrastructure, road construction and auxiliary facilities with internal funds; development, operation and leasing of real estates; property management; 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).

4.3.2.2 Description of the utlimate controller

Name	Tianjin City Infrastructure Construction and Investment Group Company Limited ("**Tianjin Investment Group**")
Legal representative	Wang Zhouxi
Date of incorporation	23 July 2004
Registered capital	RMB 67,700,000,000
Principal operations	It uses its own funds to invest in the development and reconstruction of seas and rivers, railways, city roads and bridges, underground pipe 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 (excluding motor 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 ultimate controller



4.3.4 The ultimate controller controls the Company by way of trust or other assets management arrangements.

☐ applicable　　　　　√ not applicable

5 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Changes in shareholdings and the remuneration of Directors, Supervisors and Senior Management

Name	Position held	Sex	Age	Appointment date	Termination date	No. of shares held at the beginning of the year	No. of shares held at the end of the year	Reason for the change	Total remuneration received from the Company during the reporting period (RMB) (Before Tax)	Receive any remuneration or allowance from companies of shareholder or other related companies ?
Zhang Wenhui	Executive Director, Chairman	M	56	18 December 2009	17 December 2012	0	0	—	815,268	No
Lin Wenbo	Executive Director, general manager	M	54	18 December 2009	17 December 2012	0	0	—	709,893.31	No
Fu Yana	Executive Director, deputy general manager and secretary to the Board	F	40	18 December 2009	17 December 2012	0	0	—	540,992	No
Zhong Huifang	Executive Director, deputy general manager	F	43	18 December 2009	17 December 2012	0	0	—	497,845	No
An Pindong	Non-executive Director	M	42	18 December 2009	17 December 2012	0	0	—	100,000	Yes
Chen Yinxing	Non-executive Director	F	37	18 December 2009	17 December 2012	0	0	—	100,000	Yes
Xie Rong	Independent non-executive Director	M	59	18 December 2009	17 December 2012	0	0	—	HK$200,000	No
Di Xiaofeng	Independent non-executive Director	M	50	18 December 2009	17 December 2012	0	0	—	HK$200,000	No
Lee Kit Ying, Karen	Independent non-executive Director	F	63	18 December 2009	17 December 2012	0	0	—	HK$200,000	No
Zhang Mingqi	Chairman of Supervisory Committee	M	54	18 December 2009	17 December 2012	0	0	—	394,845.70	No
Nie Youzhuang	Supervisor	M	42	18 December 2009	17 December 2012	959 domestic shares	959 domestic shares	—	262,700.60	No
Xu Zhiyong	Supervisor	M	40	18 December 2009	17 December 2012	0	0	—	394,345.70	No
Wang Yanmin	Supervisor, deputy general manager of the audit department of Tianjin Investment Group	F	45	18 December 2009	17 December 2012	0	0	—	0	Yes
Li Yang	Supervisor	M	42	18 December 2009	17 December 2012	0	0	—	269,653.60	No
Qi Lipin	Supervisor	F	33	18 December 2009	17 December 2012	0	0	—	189,503	No
Deng Biao	Deputy general manager	M	45	18 December 2009	17 December 2012	0	0	—	410,245.70	No
Yang Guang	Deputy general manager	M	41	18 December 2009	17 December 2012	0	0	—	432,349	No
Zhang Qiang	Deputy general manager	M	48	18 December 2009	17 December 2012	0	0	—	410,284	No
Li Yuqing	Chief engineer	M	46	18 December 2009	17 December 2012	0	0	—	403,345.70	No
Shi Zhenjuan	Chief accountant	F	41	18 December 2009	17 December 2012	0	0	—	419,349	No
Lo Wai Keung, Eric	Company secretary (HK)	M	35	18 December 2009	17 December 2012	0	0	—	US$20,000	No
Tang Fusheng	Deputy general manager	M	38	25 March 2010	17 December 2012	0	0	—	447,323	No
Wang Hong	Deputy general manager	M	36	25 March 2010	17 December 2012	0	0	—	411,145.69	No
Zhao Yi	Deputy general manager	M	39	18 October 2010	17 December 2012	0	0	—	58,964	No
Gu Wenhui	Former chief economist	M	34	5 March 2009	25 March 2010	0	0	—	185,873.35	No
Total	/	/	/	/	/	959 domestic shares	959 domestic shares	/	8,096,938.35	/

§6 DIRECTORS' REPORT

6.1 MANAGEMENT DISCUSSION AND ANALYSIS

(I) 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 2010, under the leadership of the Board, the strategic guidelines of "rapid growth on the basis of capability enhancement and value creation", and higher requirements for environmental supervision, energy saving and emission reduction indicators, the Company and its subsidiaries (the "**Group**") proactively improved the sewage water treatment service systems, increased the scientific research and development standard, reinforced the group management concept and increased the overall core competitiveness in accordance with the operating plan for 2010. In 2010, through the joint efforts of all departments, the Group achieved certain results in all aspects and the overall operation target was completed quite well.

   In 2010, the Group recorded income from operations of RMB1,467.77 million, representing an increase of 16.80% as compared to 2009, and recorded net profit of RMB271.16 million (excluding profit and loss attributable to minority shareholders), representing an increase of 11.60% as compared to 2009. During the reporting period, with stable development in its principal businesses, the Group continued to be listed as one of the Top 10 Influential Water Business Enterprises in 2010 in the PRC.

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

   The principal businesses of the Company were the construction, design, management, operation, technology consultation and auxiliary services of sewage water treatment, tap water and recycled water plants and their facilities; licensed operation of the Southeastern Half Ring Urban Road of the Middle Ring of Tianjin City; the development and operation of environmental protection technology and environmental protection products.

   (1) *Operating conditions of the Company's principal businesses*

      a. *Sewage water processing and sewage water treatment plants construction business*

         As at the end of the reporting period, the sewage water processing capacity of the Group reached 4.065 million cubic metres per day, and the sources for generating revenue from sewage water treatment include (1) the sewage water treatment service fees charged by the four sewage water treatment plants in the central area of Tianjin pursuant to the "Sewage Water Processing Agreement" and the "Sewage Water Processing Interim Service Agreement"; (2) the sewage water treatment services provided by the subsidiaries under the Group in accordance with the license agreements on sewage water treatment and the agreements on sewage water treatment services signed between the local governments and those subsidiaries; (3) entrusted operation by which the Group charged operating service fees by rendering operating services in relation to sewage water treatment. The Group had processed a total of 892.7245 million cubic metres of sewage water during the reporting period through the above ways, representing an increase of 17.2% as compared to the same period last year. Income realized amounted to RMB1,106.21 million, representing an increase of 4% as compared to the same period last year, which was mainly attributed to the increased income generated by the subsidiaries in Wuhan and Hangzhou as compared to last year.

During the reporting period, the Group's four sewage water treatment plants in the central area of Tianjin processed a total of 377.16 million cubic metres of sewage water for the whole year and realized a sewage water treatment service income of RMB727.92 million. The volume of water processed and the income remained basically the same as the same period last year.

During the reporting period, subsidiaries of the Group processed sewage water of 431.24 million cubic metres, representing an increase of 10.9% as compared to the same period last year. Income from sewage water processing services of RMB354.91 million was realized, representing an increase of 3% as compared to the same period last year. The increase in the amount of water was due to an increase in the amount of sewage water processed by the subsidiaries as compared to the same period last year. In particular, the Chibi sewage water treatment plant of Wuhan subsidiary commenced commercial operation in May 2009. Therefore, the amount of sewage water processed in 2010 increased substantially by 40.6% as compared to that in 2009. The amount of sewage water processed by the Qujing subsidiary increased by 9.26% as compared to the same period last year. The amount of sewage water processed by the Baoying subsidiary increased by 10.63% as compared to the same period last year. The amount of sewage water processed by the Hangzhou subsidiary increased by 12.73% as compared to the same period last year.

During the period, on the basis of ensuring steady operation of the sewage water processing projects invested and operated by it and relying on the technical and operating capabilities of the sewage water treatment plants under it, the Group proactively developed entrusted operation projects and worked towards increasing operating income and becoming a first-class sewage water processing and operation service provider in the industry. During the reporting period, the Group's entrusted operation projects processed sewage water of 84.3245 million cubic metres in total, realizing an income of RMB23.37 million.

During the reporting period, the Group's sewage water treatment plants construction businesses include the Hangu Yingcheng sewage water treatment plant DBO project and Ziya Zone sewage water treatment plant BT project, realizing an income from construction of RMB140 million.

b. *Recycled water business*

During the reporting period, the recycled water business recorded water sales of 12.37 million cubic metres, an increase of 57% as compared to the same period last year. The increase in water sales was attributed to an increase in users of Jizhuangzi recycled water plant, and an increase in the amount of water after the Dongjiao recycled water plant and the Xianyanglu recycled water plant came into operation. During the reporting period, income from sales of recycled water of RMB23.56 million was recorded, representing a growth of 172.69% as compared to the same period last year, which was mainly due to (1) the aforesaid substantial increase in water sales; (2) an increase in the unit prices of recycled water for industrial, administrative and operational service uses and of recycled water for use by special industries (car washing, temporary water) since April 2009 (increased from RMB1.2 to RMB3.1 per cubic metres for recycled water for industrial, administrative and operational service uses; increased from RMB1.8 to RMB4.0 per cubic metres for recycled water for use by special industries). The sharp increase in unit prices also led to an increase in income from recycled water.

During the reporting period, the recycled water pipeline connection business realized an income of RMB46.36 million, basically the same as last year.

c. *Tap water business*

During the reporting period, the Group's tap water business recorded an on-grid water volume of 35.76 million cubic metres, an increase of 2.3% as compared to the same period last year, and realized RMB37.58 million in income, representing a increase of 2.68% as compared to the same period last year. Affected by the continued drought in the first half year, the Qujing subsidiary recorded a decrease in the on-grid water volume. However, due to the commencement of commercial operation of the Anguo subsidiary in November 2009, the on-grid water volume of the Group increased during the reporting period.

d. *Operations of toll collection business*

During the reporting period, the Group recorded an income of RMB67.03 million from the toll collection business, which was in line with the same period last year. According to the relevant requirements of the Chinese government, the collection of toll for Tianjin City Indebted Road was suspended on 1 January 2010. The six toll collection offices in which the Company has an income right in respect of road toll also ceased toll collection. According to the spirit of the Jin Zheng Ban (2010) No.51 Document "Opinions on the Implementation of Oil Prices and Tax Expenses Reforms and the Cancellation of Toll Collection on Government Indebted Tier 2 Roads" dated 19 May 2010, the Company still recognized income from the road business based on the amount received according to the "Subcontracting Toll Collection Agreement" during the reporting period.

(2) *Principal businesses by industry*

Unit: '000
Currency: RMB

By industry or by product	**Income from operations**	**Cost of operations**	**Profit margin from operation** (%)	**Increase/ decrease in income from operations as compared to last year** (%)	**Increase/ decrease in cost of operations as compared to last year** (%)	**Increase/ decrease in profit margin from operations as compared to last year** (%)
By industry						
Sewage water treatment and sewage water treatment plant construction business	1,220,294	679,377	44.33	14.44	39.17 (Note a)	Decreased by 9.89 percentage points
Toll collection business	67,026	7,120	89.38	—	—	—
Tap water supply business	37,583	25,098	33.22	2.69	- 9.28	Increased by 8.81 percentage points
Recycled water pipeline connection and water supply business	69,918	51,396	26.49	23.76	31.64 (Note b)	Decreased by 4.4 percentage points

Note:

a) The greater increase in the operating cost for the sewage water treatment and sewage water treatment plant construction business as compared to the previous year was mainly attributed to the recognition of approximately RMB120 million in accordance with the principle of matching construction progress with income for the Hangu Yingcheng sewage water treatment plant DBO project. In addition, Tianjin Zichuang Engineering Investment Company Limited, a subsidiary, recognized costs of approximately RMB20 million in accordance with the completion progress for the Ziyayuan sewage water treatment plant BT project.

b) The greater increase in the operating cost for the recycled water pipeline connection and water supply business as compared to the previous year was mainly attributed to the commencement of operation of Dongjiao recycled water plant in 2010 with no costs incurred for last year and the commencement of operation of Xianyanglu recycled water plant in August last year with costs incurred not enough one year.

(3) *Principal businesses by region*

Unit: '000
Currency: RMB

Region	**Income from operations**	**Increase/ decrease in income from operations as compared to last year(%)**
Tianjin	1,002,329	18.64
Guizhou	24,864	-2.57
Qujing	51,380	1.24
Fuyang	28,365	15.13
Baoying	11,077	8.41
Hangzhou	141,476	9.95
Wendeng	23,445	-0.55
Xian	74,646	4.10
Anguo	11,914	184.25 *(Note)*
Wuhan	25,325	23.51

Note:

The greater change in the income from operations of the Anguo subsidiary as compared to the same period last year was attributed to the commencement of commercial operation of its sewage water business in April 2009 and the commencement of commercial operation of the tap water business in November 2009.

3. ***Material changes in asset composition and major financial data during the reporting period as compared to the corresponding period of last year***

As at 31 December 2010, the total assets of the Group amounted to RMB8,425.563 million, representing an increase of RMB1,229.915 million or rose by 17.09% as compared to the beginning of the year; the total liabilities amounted to RMB4,849.394 million, representing an increase of RMB1,069.257 million or rose by 28.29% as compared to the beginning of the year. Equity interest attributable to the shareholders of the Company amounted to RMB3,450.573 million, representing an increase of RMB156.982 million or grew by 4.77% as compared to the beginning of the year. Realized net profit attributable to the Company for the year 2010 amounted to RMB271.16 million, representing an increase of RMB28.182 million or rose by 11.60% as compared to the same period last year. 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	Increase/ Decrease	Percentage change (%)	Details of changes
Accounts receivables	996,949	503,466	493,483	98.02	Mainly additional sewage water treatment service fees receivable of the Company amounting to approximately RMB340 million during the reporting period. In addition, part of the construction management fees receivable were received after the reporting period, with an improvement in liquidity. Therefore, this part of the amount was reclassified to accounts receivables on the date of the statement.
Prepayments	103,759	194,160	-90,401	-46.56	Mainly due to the transfer of prepayments of approximately RMB40 million to construction in progress during the reporting period as the upgrading and renovation projects of the Company’s four sewage water plants entered into the middle and late stage. In addition, the recognition of costs in accordance with construction progress for the Hangu Yingcheng sewage water treatment plant DBO project during the reporting period led to a corresponding reduction in prepayments.

Unit: '000
Currency: RMB

Items	Amount at the end of the period	Amount at the beginning of the period	Increase/ Decrease	Percentage change (%)	Details of changes
Fixed assets	2,526,459	1,960,394	566,065	28.88	Mainly due to a greater increase in fixed assets as a result of the acquisition of assets generated from foreign bank loans by the Group from Tianjin Sewage Company in relation to the Tianjin sewage water treatment construction project in the Haihe Basin and the Beicang sewage water treatment project.
Construction in progress	703,651	374,804	328,847	87.74	The greater increase in construction in progress at the end of the reporting period as compared to the beginning of the reporting period was mainly due to the additional amount for the current period for construction projects such as the upgrading and renovation of the Company's four sewage water plants and the upgrading and renovation of the recycled water plant.
Tax payable	16,431	10,000	6,431	64.31	Mainly due to the additional income tax payables as a result of additional profit during the reporting period, accordingly resulting in the increase in the balance of tax payable.
Non-current liabilities due within 1 year	360,180	98,530	261,650	265.55	Being the Company's mid- and long-term liquidity loans due within one year and the consideration for acquisition of assets payable within one year.

Unit: '000
Currency: RMB

Items	Amount at the end of the period	Amount at the beginning of the period	Increase/ Decrease	Percentage change (%)	Details of changes
Long-term payables	399,604	—	399,604	—	The additional long-term payables at the end of the reporting period were the asset-corresponding balance of the last payment payable for the acquisition of assets as a result of the acquisition of the assets generated from foreign bank loans from Tianjin Sewage Company by the Group during the reporting period, upon deduction of the unrecognized finance charge.
Deferred income	284,974	143,100	141,874	99.14	The additional amount was mainly due to the financial project appropriation acquired from the upgrading and renovation project of the Company's sewage water plants during the reporting period.

Unit: '000
Currency: RMB

Items	2010	2009	Increase/ Decrease	Percentage change (%)	Details of changes
Operating costs	793,672	578,927	214,745	37.09	Greater increase in operating costs during the period was mainly due to the corresponding recognition of the costs of approximately RMB120 million in accordance with the principle of matching construction progress with income for the Hangu Yingcheng sewage water treatment plant DBO project during the period. In addition, Tianjin Zichuang Engineering Investment Company Limited's BT project recognized costs of approximately RMB20 million in accordance with the completion progress during the period. There was a corresponding increase in the depreciation cost due to the acquisition of Phase II assets by the subsidiary in Hangzhou. Costs began to incur due to the commencement of operation of both Dongjiao recycled water project of Tianjin Water Recycling Company Limited and Xianning sewage water plant project of the subsidiary in Wuhan during the reporting period.
Finance costs	135,790	186,743	-50,953	-27.29	The Company repaid a large amount of bank loans last year, so the average loan principal of this period decreased significantly as compared to the same period last year. Meanwhile, there was a substantial decrease in the interest expense due to the application of favorable loan rates instead of the original loan rates.

Unit: '000
Currency: RMB

Items	**2010**	**2009**	**Increase/ Decrease**	**Percentage change (%)**	**Details of changes**
Non-operating expenses	47,853	12,990	34,863	268.38	During the period, the upgrading and renovation works of the Company's sewage water plants were under full-scale construction, so there was an increase in the disposal loss of fixed assets as compared to last period.
Net cash flow from operating activities	453,303	1,390,313	-937,010	-67.40	In the same period last year, the Company recovered the sewage charges owed in the previous years, as well as certain long-term receivables. Therefore, there was a peak in the cash inflow from operating activities. By comparison, there was a greater volatility during the period.

Unit: ’000
Currency: RMB

Items	**2010**	**2009**	**Increase/ Decrease**	**Percentage change (%)**	**Details of changes**
Net cash flow from investing activities	-673,682	-668,051	-5,631	0.84	During the period, there were capital expenditures in relation to the projects such as the upgrading and renovation of the Group’s sewage water treatment plants and the upgrading and renovation of the recycled water plants, as well as the acquisition of assets generated from foreign bank loans by the Group from Tianjin Sewage Company, resulting in the increase in net cash outflow from investing activities during the period as compared to last period. There was also an increase in the financial subsidies provided by the government for the infrastructure projects during the reporting period as compared to last year, resulting in the net cash outflow from investing activities during the reporting period basically the same as that of last period.
Net cash flow from financing activities	167,548	-1,017,048	1,184,596	-116.47	During the period, there was a substantial decrease in repayment amount than the same period last year. Moreover, the borrowing amount was greater than the repayment amount, resulting in the net cash inflow from financing activities.
Net increase in cash and cash equivalents	-52,831	-294,786	241,955	-82.08	During the period, there was a net outflow in the cash and cash equivalents due to the cash flow from the three activities mentioned above.

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

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

Unit: '000
Currency: RMB

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Water Recycling Company Limited	Tianjin	Production and sales of recycled water, development and construction of facilities for recycled water; manufacture, installation, commissioning and operation of equipment for recycled water.	100,000	Limited company	98%	616,627	9,549
Guizhou Capital Water Company Limited	Guiyang, Guizhou	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and solid waste processing facilities; research, development and promotion of environmental protection technology; consultancy services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	100,000	Limited company	95%	176,870	9,156
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%	11,741	-984 (Operation ceased and pending liquidation)
Baoying Capital Water Company Limited	Yangzhou, Jiangsu	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	38,000	Limited company	70%	85,183	512

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Qujing Capital Water Company Limited	Qujing, Yunnan	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	120,000	Limited company	90.07%	353,723	2,831
Fuyang Capital Water Company Limited	Fuyang, Anhui	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	63,000	Limited company	98.57%	172,424	4,392
Hangzhou Tianchuang Water Company Limited	Hangzhou, Zhejiang	Operation and maintenance and technical services for sewage water processing and recycled water utilization facilities, and ancillary services such as technology services and technology training.	257,445	Limited company	70%	814,646	9,134
Tianjin Capital Environmental Protection (Hong Kong) Company Limited	Hong Kong	Treatment and recycling and utilization of sewage water.	US$7,840,000	Limited company	100%	67,417	-1,035
Wendeng Capital Water Company Limited	Wendeng, Shandong	Development, construction, operation and management of sewage water treatment and its ancillary facilities, solid waste treatment facilities and water recycling facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	48,000	Limited company	100%	144,929	4,398

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Jing Hai Capital Water Company Limited	Jinghai, Tianjin	Development, construction, operation and management of sewage water treatment plant, urban sewage water treatment plant and tap water plants and their ancillary facilities, and solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities and environmental projects.	12,000	Limited company	100%	38,863	-2,487
Xian Capital Water Company Limited	Xian, Shaanxi	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and its ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; application of renewable energy and related equipment; installation services for sewage water treatment plant equipment; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	270,000	Limited company	100%	625,629	-4,009
Tianjin Kaiying Environmental Engineering Technology Consulting Limited	Tianjin	Environmental governance projects, civil engineering works, urban planning and related project technology consultation services; surveying design, tender agency, engineering projects management and technical services.	2,000	Limited company	100%	2,030	-82
Anguo Capital Water Company Limited	Anguo, Hebei	Urban water supply, drainage and sewage water treatment (water-drawing permit valid until September 2, 2013 and hygiene permit valid until July 17, 2012. Operations are forbidden for projects which require special approval until such approval is obtained, and operations are forbidden for projects which require approval as stipulated by administrative laws and regulations or the State Council until such approval is obtained).	41,000	Limited company	100%	98,850	484

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Wuhan Tianchuang Environmental Protection Company Limited	Wuhan, Hubei	Investment and development, construction, operation, management and consultancy services of municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities and water recycling facilities; production, supply and sales of equipment and materials relating to water and environmental protection; research, development and promotion of environmental protection technology.	103,240	Limited company	100%	364,936	-5,196
Tianjing Capital Environmental Water Company Limited	Jinnan, Tianjin	Development, construction, operation and management of sewage water treatment, municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultancy services for water treatment facilities and environmental protection works (The above scope involved in industry approvals is subject to the business scope and the expiry date of the license).	5,000	Limited company	100%	4,523	-477
Tianjin Zichuang Engineering Investment Company Limited	Jinghai, Tianjin	Investment in engineering projects (in accordance with the State regulations for specific projects and operations).	23,400	Limited company	100%	23,514	114
Tianjin Jinning Capital Environmental Water Company Limited	Ninghe, Tianjin	Sewage water treatment; development, construction of municipal sewage water treatment plants and its ancillary facilities; project consultancy services for water treatment facilities and environmental protection works (in accordance with the State regulations for specific projects and operations).	15,000	Limited company	100%	15,000	—

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

Tianjin Beifang Rencaigang Company Limited

As at the end of the reporting period, the Company invested a total of RMB2,000,000 in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. Its principal activities comprise senior executive insurance services, senior executive personnel services (employment agent service, financial guarantee consultation service, personal creditworthiness assessment), enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. After the reporting period, the Group received bonus distribution of RMB200,000 for the year 2009 from this company.

Tianjin Baotong Light Mass Materials Company Limited

As at the end of the reporting period, the Company invested a total of RMB2,000,000 in Tianjin Baotong Light Mass Materials Company Limited ("**Baotong**"), representing 4.9% of its registered capital. The principal activities of this company include production and sales of high resistance and light mass materials and its products. In 2010, Baotong continued to commence its liquidation and deregistration procedures by the liquidation team authorized by the general meeting. In the second half of 2010, the liquidation team preliminarily completed the procedures in relation to the listing-for-sale of assets. The delisting price is approximately RMB21.30 million. Currently, the asset delivery is completed. The land transfer procedures are under processing. Meanwhile, compensation for layoffs and liquidation and deregistration of Baotong are being launched.

5. ***The Company's Technology***

During the reporting period, to meet the technological innovation demand for "Upgrading and reconstruction work of the sewage water treatment plants" and "Energy saving and emission reduction by enterprises", the Group did a great deal of research on sludge reduction and stabilization and on the elimination of its harms and transforming it into resources, and facilitated various projects such as sludge deep dehydration and deodorization. These have accelerated the transformation of results, creating a technology reserve for future development. During the reporting period, the Group initiated 23 technological programs and 12 technological reform projects. The programs and projects were implemented successfully and met their expected requirements. The Group invested a total of approximately RMB7 million in technology.

The Group's technology efforts in 2010 mainly included the continuation of scientific research on previous programs such as the development and application of the sewage water treatment plant technology analysis system. Good results were achieved in scientific research programs recently undertaken by the Group in the aspects of production and construction in which there was an urgent need to solve the problems, such as the research on whole process deordorization technology for the CYYF urban sewage water treatment plant, the research on the new technology of highly effective biological nitrogen and phosphorus removal based on the step-feed and dissolved oxygen control technology, and the research on the differential pressure anti-floating technology based on aerated bottom board construction. Good results were also achieved in the preparation of scientific research programs which are the focus for achieving breakthroughs in the future. At present, patents for the deodorization technology, the step-feed technology and the aerated bottom board anti-floating construction technology have been obtained and the technologies are widely applied in production process. Meanwhile, by relying on the research and development centre and the post-doctoral scientific research stations, the Group has persisted in combining production, learning and research to build a base for technological innovation for the Company, train high-level talents, provide intellectual support and guarantee human resources. The several proprietary technologies and research achievements owned by the Group have been put into practical applications and are generating economic benefits.

These scientific achievements further enhanced the Group's technological position in the industry. While actively participating in the construction of national or Tianjin city's major scientific and technological projects, the Group made proactive efforts to provide technological support for "upgrading and reconstruction of sewage water treatment plants" and "energy saving and emission reduction", which ensured a more efficient scientific and technological advancement of the Group, and in turn contributed to the overall development of the Group.

(II) Outlook of the Company's future development

1. *Changes of external environment and future development opportunities of the Company*

With the measures taken by the central government to control the systematic risks of cyclical industries such as real estate, emerging industries working for energy conservation and environmental protection are expected to develop rapidly under the support of policies. Meanwhile, given the expectation of inflation under proper control, the proactive and prudent fiscal policy will continue to be implemented. The steady growth of economy will provide support for the central government to increase investment in the environmental industry. On the other hand, the development of economy will objectively increase the environmental pressure, generating a greater demand for sewage water treatment and environmental control.

The environmental protection industry is faced with the major trend of transforming into and upgrading to the integrated environmental service industry. Therefore, the first echelons in the water market of the PRC are all actively expanding their scope of business to extend the industry chain. This will certainly intensify the competition and will also impose stricter requirements on the integrated capability of enterprises. Mergers, acquisitions and reorganizations may accelerate in the industry in the future and the trend of industrial concentration will become more prominent. In the meantime, there are huge potential business opportunities associated with such businesses as sludge treatment, industrial sewage water treatment, sewage water recycling, new energy, seawater desalinization and environment rehabilitation. In addition, considering the trend of macroeconomic operation, in 2011, inflation will lead to the interest rate hike cycle, which will have a certain impact on the indirect funding of enterprises. The above series of external environmental changes demand higher requirements for corporate capabilities, indicating the coexistence of opportunities and challenges in the water industry in 2011.

2. ***Overall strategy of the Group in 2011***

Development strategy:

In 2011, facing the opportunities and challenges of development in the industry, the Group will continue to purify the water environment for the daily living of the human race, uphold its organizational mission of raising water quality, and apply great efforts in achieving fast growth on the basis of capability enhancement and value creation, and propose the strategy of "business expansion, resource continuation, capability optimization" to further emphasize and enhance the Group's competitive edge and industry position in the field of sewage water treatment.

Operating strategy for the coming year:

With regard to business structure, the Group will continue the stable development of water investment and operation business, complete the license operation in Tianjin and complete the final works of the upgrading and renovation of the sewage water treatment plant in Tianjin, so as to achieve up-to-standard operation for the city's central area. Besides, the Group will explore its management and control experience to achieve capability enhancement, and facilitate the extensible business development of the industry chain of the Company's construction business, energy business, international business, technology research and development, and export and transformation business while strengthening the sewage water treatment business."

With regard to investment and development, the Group will strengthen the market shares in Tianjin area and the surrounding regions and counties to ensure the advantageous position of the headquarters. The Group will coordinate the development and expansion plans for the domstic and overseas markets through the business divisional system, expand coverage to the surrounding regions by leveraging on the branding advantage of services, and strive to expand the service area in order to realize a positive cycle of self sufficiency.

With regard to technology research and development, the Group will, on the basis of analyzing the trend of industry development, the change in market demand and its own strengths and weaknesses, prepare and organize the implementation of the 2011 technology research and development plan, and strengthen the collection, collating and analysis of the Group's internal and external basic technology information and intelligence. The Group will keep track of sophisticated technologies in the industry, reinforce research on putting application technologies into practice, form a technology route applicable to the Group, complete the Group's internal quota and standards, regulate the enterprise's production, safeguard the Group's certification system, regulate internal management, strengthen the efforts in managing the safety system, and construct a sharing and application platform for technological transformation and technological innovation.

With regard to internal management, the Group will improve the budget plan, tracking and analysis mechanism, financial management mechanism and funds optimized allocation mechanism of the Group's production operations, strengthen the analysis of operational risks, strengthen the efforts in operational control, improve the target appraisal methods, urge the Group's management innovation, remove the obstacle to direct financing, develop financing plans available for selection, strengthen audit, internal control and legal work in order to avoid and control risks, optimize the Group's human resources integration and planning, strengthen the incentive mechanism and the bonus and punishment system, optimize the recruitment and training of specific staffs in demand, create a learning organization, improve the administration efficiency, strengthen the management of social responsibility, develop investor relationship management proactively and maintain the market value.

Operation plan for the coming year:

In 2011, the Group will focus on improving the overall operation quality, reducing operation costs, and enhancing technology research and development and the transformation of achievements, so as to increase the overall economic effectiveness and core competitiveness of the Company.

As for water treatment, the Group will continue to facilitate license operation in Tianjin and operate the existing sewage water treatment, plant, tap water plant and recycled water plant businesses well to ensure that the quality of water is up to standard.

As for project construction, the Group will continue to undertake the final works of the upgrading and renovation of the Tianjin Jizhuangzi, Xianyanglu, Dongjiao and Beichen sewage water treatment plants and the recycled water, sewage water treatment plant and tap water plant construction projects of some subsidiaries.

As for new business development, the Group will continue to expand market development in respect of the water plant entrusted operation project and facilitate the development of and the breakthrough in the construction management service and the construction contracting service for municipal projects. On the basis of the research on facilities and drugs related to the water industry, the Group will propel the commercialization of scientific achievements and drive the development of the design and consultation operations. The Group will complete the construction and test run of the centralized heating and cooling project of the energy station of Tianjin Cultural Centre. In addition, the Group will also explore the opportunity of developing the international water service market so as to accumulate experience in international operations.

As for management, while continuing to improve various basic management tasks, the Group will make strengthening internal control and enhancing internal management as the focus of annual management effort so as to adapt to the development needs.

(1) **Planning for income, expenses and costs:**

In 2011, subject to no material changes in the prevailing national direction policies, operating environment and sewage water processing service agreements being complied by the Group, it is expected that the change in the target income from the sewage water processing service fees as compared to the amount in 2010 will not exceed 4%.

(2) **Cost control targets:**

Given increasing inflation, charges for various types of resources have risen. There is a higher pressure on the increase in the business costs of various operations run by the Group. Subject to no material changes in the prevailing national direction policies being complied by the Group and in the operating environment, it is expected that the increase in the costs of the sewage water treatment business of the Group in 2011 as compared to that in 2010 will not be higher than 10%. Relying on the many years of operation experience in sewage water treatment, the Group will adopt scientific and effective energy saving and consumption reduction measures to improve cost management as well as control operating costs through administrative and technological means and incentive measures, in order to keep the cost at a reasonably low range, subject to the satisfaction of the requirements for quality and various regulatory conditions, while at the same time, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

(3) **R&D plans:**

In 2011, the Group will further increase the investments and supporting management efforts in scientific research work. The Group plans to inject at least RMB6 million of funds as scientific research fees for the R&D of technology related to the principal businesses of the Group and technology reserve related to the development strategy of the Group.

All subsidiaries of the Group will also increase technological investments, commence R&D on various technologies and technological reform activities, which will have positive effects on enhancing the production efficiency and reasonable control of operation costs.

3. ***Demand for funds and application plans***

The Group's current financing sources can basically satisfy the needs of the Group's annual operation plans. In 2011, the Group will meet the market development and operational needs to implement direct financing and indirect financing facilities, improve the debt structure, increase the capital efficiency and reduce the financial cost. Through introducing strategic investors and financial investors in a timely manner, the Group will reinforce capital cooperation in project cooperation. The Group will obtain the funds that the relevant projects may require from its current financing sources.

4. ***Analysis of risk factors***

(1) In response to the changing economic and financial environment, the Group will further enhance its risk control capability: first, to improve the internal control system and enhance auditing and supervision; second, to establish a risk warning system to enhance risk management, so as to improve the Group's overall organization operation efficiency and maintain sustained competitive advantages.

(2) 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 current urban public utilities projects within the scope of requirements may be granted directly to the original operator after a review by the department in charge of municipal construction and administrative management and obtaining approval from the Municipal People's Government, and a licensed operation agreement will be signed between the department in charge of municipal construction and administrative management and the operator. The major provisions of the "Administrative Measures" in respect of such licensed operation are as follows:

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

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

c. The licensed operators shall implement the municipal public utility product prices and service charge standards set by 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 and administrative management authority and approved by the Municipal People's Government, the existing municipal public utility projects can be directly granted to the existing operators of licensed operations, and licensed operation agreements shall be signed between the municipal construction and administrative management authority and the operators.

The Group has submitted an application for operating licences for four sewage water treatment plants at the central region of Tianjin city to the municipal construction and administrative management department of Tianjin City after the implementation of Administrative Measures in November 2005. Currently, no approval reply has been received so far, and the Group will publish timely announcements in accordance with the progress of the matter and the relevant rules.

6.2 **Principal businesses by industry and product**

Please refer to 6.1 above

6.3 **Principal businesses by region**

Please refer to 6.1 above

6.4 **Use of proceeds from fund-raising**

☐ applicable √ not applicable

Change

☐ applicable √ not applicable

6.5 **Project made out of funds other than proceeds from fund-raising**

√ applicable ☐ not applicable

(1) In 2010, the Group invested in the upgrading and renovation projects of four sewage water treatment plants in Tianjin, namely, Xianyanglu, Beicang, Jizhuangzi and Dongjiao. Total investment in the projects was approximately RMB1.04 billion. RMB411 million was invested in 2010. Currently, the projects have been basically completed and are in the stage of project finishing and test run.

(2) The Group's subsidiary, Tianjin Water Recycling Company Limited, invested in the reconstruction and expansion project of the Jizhuangzi recycled water plant. Total investment in the project was RMB87.57 million. RMB21.44 million was invested in 2010. Currently, the project has been basically completed and is in the stage of project finishing and test run.

(3) The Group's subsidiary, Fuyang Capital Water Company Limited, invested in the Yingdong sewage water treatment plant project. Total investment in the project was RMB53.49 million. RMB37.60 million was invested in 2010. Currently, the project has been basically completed and is in the stage of project finishing.

(4) The Group's subsidiary, Qujing Capital Water Company Limited, invested in the reconstruction project of Lianjiangkou sewage water treatment plant. Total investment in the project was approximately RMB100 million. RMB14.77 million was invested in 2010. Currently, the project has been basically completed and is in the stage of project finishing.

(5) The Group's subsidiary, Wuhan Tianchuang Environmental Protection Company Limited, invested in the Xianning sewage water treatment plant project. Total investment in the project was approximately RMB120 million. RMB27.83 million was invested in 2010. Currently, the project has been basically completed and is in the stage of project finishing and test run.

(6) The Group's subsidiary, Anguo Capital Water Company Limited, invested in the reconstruction and expansion project of Anguo municipal water supply system. Total investment in the project was RMB33 million. RMB19.57 million was invested in 2010. Currently, the construction of the principal part of the project has been basically completed and the construction of the pipeline network is in progress.

(7) The Group's subsidiary, Wendeng Capital Water Company Limited, invested in the sewage water treatment plant project in Gejia Town, Wendeng. Total investment in the project was RMB17.70 million. RMB7.85 million was invested in 2010. Currently, the preliminary work of the project such as equipment procurement and installation and civil works tender was completed.

(8) The Group's subsidiary, Jinghai Capital Water Company Limited, invested in the Tianjin Jinghai Tianyu Technology Park sewage water treatment plant project. Total investment in the project was approximately RMB48.21 million. RMB6.97 million was invested in 2010. Currently, the project has been fully completed.

(9) The Group's subsidiary, Hangzhou Tianchuang Water Company Limited invested in the project of equipment purchase and installment for Qige Sewage Water Treatment Plant Phase Two with a daily production capacity of 50,000 tonnes. Total investment in the project was RMB23 million. RMB1.35 million was invested in 2010. Currently, part of the main framework of the structure and the construction of the principal part of the project have been completed.

(10) The Company entered into the "Licensed Operation Agreement Relating to the Shuanglin Sewage Water Treatment and Recycled Utilization Phase 1 Project in the Jinnan District of Tianjin" with the People's Government of Jinnan District on 13 November 2009, pursuant to which the Company incorporated a wholly-owned subsidiary, Tianjin Capital Environmental Water Company Limited, with cash contribution of RMB5 million on 7 January 2010, which invested and constructed the Shuanglin sewage water treatment plant in Jinnan District of Tianjin by way of a licensed operation and enjoyed exclusive asset operation rights of possession, usage, operation and maintenance over the project facilities as well as the rights to collect sewage water treatment service fees during the licensed period. The project commenced construction in October 2010. Total investment in the project was approximately RMB181 million. RMB51.17 million was invested in 2010. The principal part of the project has been completed.

(11) In 2010, the Company won the bid for the BT finance construction project of the sewage water treatment plant (Phase I) in the Ziya Circular Economy Industrial Zone of Tianjin. The construction scale of the project is 10,000 cubic metres per day. The price for the successful bid was RMB76,796,000. On 6 August 2010, the Company incorporated a wholly-owned subsidiary, Tianjin Zichuang Engineering Investment Company Limited, with cash contribution of RMB23.40 million, for the financing and construction of the project. Currently, the project is under construction.

(12) On 6 July 2010, the Company entered into the "Licensed Operation Agreement Relating to the BOT Project of the Sewage Water Treatment Plant in the Ninghe Xiandai Industrial Zone" with the management committee of the Ninghe Xiandai Industrial Zone, pursuant to which the Company incorporated a wholly-owned subsidiary, Tianjin Jinning Capital Environmental Water Company Limited, with cash contribution of RMB15 million on 6 September 2010, which will construct and operate the project during the licensed period. Currently, the preliminary work of the project is underway.

6.6 The statement from the Board concerning the non-standard 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 and PricewaterhouseCoopers, the net profit attributable to the Company in 2010 was RMB271.16 million. After deduction of a Statutory Common Reserve in the amount of RMB25.88 million pursuant to the relevant requirements of the Company Law of the PRC and the Article of Association of the Company, adding the undistributed profit of RMB1,206.90 million at the beginning of the year, and less 2009 cash dividends of RMB114.18 million distributed in 2010, the actual distributable profits attributable to shareholders for this year was RMB1,338.00 million. According to the profit appropriation policy 2010, a cash dividend of RMB1.10 (tax inclusive) per 10 shares will be distributed to all shareholders.

Subject to the approval by shareholders, holders of H shares whose names appear on the H share register of members of the Company on 13 April 2011 will be entitled to receive the above dividend. However, pursuant to the Law on Corporate Income Tax of the PRC and its implementing regulations and other relevant rules which came into force on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the dividend to non-resident enterprise (as defined in the Law of Corporate Income Tax of the PRC) shareholders whose names appear on the H share register of members of the Company on 13 April 2011. Any H shares registered in the name of non-individual shareholders, including HKSCC Nominees limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders, thus, the Company will distribute the dividend to such non-individual shareholders after withholding the 10% corporate income tax. The 10% corporate income tax will not be withheld from the dividend payable to any natural person shareholders whose names appear on the H share register of members of the Company on 13 April 2011.

Any natural person investor whose H shares are registered under the name of any such non-individual shareholders and who does not wish to have any corporate income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her name and duly lodge all transfer documents with the relevant H share certificates with the Company's H share registrar for registration. In order to determine the list of holders of H shares who are entitled to receive the dividend, the H share register of members of the Company will be closed from 13 April 2011 to 13 May 2011, both days inclusive, during which period no transfer of the Company's H shares will be effected. In order for holders of H shares to be qualified for the dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited, Rooms 1712 - 1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4: 00 p.m. on 12 April 2011.

All investors should consider the above contents carefully. The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment the 10% corporate income tax; and the dividend will only be payable to the shareholders whose names appear on the H share register of members of the Company on 13 April 2011. The Company assumes no responsibility or liability whatsoever for confirming the identity of the shareholders of the Company and for any claims arising from any delay in or inaccurate determination of the identity of shareholders of the Company or any disputes over the withholding mechanism.

No transfer from the capital reserve fund to share capital was made for 2010.

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

For details, please refer to the section "Material Connected Transactions".

7.2 Disposal of assets

☐ applicable √ not applicable

7.3 Material guarantees

√ applicable ☐ not applicable

Unit: RMB'0000
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	2,400
Total amount of outstanding guarantee provided to the subsidiaries as at the end of the reporting period	79,893
Total amount of guarantee granted by the Company (including guarantee provided to the subsidiaries of the Company)	
Total amount of guarantee	79,893
Percentage of the total amount of guarantee to the net assets of the Company (%)	23.15
Of which:	
Amount of guarantee provided to the shareholders, ultimate controller and other related parties	0
Amount of guarantee provided directly or indirectly to the borrowers with gearing 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 Material Connected Transactions

7.4.1Connected transactions related to daily operation

√ Applicable ☐ not applicable

1. **Connected transactions related to daily operation**

(A) **Tenancy agreements**

In order to obtain steady return of rental income in respect of its owned premises, on 24 September 2009, the Company entered into tenancy agreements with Tianjin Investment Group, Tianjin City Investment and Construction Engineering Management and Consultation Company Limited ("**Tianjin Construction Engineering**") and Tianjin City Investment and Resources Operating Company Limited ("**Tianjin City Resources**") respectively. On 1 July 2010 and 4 March 2011, the Company entered into new tenancy agreements with Tianjin Investment Group, Tianjin Construction Engineering and Tianjin City Resources respectively. Tianjin Investment Group is the ultimate controller of the Company. Both Tianjin Construction Engineering and Tianjin City Resources are wholly-owned subsidiaries of Tianjin Investment Group. As such, the above 3 parties are all connected persons of the Company. The transactions contemplated under the above tenancy agreements constitute continuing connected transactions of the Company. A summary of the principal terms of the above tenancy agreements is as follows:

The tenancy agreements between the Company and Tianjin Investment Group

(1)	Date:	24 September 2009
	Parties:	The Company as landlord and Tianjin Investment Group as tenant
	Premises:	Certain area from 3rd floor to 12th floor of TCEP Building
	Car parking spaces:	28
	Lettable area:	Floor area - 6,845.91 square meters Public area - 814.86 square meter (building) 866.39 square meter (courtyard)
	Term:	9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)
	Total rent:	RMB4,537,994.36

(2)	Date:	4 March 2011
	Parties:	The Company as landlord and Tianjin Investment Group as tenant
	Premises:	Certain area from 3rd floor to 13th floor of TCEP Building
	Car parking spaces:	28
	Lettable area:	Floor area - 7,869.92 square meters Public area - 937.17 square meter (building) 990.67 square meter (courtyard)
	Term:	12 months commencing from 1 July 2010 to 30 June 2011 (both days inclusive)
	Total rent:	RMB7,237,348.20

The tenancy agreements between the Company and Tianjin Construction Engineering

(3)	Date:	24 September 2009
	Parties:	The Company as landlord and Tianjin Construction Engineering as tenant
	Premises:	Certain area of 3rd floor and 4th floor of TCEP Building
	Car parking spaces:	10
	Lettable area:	Floor area - 1,175.93 square meters Public area - 139.81 square meters (building) 133.61 square meters (courtyard)
	Term:	9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)
	Total rent:	RMB775,325.16

(4) Date: 1 July 2010

Parties: The Company as landlord and Tianjin Construction Engineering as tenant

Premises: Certain area of 3rd floor and 4th floor of TCEP Building

Car parking spaces: 10

Lettable area: Floor area - 1,175.93 square meters
Public area - 139.81 square meters (building)
133.61 square meters (courtyard)

Term: Commencing from 1 July 2010 to 30 November 2010

Total rent: RMB344,588.95

The tenancy agreements between the Company and Tianjin City Resources

(5) Date: 24 September 2009

Parties: The Company as landlord and Tianjin City Resources as tenant

Premises: Certain area of 6th floor of TCEP Building

Car parking spaces: 10

Lettable area: Floor area - 726.08 square meters
Public area - 100.75 square meters (building)
125.00 square meters (courtyard)

Term: 9 months commencing from 1 October 2009 to 30 June 2010 (both days inclusive)

Total rent: RMB496,043.19

(6) Date: 4 March 2011

Parties: The Company as landlord and Tianjin City Resources as tenant

Premises: Certain area of 6th floor of TCEP Building

Car parking spaces: 10

Lettable area: Floor area - 726.08 square meters
Public area - 100.75 square meters (building)
125.00 square meters (courtyard)

Term: 12 months commencing from 1 July 2010 to 30 June 2011 (both days inclusive)

Total rent: RMB687,529.80

Furthermore, on 30 September 2009 and 4 March 2011, the Company entered into two fitness club tenancy agreements with Tianjin Investment Group. The transactions contemplated under the above tenancy agreements constitute continuing connected transactions of the Company. A summary of the principal terms of the above fitness club tenancy agreements is as follows:

(1) Date: 30 September 2009

Parties: The Company as landlord and Tianjin Investment Group as tenant

Premises: Fitness club located at 19th floor and 20th floor of TCEP Building

Lettable area: Floor area -1,067.54 square meters

Term: Commencing from 1 October 2009 to 30 June 2010

Total rent: RMB307,118.70

(2) Date: 4 March 2011

Parties: The Company as landlord and Tianjin Investment Group as tenant

Premises: Fitness club located at 19th floor and 20th floor of TCEP Building

Lettable area: Floor area -1,067.54 square meters

Term: Commencing from 1 July 2010 to 30 June 2011

Total rent: RMB409,491.60

(B) **Construction agency agreements**

In addition, in order to fully utilize its expertise and experience in construction work and earn operating income from the construction services provided, on 1 April 2009, 15 April 2009, 20 April 2009, 25 June 2009, 20 July 2009, 9 October 2009, 25 October 2009, 28 October 2009, 1 November 2009, 6 January 2010, 29 March 2010 and 13 April 2010, the Company entered into twelve construction agency agreements with Tianjin Ziya Circular Economy Industrial Investment and Development Company Limited ("**Tianjin Ziya Investment**"), pursuant to which the Company agreed to provide construction and related services in respect of different kind of construction works to Tianjin Ziya Investment in the Ziya Circular Economy Industrial Zone. Since TMICL, the controlling shareholder of the Company, and Tianjin Investment Group, the ultimate controller of the Company, hold 21% and 30% (collectively 51%) equity interest in Tianjin Ziya Investment respectively, Tianjin Ziya Investment is a connected person of the Company. The transactions contemplated under the twelve construction agency agreements constitute continuing connected transactions of the Company and should be aggregated.

The construction agency fees to be earned by the Company from Tianjin Ziya Investment shall be calculated in accordance with the relevant requirements in (i) the "Notice by the Ministry of Finance in respect of the Printing and Distribution of Regulation on Infrastructure Financial Management (Caijian [2002] 394 Hao)" and (ii) the "Guiding Opinion by the Ministry of Finance on Relevant Problems relating to Strengthening the Financial Management of Agency System for Government-invested Projects (Caijian [2004] 300 Hao)". The construction agency fees shall be settled in cash by Tianjin Ziya Investment after the Company completes the construction work in accordance with the schedule and quality of the work as required. Bonus (other than the construction agency fees mentioned above) may also be paid by Tianjin Ziya Investment to the Company if there is a balance of funds for the construction project. The method for calculating the bonus payment will be agreed by the parties separately.

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

(1) the above continuing connected transactions were in the ordinary and usual course of business of the Company;

(2) the above continuing connected transactions were conducted on normal commercial terms; and

(3) the above continuing connected transactions were carried out in accordance with the terms of the relevant agreements, which were fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

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

(C) **Investment and construction agreements**

In order to fully utilize its expertise and experience in construction work and earn operating income, on 28 July 2010, the Company and Tianjin Ziya Investment entered into the investment and construction agreement, pursuant to which the Company agreed to set up a project company to build a sewage water treatment plant in the Ziya Circular Economy Industrial Zone. Upon completion of the construction of the sewage water treatment plant, Tianjin Ziya Investment shall purchase the sewage water treatment plant at the bidding price of RMB76,796,000. As stated above, Tianjin Ziya Investment is a connected person of the Company. The transaction contemplated under the investment and construction agreement constitutes a connected transaction of the Company.

2. **Connected transaction in relation to asset acquisitions and disposals**

The Company and Tianjin Sewage Company ("**TSC**") signed the "Agreement on the Transfer of Assets Generated from Foreign Bank Loans in relation to the Haihe Basin Tianjin Sewage Water Treatment Construction Project and the Beicang Sewage Water Treatment Project" ("**Asset Transfer Agreement"**) in Tianjin. The Haihe Basin Tianjin Sewage Water Treatment Construction Project refers to the Company's Tianjin Jizhuangzi Sewage Water Treatment Plant and Xianyanglu Sewage Water Treatment Plant reconstruction and expansion project. Assets generated from foreign bank loans refer to the assets financed by Japan Bank for International Cooperation for the Xianyanglu Sewage Water Treatment Plant and the Jizhuangzi Sewage Water Treatment Plant and the assets financed by Asian Development Bank for the Beicang Sewage Water Treatment Plant.

The ownership of the aforesaid assets generated from foreign bank loans originally belongs to TSC. The assets have been managed and utilized by the Company since the date on which they were generated. They are component parts of the sewage water treatment facilities of the Company's Tianjin Jizhuangzi Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and Beicang Sewage Water Treatment Plant. To ensure the integrity of its sewage water treatment facilities, the Company acquired the aforesaid assets from TSC.

Mr. Tan Zhaofu, the legal representative and general manager of TSC, was a Director of the Fourth Board of the Company from 19 December 2006 to 18 December 2009. Pursuant to the requirements of the Shanghai Stock Exchange Share Listing Rules, a person who was a director, supervisor or senior management of a listed company over the past 12 months was a connected person of the listed company. Therefore, on the date of the Asset Transfer Agreement, i.e. 9 November 2010, TSC was a connected legal person of the Company and the above transaction constituted a connected transaction of the Company under the Shanghai Stock Exchange Share Listing Rules.

In respect of the acquisition of the above assets, the Company signed the "Cooperation Agreement" with TSC in August 2003, pursuant to which the Company should acquire the above assets at their book value upon final acceptance of the assets. The book value of the above assets was RMB691,892,517.35 as at 27 December 2007. Beijing China Enterprise Appraisals Company Limited (北京中企華資產評估有限責任公司), an independent valuer, has appraised the above assets using the cost method and the appraised value was RMB689,101,182.

Principle for determining the transaction consideration:

The consideration of the above transaction was the sum of RMB261,578,056.76 and the total outstanding amount of principal and interests after the Asset Transfer Agreement came into effect under the loan agreement entered into between Japan Bank for International Cooperation and TSC for the asset financing of the Xianyanglu Sewage Water Treatment Plant and the Jizhuangzi Sewage Water Treatment Plant ("**Japan Bank Loan Agreement**") and the loan agreement entered into by Asian Development Bank for the asset financing of the Beicang Sewage Water Treatment Plant ("**Asian Bank Loan Agreement"**). The consideration should be paid in the following ways:

a) RMB261,578,056.76 should be paid in cash within 5 business days after the Asset Transfer Agreement came into effect.

b) The remaining amount should be paid in cash to TSC before the repayment date in accordance with the repayment schedule of the Japan Bank Loan Agreement and the Asian Bank Loan Agreement.

Since the repayment of the loan of Japan Bank for International Cooperation and the loan of Asian Development Bank shall be made in Japanese yen and

US dollar respectively and the loan of Asian Development Bank bears interests payable based on LIBOR, it will be difficult to determine the accurate payment amount for each installment in the future. The Company will bear the risks associated with interest rates and exchange rates.

Based on the above consideration calculation and payment method and under the following assumption, the total present value of the consideration is RMB691,878,056.76.

Assuming that on 8 October 2010, 1 US dollar can be converted into RMB6.6830, 100 yen can be converted into RMB8.1040 and the 6-month LIBOR was 0.4587%, the total outstanding amount of principal and interests after the Asset Transfer Agreement came into effect under the Japan Bank Loan Agreement and the Asian Bank Loan Agreement was approximately RMB834,200,000. According to the repayment schedule of the loan agreements, payment will be made in 91 installments over the next 31 years. The net present value discounted at the benchmark lending rate of 5.94% for medium-to-long-term loans for five years or above issued by the People's Bank of China on 8 October 2010 was approximately RMB430,300,000. Together with RMB261,578,056.76 paid after the effective date of the Asset Transfer Agreement, the total present value of the consideration was RMB691,878,056.76, which was basically equivalent to the net book value of the above transfer assets as at 27 December 2007 and was higher than the appraised value of the above transfer assets by RMB2,776,874.76 or 0.4%.

The consideration has been determined after arm's length negotiation between the Company and TSC after taking into account of (1) the terms of the cooperation agreement; and (2) the book value of the above transfer assets as at the date of transfer; and (3) the valuation of the transfer assets as set out in the valuation report issued by the independent PRC valuer on 28 April 2010.

Pursuant to the requirements of the Asset Transfer Agreement, the Company made the first payment within five business days after the Asset Transfer Agreement came into effect and the property rights of the above transfer assets would be owned by the Company from the payment date.

7.4.2 Connected debts and liabilities

☐ applicable √ not applicable

7.4.3 Misappropriation and repayment plan of funds during the reporting period

☐ 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 the reporting period

☐ 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

7.6.2 The Company has made profit forecast to its assets or projects, and the profit forecast 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

□ applicable √ not applicable

7.8.3 Shareholding of non-listed financial enterprises

□ applicable √ not applicable

7.8.4 Trading of shares of other listed companies

□ applicable √ not applicable

7.9 Has the Company disclosed the self-assessment report on internal control or the social responsibility report: Yes

§8 REPORT OF THE SUPERVISORY COMMITTEE

8.1 Independent opinion of the Supervisory Committee on the legality of the Company's operation

The Supervisory Committee considers that in conducting various production operation activities during the reporting period, the Board was in strict compliance with the requirements under the various laws and regulations of the PRC and the Company's Articles of Association, and the decision-making procedures were legal. There have been no violation of the laws, regulations and the Articles of Association of the Company nor any damages to the Company's interests or the interests of the investors during the discharge of duties by the Directors and senior management of the Company.

8.2 Independent opinion of the Supervisory Committee on reviewing the financial situation of the Company

The Supervisory Committee considers that the Company's financial management and internal control systems were strict and have been seriously implemented during the reporting period. The 2010 financial report of the Company was able to truly reflect the financial situation and operating results of the Company, and the audit opinion provided by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers was objective and fair.

8.3 **Independent opinion of the Supervisory Committee on the actual application of funds from the most recent fund raising exercise**

During the reporting period, no new funds had been raised by the Company, and no funds from previous fund raising exercises were used till this reporting period.

8.4 **Independent opinion of the Supervisory Committee on the acquisition and disposal of assets by the Company**

For details of the acquisition of assets by the Company during the reporting period, please refer to the section "Material Connected Transactions". The Supervisory Committee considers that the Company's asset transactions have been conducted at fair prices in accordance with market principles without insider trading and have been disclosed to a sufficient extent pursuant to the requirements to safeguard the interests of shareholders.

8.5 **Independent opinion of the Supervisory Committee on the connected transactions of the Company**

For details of the material connected transactions of the Company during the reporting period, please refer to the section "Material Connected Transactions". The Supervisory Committee considers that the connected transactions of the Company were conducted in compliance with the market principles of fairness, equality, voluntary basis and friendly negotiation, and sufficient information disclosure was made in compliance with the rules, and the interests of the non-related shareholders were protected.

8.6 **Opinion of the Supervisory Committee on the Self-assessment Report on the Internal Control**

The Supervisory Committee has reviewed the Self-assessment Report on the Internal Control 2010 (the "**Self-assessment Report**") of the Board of the Company and considers that the design of the internal control of the Company is reasonable and complete, and it has been effectively implemented. The Supervisory Committee agrees with the Self-assessment Report of the Board.

§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**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	**For the year ended 31 December 2010**	2009
Revenue	2(a)	**1,394,821**	1,226,466
Business tax		**(43,109)**	(42,973)
Cost of sales	3	**(762,991)**	(561,983)
Gross profit		**588,721**	621,510
Administrative expenses	3	**(89,959)**	(99,830)
Other income - net	2(b)	**42,266**	13,583
Other losses - net		**(39,860)**	(11,056)
Operating profit		**501,168**	524,207
Finance income		**18,379**	28,016
Finance costs		**(154,169)**	(214,759)
Finance costs-net	4	**(135,790)**	(186,743)
Share of profits of an associate		**1,448**	257
Profit before income tax		**366,826**	337,721
Income tax expense	5	**(91,670)**	(91,319)
Profit/total comprehensive income for the year		**275,156**	246,402
Profit and total comprehensive income for the year attributable to:			
Owners of the parent		**271,160**	242,978
Non-controlling interests		**3,996**	3,424
		275,156	246,402
Earnings per share for profit attributable to the owners of the parent (in Rmb Yuan)	6		
- basic		**0.19**	0.17
- diluted		**0.19**	0.17
Proposed final dividends	7	**156,995**	114,178

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2010
(All amounts in Rmb thousand unless otherwise stated)

	Note	**As at 31 December 2010**	2009 *(Restated)*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,230,110**	2,335,198
Intangible assets		**2,427,782**	2,367,696
Land use rights		**462,868**	383,203
Investment properties		**119,628**	123,301
Investment in an associate		**41,583**	40,135
Available-for-sale financial assets		**4,000**	4,000
Long-term receivables		**336,286**	331,354
Trade receivables due after one year	8	**68,794**	241,792
Other non-current assets		**7,458**	3,230
		6,698,509	5,829,909
Current assets			
Inventories		**32,476**	9,653
Trade receivables	8	**996,949**	503,466
Prepayments		**103,759**	194,160
Other receivables		**53,540**	55,299
Cash and bank balances		**540,330**	603,161
		1,727,054	1,365,739
Total assets		**8,425,563**	7,195,648

	Note	As at 31 December 2010	2009 (Restated)
EQUITY			
Equity attributable to owners of the parent			
Share capital		**1,427,228**	1,427,228
Other reserves		**685,343**	659,462
Retained earnings		**1,338,002**	1,206,901
- Proposed final dividend		**156,995**	114,178
- Others		**1,181,007**	1,092,723
		3,450,573	3,293,591
Non-controlling interests		**125,596**	121,920
Total equity		**3,576,169**	3,415,511
LIABILITIES			
Non-current liabilities			
Borrowings		**2,838,538**	2,256,724
Deferred revenue		**284,974**	143,100
Deferred income tax liabilities		**38,427**	30,198
		3,161,939	2,430,022
Current liabilities			
Trade payables	9	**22,729**	22,952
Advances from customers		**310,478**	305,085
Wages payables		**7,374**	3,848
Income tax payable		**8,757**	6,082
Other taxes payable		**7,674**	3,918
Dividend payable		**1,056**	2,014
Other payables		**274,991**	231,426
Borrowings		**1,054,396**	774,790
		1,687,455	1,350,115
Total liabilities		**4,849,394**	3,780,137
Total equity and liabilities		**8,425,563**	7,195,648
Net current assets		**39,599**	15,624
Total assets less current liabilities		**6,738,108**	5,845,533

Notes to the condensed consolidated financial statement

(All amounts in thousand unless otheswise stated)

1 **Basis of preparation**

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

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

(a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010

Hong Kong Interpretation 5. In November 2010 the HKICPA issued Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. The Interpretation is effective immediately and is a clarification of an existing standard, HKAS 1 Presentation of Financial Statements. It sets out the conclusion reached by the HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause.

In order to comply with the requirements of Hong Kong Interpretation 5, the Company has changed its accounting policy on the classification of term loans that contain a repayment on demand clause. Under the new policy, term loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the balance sheet. Previously such term loans were classified in accordance with the agreed repayment schedule unless the Company had breached any of the loan covenants set out in the agreement as of the reporting date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The new accounting policy has been applied retrospectively by restatement of the ending balances at 31 December 2009. Balances at 1 January 2009 are not re-presented since there were no loans which contains such clause that point of time. The reclassification has had no effect on reported profit or loss, total comprehensive income for any period presented and no significant effect on gearing ratio, liquidity risk and financial position.

Effect of adoption of Hong Kong Interpretation 5 on the balance sheet

	At 31 December 2010	At 31 December 2009	At 1 January 2009
Increase in current liabilities			
Bank borrowings	**73,000**	56,000	—
Decrease in non-current liabilities			
Bank borrowings	**(73,000)**	(56,000)	—

HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. This does not have any impact on the Group's financial statements, since there has been no business combination in 2010.

HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests. This does not have any impact on the Group's financial statements, since there has been no transaction with non-controlling interest in 2010.

HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. This does not have any impact on the Group's financial statements.

(b) The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010, but are not currently relevant for the Group:

HK(IFRIC) 17	"Distribution of non-cash assets to owners"
HK(IFRIC) 18	"Transfers of assets from customers"
HK(IFRIC) 9	"Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement"
HK(IFRIC) 16	"Hedges of a net investment in a foreign operation"
HKAS 38 (amendment)	"Intangible assets"
HKAS 1 (amendment)	"Presentation of financial statements"
HKAS 36 (amendment)	"Impairment of assets"
HKFRS 2 (amendments)	"Group cash-settled share-based payment transactions"
HKFRS 5 (amendment)	"Non-current assets held for sale and discontinued operations"

(c) The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

HKFRS 9	"Financial instruments"
Amendment to HKAS 32	"Classification of rights issues"
HK (IFRIC) - Int 19	"Extinguishing financial liabilities with equity instruments"

The Group has not yet made a comprehensive assessment of the impact of these standards, amendments and interpretations; however, the preliminary assessment made by management indicated that there would be no significant impact on the Group's consolidated financial statements.

2 Segment information

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

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

	2010	2009
Sales turnover	**1,394,821**	1,226,466
Other income — net	**42,266**	13,583
Total revenues	**1,437,087**	1,240,049

(b) Analysis of other income

	2010		2009	
	Income	**Cost**	Income	Cost
Technical service	**37,036**	**14,629**	14,021	2,957
Rental	**19,272**	**4,961**	12,285	4,501
Other	**16,639**	**11,091**	4,221	9,486
	72,947	**30,681**	32,527	16,944

(c) Operating segment analysis

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

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

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

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

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2010 and 2009 respectively is as follows:

(i) *For the year ended 31 December 2010*

	Sewage processing and facility construction services						
	Tianjin plants	Hangzhou plant	Other plants	Recycled water and pipeline connection	Tap water operations	All other segments	Group
Segment revenue	865,384	141,867	213,043	69,918	37,583	109,292	1,437,087
Segment expenses	(574,793)	(133,306)	(210,895)	(61,904)	(36,903)	(53,908)	(1,071,709)
Results before share of profits of an associate	290,591	8,561	2,148	8,014	680	55,384	365,378
Share of profits of an associate							1,448
Profit before tax							366,826
Income tax expense							(91,670)
Profit for the year							275,156
Segment assets	4,430,461	814,646	1,656,493	619,697	280,618	582,065	8,383,980
Investment in an associate	—	—	—	—	—	41,583	41,583
Total assets	4,430,461	814,646	1,656,493	619,697	280,618	623,648	8,425,563
Total liabilities	2,820,941	512,807	759,565	543,806	164,355	47,920	4,849,394
Other information							
-Interest income	2,245	316	1,212	2,905	61	11,640	18,379
-Interest expenses	67,645)	(26,134)	(42,595)	(6,141)	(9,019)	—	(151,534)
-Depreciation	(92,748)	—	(2,077)	(18,082)	—	(4,919)	(117,826)
-Amortization	(10,512)	(36,249)	(54,303)	—	(8,683)	(77)	(109,824)
-Capital expenditures	1,096,234	562	154,786	41,297	12,816	9,184	1,314,879

(ii) *For the year ended 31 December 2009*

	Sewage processing and facility construction services			Recycled water and pipeline connection	Tap water operations	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Segment revenue	721,319	128,678	216,340	56,494	36,598	80,620	1,240,049
Segment expenses	(474,179)	(110,629)	(195,624)	(49,558)	(41,106)	(31,489)	(902,585)
Results before share of profits of an associate	247,140	18,049	20,716	6,936	(4,508)	49,131	337,464
Share of profits of an associate							257
Profit before tax							337,721
Income tax expense							(91,319)
Profit for the year							246,402
Segment assets	3,282,014	837,823	1,593,393	540,010	290,527	611,746	7,155,513
Investment in an associate	—	—	—	—	—	40,135	40,135
Total assets	3,282,014	837,823	1,593,393	540,010	290,527	651,881	7,195,648
Total liabilities	1,941,867	545,119	627,910	487,266	149,691	28,284	3,780,137
Other information							
-Interest income	7,381	5,787	1,311	2,140	—	11,397	28,016
-Interest expenses	(121,447)	(31,487)	(51,464)	(5,229)	—	—	(209,627)
-Depreciation	(94,618)	—	(1,351)	(9,858)	—	(5,912)	(111,739)
-Amortization	(9,795)	(21,957)	(48,756)	(25)	(8,683)	(253)	(89,469)
-Capital expenditures	199,777	341,926	205,257	73,347	22,114	407	842,828

3 **Expense by nature**

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

	2010	2009
Utilities	**162,521**	157,127
Employee benefit expense	**118,566**	103,440
Depreciation of property, plant and equipment and investment properties	**117,826**	111,739
Project construction cost	**116,549**	—
Amortisation of intangible assets and land use right	**109,824**	89,469
Repair and maintenance expenses	**65,163**	45,262
Raw materials and consumables used	**48,692**	30,851
Construction for water recycling facilities	**14,706**	17,396
Management fee to Toll Fee Collection Office	**7,120**	7,122
Other taxes	**6,944**	8,433
Auditors' remuneration	**3,800**	3,500
Operating lease rentals for land and buildings	**860**	564
Outgoings in relation to investment properties	**798**	1,222
Others	**79,581**	85,688
	852,950	661,813

4 **Finance costs- net**

	2010	2009
Interest expenses of borrowings	**168,884**	213,812
Less: Capitalised interest	**(17,350)**	(4,185)
Net interest expenses	**151,534**	209,627
Less: Interest income	**(18,379)**	(28,016)
- *long-term receivables*	***(11,266)***	*(11,263)*
- *bank deposits*	***(7,113)***	*(16,753)*
Others	**2,635**	5,132
	135,790	186,743

5 **Income tax expense**

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong (2009: Nil). PRC income tax is calculated at the statutory rate of 12.5% to 25% (2009: 7.5% to 25%).

	2010	2009
Tax charge comprises:		
Current PRC income tax	**83,441**	84,761
Deferred income tax	**8,229**	6,558
	91,670	91,319

6 **Earnings per share**

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb271 million (2009: Rmb243 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2009: 1,427 million shares).

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

	2010	2009
Profit attributable to owners of the parent	**271,160**	242,978
Weighted average number of ordinary shares in issue (million shares)	**1,427**	1,427
Basic earnings per share (Rmb Yuan)	**0.19**	0.17

7 **Dividends**

The dividends paid in 2010 and 2009 were Rmb114 million (Rmb0.08 per share) and Rmb57 million (Rmb0.04 per share) respectively. A dividend in respect of the year ended 31 December 2010 of Rmb0.11 per share, amounting to a total dividend of Rmb157 million, is to be approved at the annual general meeting. These financial statements do not reflect this dividend payable.

8 **Trade receivables**

	Group	
	As at 31 December	
	2010	2009
Due from TSC for:		
- Sewage processing service	**691,168**	350,863
- Construction of sewage processing plants (note(b))	**241,792**	241,792
	932,960	592,655
Toll road fee receivable	**38,200**	78,200
Less: Non-current portion (note (b))	**(68,794)**	(241,792)
	902,366	429,063
Due from others — current	**94,583**	74,403
	996,949	503,466

(a) Aging of trade receivables prior to the classification to non-current is as follows:

	Group	
	2010	2009
Within one year	**785,601**	497,119
One to two years	**38,350**	1,361
Over two years	**241,792**	246,778
	1,065,743	745,258

(b) Rmb173 million of construction fee due from TSC has been received subsequently in 2011. This amount is shown as current receivable as at 31 December 2010.

(c) The balance of trade receivables for construction fee due from TSC and toll road fee are over due at 31 December 2010. Since majority of the customers are the Chinese government agencies or their subordinate enterprises which have good creditability history, the management believes that are not impaired.

9 **Trade payables**

As at 31 December 2010, the majority of trade payables are aged within one year.

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

There is no difference between the consolidated net profit and consolidated net assets prepared under HKFRSs and PRC 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 PRACTICES

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 Practices as set out in Appendix 14 of 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 with standards not lower than those prescribed in Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. During the reporting period, all Directors have complied with the Model Code for securities transactions conducted by the Directors.

§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 2010 with the Directors.

By Order of the Board
Zhang Wenhui
Chairman

Tianjin, the PRC
24 March 2011

As at the date of this announcement, the Board of Directors comprises four executive Directors: Mr. Zhang Wenhui, Mr. Lin Wenbo, Ms. Fu Yana and Ms. Zhong Huifang; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Mr. Xie Rong, Mr. Di Xiaofeng and Ms. Lee Kit Ying, Karen.