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 2011

§1 IMPORTANT

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

This results announcement is the summary of the 2011 annual report of the Company. For detailed information, please read the 2011 annual report of the Company carefully.

1.2 PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers have reviewed the 2011 financial reports of the Company and have issued standard unqualified audit reports.

1.3 Mr. Zhang Wenhui, the Company's chairman, and 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 2011 annual report.

§2 COMPANY PROFILE

2.1 Basic information

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

2.2 Contact person and method

	Company Secretary to the Board	**Company Secretary in Hong Kong**	**Securities Affairs Representative**
Name	Fu Yana	Lo Wai Keung, Eric	Guo Fengxian
Correspondence address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, The People's Republic of China (the **"PRC"**)	22/F, Worldwide House, Central, Hong Kong	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, the PRC
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 FINANCIAL HIGHLIGHTS

(For each of the three years ended 31 December 2011 as prepared in accordance with the PRC Accounting Standards For Business Enterprises)

3.1 Principal accounting information

Unit: '000 Currency: RMB

	2011	**2010**	**Increase/ decrease from last year (%)**	**2009**
Total operating income	1,562,490	1,467,768	6.45	1,256,793
Operating profit	379,288	406,686	-6.74	342,777
Total profit	376,034	366,826	2.51	337,721
Net profit attributable to the shareholders of the Company	275,786	271,160	1.71	242,978
Net profit after deduction of extraordinary profit and loss attributable to the shareholders of the Company	278,226	301,055	-7.58	246,770
Net cash flow from operating activities	834,173	453,303	84.02	1,390,313

	As at the end of 2011	**As at the end of 2010**	**Increase/ decrease from the end of last year (%)**	**As at the end of 2009**
Total assets	9,085,324	8,425,563	7.83	7,195,648
Total liabilities	5,369,615	4,849,394	10.73	3,780,137
Owners' equity attributable to the shareholders of the Company	3,568,337	3,450,573	3.41	3,293,591
Total share capital	1,427,228	1,427,228	—	1,427,228

3.2 **Principal financial highlights**

	2011	2010	Increase/ decrease from last year (%)	2009
Basic earnings per share (Yuan/share)	0.19	0.19	—	0.17
Diluted earnings per share (Yuan/share)	0.19	0.19	—	0.17
Earnings per share based on the latest share capital (Yuan/share)	0.19	0.19	—	0.17
Basic earnings per share after deduction of extraordinary profit and loss (Yuan/share)	0.19	0.21	-9.52	0.17
Weighted average return ratio on net assets (%)	7.73	7.86	Decreased by 0.13 percentage points	7.38
Weighted average return ratio on net assets after deduction of extraordinary profit and loss (%)	7.80	8.72	Decreased by 0.92 percentage points	7.49
Net cash flow from operating activities per share (Yuan/share)	0.58	0.32	81.25	0.97

	As at the end of 2011	As at the end of 2010	Increase/ decrease from the end of last year (%)	As at the end of 2009
Net asset value per share attributable to the shareholders of the Company (Yuan/share)	2.50	2.42	3.31	2.31
Gearing ratio (%)	59.10	57.56	Increased by 1.54 percentage points	52.53

3.3 **Extraordinary profit and loss items**

√ applicable ☐ not applicable

Unit: ’000 Currency: RMB

Extraordinary profit and loss items	Amount in 2011	Amount in 2010	Amount in 2009
Gain and loss from disposal of non-current assets	-13,661	-47,553	-12,834
Income and expenses from other operations other than the above	10,407	7,693	7,778
Impact of income tax	814	9,965	1,264
Total	-2,440	-29,895	-3,792

§4 SHAREHOLDINGS OF SHAREHOLDERS AND FLOWCHART ON RELATIONSHIP OF CONTROL

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

Total number of shareholders as at the end of 2011	103,923, among which 108 are shareholders of H shares	**Total number of shareholders as at the end of the month immediately prior to the publication date of this report**	99,846, among which 108 are shareholders of H shares

Shareholdings of the top ten shareholders

Name of shareholder	Nature of the shareholder	Percentage of shareholding (%)	Total number of shares held (shares)	Number of restricted shares held (shares)	Number of shares pledged or frozen (shares)
Tianjin Municipal Investment Company Limited (“**TMICL**”)	State-owned shareholder	51.60	736,499,791	0	Pledged 351,940,000
HKSCC Nominees Limited	Unknown	23.37	333,602,900	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

Name of shareholder	Nature of the shareholder	Percentage of shareholding (%)	Total number of shares held (shares)	Number of restricted shares held (shares)	Number of shares pledged or frozen (shares)
Agricultural Bank of China - Soochow CSI Emerging Industry Index Fund (中國農業銀行股份有限公司 - 東吳中證新興產業指數證券投資基金)	Unknown	0.18	2,525,630	0	Unknown
Golden Sun Securities Corporation Limited	Unknown	0.15	2,100,000	0	Unknown
HO MAN PING	Unknown	0.14	2,014,000	0	Unknown
Agricultural Bank of China - China Southern CSI500 Index Fund (中國農業銀行股份有限公司 - 南方中證500指數證券投資基金(LOF))	Unknown	0.08	1,177,889	0	Unknown
FUNG CHUN KIT	Unknown	0.08	1,130,000	0	Unknown
China Electronics Financial Co., Ltd	Unknown	0.08	1,100,000	0	Unknown

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

Name of shareholder	Number of the non-restricted circulating shares held (shares)	Type of shares
TMICL	736,499,791	Ordinary RMB Shares
HKSCC Nominees Limited	333,602,900	H Shares
Zhou Jun	6,177,700	Ordinary RMB Shares
Shenyang Railway Coal Group Co., Ltd.	3,000,000	Ordinary RMB Shares
Agricultural Bank of China - Soochow CSI Emerging Industry Index Fund (中國農業銀行股份有限公司 - 東吳中證新興產業指數證券投資基金)	2,525,630	Ordinary RMB Shares
Golden Sun Securities Corporation Limited	2,100,000	Ordinary RMB Shares

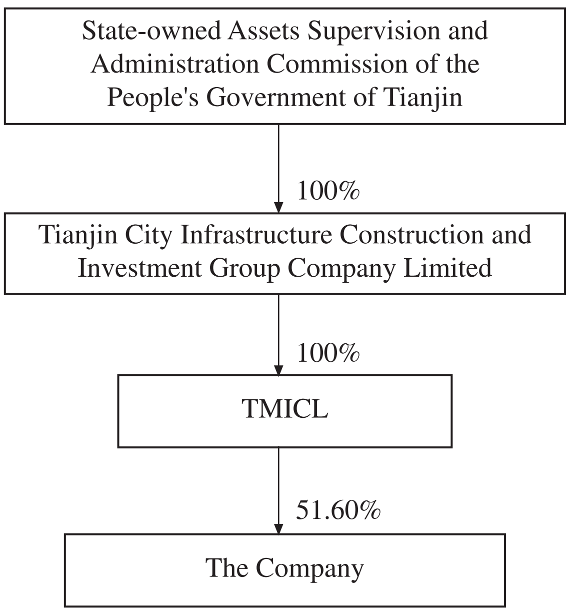
Name of shareholder	Number of the non-restricted circulating shares held (shares)	Type of shares
HO MAN PING	2,014,000	H Shares
Agricultural Bank of China - China Southern CSI500 Index Fund (中國農業銀行股份有限公司 - 南方中證500指數證券投資基金(LOF))	1,177,889	Ordinary RMB Shares
FUNG CHUN KIT	1,130,000	H Shares
China Electronics Financial Co., Ltd	1,100,000	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.

Notes: (1) According to the register of members of the Company as provided by HKSCC Nominees Limited, those H shares held by it were held on behalf of various clients. There was no client who owned 5% or more interest in the total share capital of the Company.

(2) The top ten shareholders are not strategic investors of the Company.

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



§5 DIRECTORS' REPORT

5.1 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*

   2011 was the first year of the Five-Year Development Plan of the Company and its subsidiaries (the "**Group**"). Under the leadership of the Board, the Group thoroughly applies the business management philosophy of "technology as the guide, operation as core", increasingly put greater efforts in the scientific research and development and scientific research achievements commercialisation, proactively expands its sewage water treatment industry chain. The Group used planning management and budget management as means to ensure the quality and output of services and products and to strictly control operating costs and expenses. It also actively adjusted its business structure to enter into the field of new energy cooling and heating supply services, making them as new economic growth points of the Group.

   In 2011, the Group recorded operating income of RMB1,562.49 million, representing an increase of RMB94.72 million or 6.45% as compared to 2010. The increase was mainly attributable to an increase in income generated from the Company's sewage water treatment service business and recycled water business. There was also a small increase in income generated from its tap water business. Meanwhile, there were new incomes generated from cooling and heating supply service business and market promotion and application of patented technologies.

   In 2011, the Group proactively coped with the financial austerity policies while maintaining operating income, and successfully issued medium term notes in the amount of RMB700 million, which effectively reduced the increase in the Group's finance costs. However, due to general increase of lending rate and commencement of amortization on finance costs of acquisition of foreign assets, the Group's finance costs increased by RMB 60.63 million as compared to 2010. Meanwhile, the Group actively applied for business tax relief policies. The Company obtained qualification for business tax exemption for 2011, thus recorded a decrease in business tax and surcharges of RMB 34.28 million as compared to 2010. In 2011, the updating and renovation projects of sewage water treatment plants including in Jizhuangzi were basically completed, and the disposal loss of fixed assets resulted from demolishment and renovation decreased by RMB33.89 million as compared to 2010. Operating costs increased by RMB80.37 million as compared to 2010, which were in line with the increase in operating income. In 2011, the Company recorded a net profit (net profit attributable to the shareholders of the Company) of RMB275.79 million, representing an increase of RMB4.63 million or 1.71% as compared to 2010.

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

The principal businesses of the Group were the construction, design, management, operation, technology consultation and auxiliary services of sewage water treatment plants, 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 products; provision of cooling and heating services.

(1) Operating conditions of the principal businesses

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

During the reporting 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 to increase its operating income.

As at the end of the reporting period, the sewage water processing capacity of the Group reached 3.22 million cubic metres per day (excluding processing capacity for entrusted operation), and the sources for generating revenue from sewage water treatment include: (1) the sewage water treatment service fees charged by sewage water processing business of the Company 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 licensed operation 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 979.482 million cubic metres of sewage water during the reporting period through the above ways, representing an increase of 9.7% as compared to the same period last year. Income realized amounted to RMB1,193.10 million, representing an increase of 7.85% as compared to the same period last year.

During the reporting period, the Company processed a total of 397.66 million cubic metres of sewage water for the whole year, representing an increase of 5.4% as compared to the same period last year, which was mainly attributable to the increase in the volume of water processed by sewage water treatment plants, and realized a sewage water treatment service income of RMB767.48 million, representing an increase of 5.43% as compared to the same period last year.

During the reporting period, the subsidiaries of the Group processed a total of 482.979 million cubic metres of sewage water, representing an increase of 12% as compared to the same period last year. Income from sewage water processing services of RMB396.94 million was realized, representing an increase of 11.84% as compared to the same period last year. The increase in the amount of water was mainly due to the fact that Liangjiangkou sewage water treatment plant of Qujing subsidiary was in the reconstruction stage in the first quarter last year, resulting in low volume of sewage water processed, and new sewage water treatment plants in Xian Ning of Hubei, Xicheng District of Qujing and Hanshan of Fuyang came into operation in 2011, resulting in substantial increase as compared to the same period last year.

During the reporting period, the Group's entrusted operation projects processed a total of 98.843 million cubic metres of sewage water, realizing an income of RMB28.68 million, representing an increase of 22.72% as compared to 2010.

During the reporting period, the Group's sewage water treatment plants construction businesses mainly included the Hangu Yingcheng sewage water treatment plant DBO project and Ziya Zone sewage water treatment plant BT project, realizing an income from construction of RMB106 million, representing a decrease of 24.29% as compared to 2010.

b. Recycled water business

During the reporting period, the recycled water business recorded water sales of 14.278 million cubic metres, an increase of 15.4% as compared to the same period last year. Income from recycled water sales of RMB26.89 million was realized, an increase of 14.13% as compared to the same period last year. Both water sales and sales income increased as compared to the same period last year. The increase in water sales was attributable to an increase in the amount of water due to an increase in users of Dongjiao recycled water plant, and certain increase in the water demand of users of the Xianyanglu recycled water plant.

During the reporting period, the recycled water pipeline connection business realized an income of RMB78.21 million, representing an increase of 68.70% as compared to last year, which was due to increased projects.

c. Tap water business

During the reporting period, the Group's tap water business recorded an on-grid water volume of 39.229 million cubic metres, an increase of 9.7% as compared to the same period last year, which was mainly attributable to a greater general increase in water volume due to an increase in the on-grid agreed water volume of Anguo tap water plant, and realized an income of RMB39.98 million, an increase of 6.39% as compared to the same period last year.

d. 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. During the reporting period, the Group still recognized income from the road business based on the amount received according to the "Subcontracting Toll Collection Agreement" according to the spirit of the Jin Zheng Ban (2010) No.51 Document "Opinions on the Implementation of Oil Prices and Tax Expenses Reforms and the Cancellation of Toll Collection on Government Indebted Tier 2 Roads" dated 19 May 2010.

e. Provision of cooling and heating supply service business

During the reporting period, the Group entered into the field of cooling and heating supply services through investment, construction and operation of the Tianjin Cultural Centre centralized energy station project. The Tianjin Cultural Centre centralized energy station project commenced construction in March 2011, began to provide heating supply services to users within the area of the culture centre on 15 November 2011 and realized an income from provision of heating supply services of RMB2.77 million at the end of 2011.

f. Income from sewage water treatment plant deodorization engineering

During the reporting period, the Group's CYYF sewage water treatment plant all-process deodorization patented technology successfully achieved market promotion and application, realizing an income form sewage water treatment plant deodorization engineering of RMB4.7 million.

(2) Principal businesses by industry

Unit:'000 Currency: RMB

By industry	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(%)
Sewage water processing and sewage water treatment plant construction business	1,270,551	725,310	42.91	4.12	6.76	Decreased by 1.42 percentage points
Recycled water pipeline connection and water supply business (Note1)	105,099	69,384	33.98	50.32	35.00	Increased by 7.49 percentage points
Toll collection business	67,027	7,120	89.38	Unchanged	Unchanged	Unchanged
Tap water supply business	39,976	24,412	38.93	6.37	-2.73	Increased by 5.71 percentage points
Others (Note 2)	10,493	8,794	16.19	—	—	—

Notes:

(1) There was a new additional project of pipeline connection business of Tianjin Water Recycling Company Limited, hence both income and costs increased year-on-year.

(2) This mainly includes the income from sewage water treatment plant deodorization engineering of Tianjin Kaiying Technology Development Company Limited, the income from integrated system and software technology services of Environmental Data Management System (Hong Kong) Company Limited (環境數據管理系統(香港)有限公司) newly acquired by Tianjin Capital Environmental Protection (Hong Kong) Company Limited in 2010, and the income from heat supply services of Tianjin Jiayuanxing Innovative Energy Technology Company Limited.

(3) Principal businesses by geographical regions

Unit: '000 Currency: RMB

Region	Income from operations	Increase/decrease in income from operations as compared to the same period last year (%)
Tianjin	1,061,072	5.86
Qujing	69,056	34.40 (Note1)
Guizhou	24,608	-1.03
Fuyang	36,469	28.57
Baoying	12,264	10.72
Hangzhou	146,946	3.87
Wendeng	23,786	1.45
Xi'an	75,288	0.86
Anguo	13,418	12.62
Wuhan	29,375	15.99
Hong Kong	864	— (Note2)

Notes: (1) The greater increase in the income from principal operations of Qujing Capital Water Company Limited as compared to the same period last year was mainly attributable to the water price adjustments for the sewage water business and the receipt of compensation for price differences.

(2) See Note(2) of the above principal businesses by industry for details of the income from principal operations of Hong Kong area.

3. *Composition of assets and liabilities during the reporting period*

The Group had total assets in amount of RMB 9,085.324 million and total liabilities in amount of RMB 5,369.615 million as at the end of period. Major items and their percentages are set out below:

Unit: '000 Currency: RMB

	Balances at the end of period	**Percentage of total assets**
Trade receivables	1,096,583	12.07%
Fixed assets	2,383,709	26.24%
Intangible assets	3,254,821	35.83%

	Balances at the end of period	**Percentage of total liabilities**
Other payables	412,095	7.67%
Non-current liabilities due within one year	856,186	15.95%
Long-term borrowings	1,865,040	34.73%

4. *Explanation on significant changes in principal financial data including assets and expenses during the reporting period as compared to the same period last year*

As at 31 December 2011, the total assets of the Group amounted to RMB9,085.324 million, representing an increase of RMB659.761 million or rose by 7.83% as compared to the beginning of the year; the total liabilities amounted to RMB5,369.615 million, representing an increase of RMB520.221 million or rose by 10.73% as compared to the beginning of the year. Equity interest attributable to the shareholders of the Company amounted to RMB3,568.337 million, representing an increase of RMB117.764 million or grew by 3.41% as compared to the beginning of the year. Realized net profit attributable to the Company for the year 2011 amounted to RMB275.786 million, representing an increase of 1.71% as compared to the same period last year. The following is an analysis of items with more significant changes:

Unit: '000 Currency: RMB

Items	31 December 2011	31 December 2010	Increase/ Decrease	Percentage change (%)	Details of changes
Other receivables	17,049	53,540	-36,491	-68.16	During the reporting period, the Company recovered deposits for project bids of RMB25 million due from E'zhou Yuquan Tap Water Company Limited
Inventory	80,569	32,476	48,093	148.09	Increase in inventory was mainly new inventories added during the current period by the BT project of the subsidiary, Tianjin Zichuang Engineering Investment Company Limited.
Short-term borrowings	152,000	73,000	79,000	108.22	Mainly new bank loans of the Company during the current period.
Short-term bonds payables	—	600,000	-600,000	-100	The short-term bonds issued by the Company were repaid in full during the current period.
Advances	423,387	310,478	112,909	36.37	Mainly advances of pipeline connection business of the subsidiary, Tianjin Water Recycling Company Limited

Items	31 December 2011	31 December 2010	Increase/ Decrease	Percentage change (%)	Details of changes
Other payables	412,095	274,991	137,104	49.86	Were mainly new infrastructural project and equipment payables of Tianjin Jiayuanxing Innovative Energy Technology Company Limited during the current period.
Non-current liabilities due within one year	856,186	360,180	496,006	137.71	Were the medium to long term current loans due within one year and long term payables due within one year of the Company.
Deferred income	369,928	284,974	84,954	29.81	Were mainly ancillary heating fees from Tianjin Cultural Centre centralized energy station project received by Tianjin Jiayuanxing Innovative Energy Technology Company Limited during the current period.

Items	2011	2010	Increase/ Decrease	Percentage change (%)	Details of changes
Business tax and surcharges	8,831	43,109	-34,278	-79.51	A significant reduction in business tax and surcharge was attributable to the availability of sewage water treatment business tax preferential policy to the Company since 2011.
Finance costs	196,415	135,790	60,625	44.65	Loan rates increased during the current period. In addition, unrecognized finance costs on acquisition of foreign assets at the end of the previous period commenced amortization during the current period.
Investment income	386	1,448	-1,062	-73.34	Was mainly attributable to a decrease in investment income recognized by the Company in respect of a joint venture, Tianjin International Machinery Company Limited
Non-operating income	10,573	7,993	2,580	32.28	Was mainly government grants received by subsidiaries during the current period.

Items	2011	2010	Increase/ Decrease	Percentage change (%)	Details of changes
Non-operating expenses	13,827	47,853	-34,026	-71.11	During the current period, the upgrading and renovation projects of sewage water treatment plants of the Company were close to completion, thus the disposal loss of fixed assets decreased as compared to last year.
Net cash flow from operating activities	834,173	453,303	380,870	84.02	During the current period, the Company recovered part of outstanding sewage water treatment service fees, construction and management fees and tolls carried forward from the previous year.
Net cash flow from investing activities	-541,676	-673,682	132,006	-19.59	During the current period, investment in purchase of fixed assets by the Company decreased as compared to the same period last year.
Net cash flow from financing activities	-142,934	167,548	-310,482	-185.31	During the current period, repayment of loans and payment of dividend and interests increased as compared to the same period last year, and inflow was less than outflow.

Items	2011	2010	Increase/ Decrease	Percentage change (%)	Details of changes
Net increase in cash and cash equivalents	149,563	-52,831	202,394	-383.10	As a result of the cash flows from the above three activities, a net inflow of cash and cash equivalents was recorded for the current period.

5. *Measurement basis adopted for the Group's main assets during the reporting period*

The Group's financial assets represent receivables (including trade receivables, other receivables and long term receivables), which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are carried at amortised cost using the effective interest method.

The Group's long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its joint ventures and associates as well as other long-term equity investments in investees where the Group does not have control, joint control or significant influence, and which are not quoted in an active market and whose fair value cannot be reliably measured.

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted using the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method. Other long-term equity investments in investees where the Group does not have control, joint control or significant influence, and which are not quoted in an active market and whose fair value cannot be reliably measured are accounted for using the cost method.

The Group's invested properties are buildings that are held for the purpose of lease, and are measured initially at cost.

The Group's fixed assets comprise houses and buildings, machineries and equipment, motor vehicles and others. A fixed asset is recognised when it is probable that the economic benefits associated with the fixed asset will flow into the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Currently, the Group has no item which is measured subsequently at fair value, and the measurement basis of main assets had no material change during the year.

6. *Analysis of composition of the Group's cash flow during the reporting period*

During the current period, net cash inflows from operating activities was RMB 834.173 million, mainly represented cash received from sales of goods and rendering of services. Net cash outflows from investing activities was RMB 541.676 million, mainly represented cash paid for purchase of fixed assets, intangible assets and other long-term assets. Net cash outflows from financing activities was RMB142.934 million, mainly represented cash repayment of debts, dividends and interests.

During the current year, the Group recorded net profit of RMB279.88 million (including profit and loss attributable to minority shareholders) and net cash flows from operating activities of RMB834.173 million. During the current year, depreciation and amortised costs were RMB257.265 million and net finance costs were RMB219.208 million, neither of which involved in cash flow from operating activities, but would affect profit and loss of the Company. Net increase in operating receivables and payables was RMB105.554 million, which was not relevant to profit and loss of the Company, but would affect cash flow from operating activities.

The above two reasons resulted in the differences between the net profit and net cash flow from operating activities of the Group.

7. *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	100%	776,727	18,714
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%	178,110	7,821
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%	11,047	-694 (Operation ceased and pending liquidation)

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Baoying Capital Water Company Limited	Yangzhou, Jiangsu	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for waterprocessing facilities, environmenta projects, municipal projects, highway projects and transportation projects.	53,000	Limited company	70%	103,364	888
Qujing Capital Water	Qujing, Yunnan	Centralized water supply (limited to branch operation); Company Limited 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.	178,983.1	Limited company	86.55%	407,534	14,238

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Fuyang Capital Water Company Limited	Fuyang, Anhui	Development, construction, operation and management of urban sewage processing plant, tap water plant and their ancillary facilities and solid waste processing facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	69,000	Limited company	100%	182,483	8,593
Hangzhou Tianchuang Water Company Limited	Hangzhou, Zhejiang	Operation and maintenance for sewage water processing and recycled water utilization facilities, and ancillary services such as technology services and technology training.	257,445	Limited company	70%	785,275	5,310
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%	62,102	-2,827

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Wendeng Capital Water Company Limited	Wendeng, Shandong	Development, construction, operation and management of sewage water treatment and its ancillary facilities, solid waste treatment facilities and water recycling facilities; research, development and promotion of environmental protection technology; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	52,000	Limited company	100%	152,571	2,503
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%	45,457	2,662

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Xian Capital Water Company Limited	Xi'an, Shaanxi	Development, construction, operation and management of urban sewage water treatment plants, tap water plants and its ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; application of renewable energy and related equipment; installation services for sewage water treatment plant equipment; project consultation services for water processing facilities, environmental projects, municipal projects, highway projects and transportation projects.	270,000	Limited company	100%	594,848	-9,733

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Kaiying Technology Development Company Limited	Tianjin	Development, consultation, service and transfer of environmental protection technology and product, mechanical equipment and computer software technology; municipal projects and design; mechanical equipment leasing; installation and maintenance of sewage water treatment equipment; wholesale and retail of mechanical equipment (excluding cars), electronic products and computer software; the followings operated by business segment: water treatment equipment, sludge treatment equipment, aeration equipment, air purification equipment, manufacturing and processing of sewage water and sludge treatment reagent; sewage water treatment	5,000	Limited company	100%	7,190	1,630
Anguo Capital Water Company Limited	Anguo, Hebei	Urban water supply (water-drawing permit valid until September 2, 2013 and hygiene permit valid until April 11, 2015); sewage water treatment; sewage and water supply related technical consultation and related services	41,000	Limited company	100%	86,554	1,566

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%	344,609	-1,243
Tianjin Capital Environmental Water Company Limited	Jinnan, Tianjin	Development, construction, operation and management of sewage water treatment, municipal sewage water treatment plant, tap water plant and their ancillary facilities, solid waste treatment facilities; research, development and promotion of environmental protection technology; project consultancy services for water treatment facilities and environmental protection works	5,000	Limited company	100%	4,574	51

Company	Principal place of business	Major products or services	Registered capital	Type of legal entity	Percentage of interest	Scale of assets	Net profit
Tianjin Zichuang Engineering Investment Company Limited	Jinghai, Tianjin	Investment in engineering projects	23,400	Limited company	100%	70,165	-180
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	15,000	Limited company	100%	41,325	-260
Tianjin Jiayuanxing Innovative Energy Technology Company Limited	Tianjin High-tech Zone	Development, consultation, service and transfer of energy saving, environmental protection and new technology; property management services energy	60,000	Limited company	100%	357,991	1,012

(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 Group invested a total of RMB2,000,000 in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. Its principal activities comprise senior executive insurance services, senior executive personnel services (employment agent service, financial guarantee consultation service, personal creditworthiness assessment), enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. During the reporting period, the Group received bonus distribution of 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 Group invested a total of RMB2,000,000 in Tianjin Baotong Light Mass Materials Company Limited, 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, it 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 RMB21.36 million. Currently, the asset delivery is completed. As at the end of 2011, the transfer procedures were under processing.

8. *Information on major suppliers and customers of the Company*

During the reporting period, the Group's top 5 customers are Tianjin Sewage Water Company, Hangzhou Sewage Water Company, Xi'an Urban Infrastructure Construction Investment Group Company Limited, Tianjin Municipal Highway Administration Bureau and Tianjin Hanbin Investment Company Limited, the aggregated revenue from which accounted for 71% of the Group's total revenue.

9. *The Company's technology*

In 2011, the Group invested approximately RMB7 million, focusing on the practical technologies for sewage water treatment plants, such as flocculant elixir required for the operation of such plants, reduction, stabilization, detoxification and recycling of sludge, and deodorization for sewage water treatment plants, which promoted the technology research on microbial agents, synchronous and highly effective nitrogen and phosphorus removal based on the step-feed, reduction of sludge breaking volume and deodorant technology upgrading, so as to provide technical reserves for the Group to expand the industrial chain of sewage water treatment business.

(II) ***Outlook of the Company's future development***

1. *Development trend of sewage water treatment industry*

In 2011, the PRC government successively promulgated Opinions of the State Council on Strengthening Major Environmental Protection Work (《國務院關於加強環境保護重點工作的意見》), Comprehensive Work Plans for Energy Conservation and Emission Reduction During the 12th Five-Year Plan Period (《"十二五"節能減排綜合性工作方案》) and Implementation Opinions of the Ministry of Environmental Protection on Implementing the Opinions of the State Council on Strengthening the Building of a Government Ruled by Law (《環境保護部關於貫徹落實國務院加強法治政府建設意見的實施意見》), which put forward stricter requests for environmental protection. National Environmental Protection Plans During the 12th Five-Year Plan Period (《國家環境保護"十二五"規劃》) issued in 2011 clearly specifies that the investment demand for environmental protection of the whole society will amount to approximately RMB3.4 trillion, so that the environmental services market will usher in a new round of opportunities, without exceptions for sewage water treatment industry as one of environmental services. The scale of sewage water treatment services will further expand with more new contents. Meanwhile, the sewage water treatment services industry will face some new challenges with higher standards, broader ranges and stricter regulations.

Since 2011, leveraging on the strong capability on technology research and development from the research and development centre and the post-doctoral work stations, the Group has actively conducted the technical research and development on the whole process of sewage water treatment, and generated certain series of technologies and products, which have kept pace with the new development trend of sewage water treatment industry and become another advantage for the development of the Group.

2. *Overall strategies of the Group in 2012*

Development strategies:

2012 will be a crucial year of transition during the 12th Five-Year Plan Period. As the first echelon in the water market of the PRC, the Group will continuously adhere to its corporate mission of "purifying the water environment and raising water quality", and fully consist on its operation and management concept of "taking business operation as its centre, and science and technology as its guide" in order to cultivate and improve the industrial chain of sewage water treatment business, expand the new businesses, promote the adjustment of business structure, and therefore form an industrial pattern based on integrated sewage water treatment services with the development and utilization of new energy and resources.

Operating strategies for the coming year:

In 2012, the Group will be committed to the adjustment of its business structure, stably develop water investment and operation business, continuously put great effort to expand and improve the industrial chain of the sewage water treatment business to achieve the balanced and coordinated development of the industrial chain of the sewage water treatment business. The Group will continue to promote the development and utilization of new energy and resources, and increase business development efforts on new energy cooling and heating services to enhance the income ratio. The Group will cultivate the resource utilization (comprehensive utilization of sludge nitrification and heat pump technology on sewage water sources) market for sewage water treatment plants. In the meantime, the Group will also enhance its general contracting qualifications in respect of municipal project construction, integrate the resources of project construction business, and endeavour to increase the revenue from project construction, design and consultancy services, in order to further enhance the profitability and competitiveness of the Company.

3. *Operation plans for the coming year:*

(1) The Group will maintain and improve its existing licensed operation agreements and service agreements in respect of certain projects so as to ensure project profitability. It will continuously facilitate licensed operation of the Company's four sewage water treatment plants to implement the pricing of the sewage water treatment service. It will also maintain the licensed operation agreements of its subsidiaries in respect of sewage water treatment (including tap water) to ensure reasonable adjustment on service price.

(2) The Group will complete project construction and operation in accordance with customers' requirements on quality and quantity, and ensure that the sewage water treatment business volume is not less than that of 2011. The expected expenses of water plant construction (mainly cross-transfer project) project will amount to RMB152 million.

(3) The Group will enhance cost and expense control, reduce investment in project construction and energy resource consumption during operations to improve project profitability.

(4) The Group will strengthen the conversion efforts of practical technology research and development and achievements, to generate high value-added technology products.

(5) The Group will intensify personnel training and improve the work capability of its staff. Through reasonable adjustments on the form of labor organization, the Group will improve labor efficiency and staff utilization, as well as reduce operating costs and expenses.

(6) The Group will continue to strengthen risk control capability to support its healthy and sustainable development.

(7) The Group will integrate its resources and broaden its financing channels to minimize the financial costs.

(8) The Group will improve the incentive mechanism to encourage the development of its new businesses. It will mainly develop the new energy cooling and heating service projects in the region of Jiefang South Road, Tianjin. The planned investment in such cooling and heating service projects amounts to RMB127 million.

Planning for income, expenses and costs:

In 2012, 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 2011 will not exceed 10%.

Cost control targets:

In 2012, as the energy costs of various resources will remain high, 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 2012 as compared to that in 2011 will not be higher than 15%. 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.

Scientific R&D investment plans:

In 2012, the Group will further increase the efforts in scientific research work. The Group plans to inject at least RMB7 million as scientific research fees for the technology related to core processes in the fields like sewage water treatment, sludge disposal, resource and energy conversion as well as technology breakthroughs to create dynamic competitive advantage for the Group.

4. *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 2012, the Group will meet the 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.

5. *Analysis of risk factors*

(1) In respect of the risks arising from macro-economic changes, the Group has developed a comprehensive risk control system in accordance with the relevant system requirements. Through risk warning and internal control as well as auditing and supervision, the Group can strengthen its risk management and effectively avoid risks, and thus facilitate the Group to maintain sustained competitive advantage.

(2) The service prices of the licensed operation of the Company's four sewage water treatment plants for the first grade water discharge standards have yet to be determined. In 2012, the upgrading and improvement of the four sewage water treatment plants operated by the Company can basically meet the environmental protection check and acceptance inspection. However, the prices of the services provided by such upgraded plants have not yet been determined. The pricing will be negotiated together with the licensed operation of such four plants, which is expected to be completed in the second half of 2012. Before that time, the current prices of sewage water treatment service and the actual amount of sewage water pursuant to industry standards will be always adopted to recognize the income of sewage water treatment service. The Group will fully communicate and negotiate with the competent authorities to determine the prices of licensed operation and the service provided under the first grade water discharge standards in line with the market mechanism as soon as possible.

5.2 **Principal businesses by industry and product**

Please refer to 5.1 above.

5.3 **Reasons for the significant changes to the profit components, principal businesses and their structures and profitability of principal businesses in the reporting period as compared to the corresponding period last year**

Please refer to 5.1 above.

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

As audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company and PricewaterhouseCoopers respectively, the net profit attributable to the Company in 2011 was RMB275.79 million. After deduction of a Statutory Common Reserve in the amount of RMB24.18 million pursuant to the relevant requirements of the Company Law of the PRC and the Articles of Association of the Company, adding the undistributed profit of RMB1,338.00 million at the beginning of the year, and less 2010 cash dividends of RMB157 million distributed in 2011, the actual distributable profits attributable to the shareholders for this year was RMB1,432.62 million. According to the profit appropriation policy 2011, a cash dividend of RMB0.40 (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 18 May 2012 will be entitled to receive the above dividend. However, pursuant to the Corporate Income Tax Law of the PRC and its implementing regulations, which came into force on 1 January 2008, and other relevant rules, the Company is required to withhold corporate income tax at the rate of 10% before distributing the dividend to non-resident enterprise (as defined in the Corporate Income Tax Law of the PRC) shareholders whose names appear on the H share register of members of the Company on 18 May 2012. 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 18 May 2012.

Any natural person investor whose H shares are registered under the name of any such non-individual shareholders and who does not wish to have any corporate income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her name and duly lodge all transfer documents with the relevant H share certificates with the Company's H share registrar for registration.

All investors should consider the above contents carefully. The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment the 10% corporate income tax; and the dividend will only be payable to the shareholders whose names appear on the H share register of members of the Company on 18 May 2012. 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 2011.

§6 FINANCIAL ACCOUNTING REPORT

6.1 There was no change to the accounting policies and accounting estimates during the reporting period.

6.2 There was no correction of previous accounting errors during the reporting period.

6.3 Changes in consolidation scope when comparing with the last annual report

1. During the reporting period, the Company contributed and established Tianjin Jiayuanxing Innovative Energy Technology Company Limited with registered capital of RMB60 million and with contribution ratio of 100% by the Company. This company would be included in the consolidation scope of the Group. The net assets of this company as at the end of the year amounted to 61.012 million and its net profit for the year was 1.012 million.

2. During the reporting period, the Company's subsidiary, Fuyang Capital Water Company Limited, contributed and established Hanshan Capital Water Company Limited with registered capital of 9 million and with contribution ratio of 100% by Fuyang Capital Water Company Limited. This company would be included in the consolidation scope of the Group. The net assets of this company as at the end of the year amount to 9.22 million and its net profit for the year was 0.22 million.

6.4 **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 2011

(All amounts in Rmb thousand unless otherwise stated)

		For the year ended 31 December	
	Note	**2011**	2010
Revenue	2(a)	**1,493,146**	1,394,821
Business tax		**(8,831)**	(43,109)
Cost of sales	3	**(835,020)**	(762,991)
Gross profit		**649,295**	588,721
Administrative expenses	3	**(104,301)**	(89,959)
Other income - net	2(b)	**30,523**	42,266
Other losses - net		**(3,254)**	(39,860)
Operating profit		**572,263**	501,168
Finance income		**23,963**	18,379
Finance costs		**(220,378)**	(154,169)
Finance costs-net	4	**(196,415)**	(135,790)
Share of profits of an associate		**186**	1,448
Profit before income tax		**376,034**	366,826
Income tax expense	5	**(96,154)**	(91,670)
Profit / total comprehensive income for the year		**279,880**	275,156
Profit and total comprehensive income for the year attributable to:			
Owners of the parent		**275,786**	271,160
Non-controlling interests		**4,094**	3,996
		279,880	275,156
Earnings per share for profit attributable to the owners of the parent (in Rmb Yuan)			
- basic	6	**0.19**	0.19
- diluted	6	**0.19**	0.19
Proposed final dividends	7	**57,089**	156,995

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2011
(All amounts in Rmb thousand unless otherwise stated)

		As at 31 December	
	Note	**2011**	**2010**
ASSETS			
Non-current assets			
Property, plant and equipment		**3,264,574**	3,230,110
Intangible assets		**2,803,037**	2,427,782
Land use rights		**451,784**	462,868
Investment properties		**115,955**	119,628
Investment in an associate		**40,669**	41,583
Available-for-sale financial assets		**4,000**	4,000
Long-term receivables		**338,446**	336,286
Trade receivables due after one year	8	**68,794**	68,794
Other non-current assets		**8,634**	7,458
		7,095,893	6,698,509
Current assets			
Inventories		**80,569**	32,476
Trade receivables	8	**1,096,583**	996,949
Prepayments		**95,706**	103,759
Other receivables		**17,049**	53,540
Other current assets		**7,831**	—
Cash and bank balances		**691,693**	540,330
		1,989,431	1,727,054
Total assets		**9,085,324**	8,425,563

	Note	As at 31 December 2011	2010
EQUITY			
Equity attributable to owners of the parent			
Share capital		**1,427,228**	1,427,228
Other reserves		**708,492**	685,343
Retained earnings		**1,432,617**	1,338,002
- Proposed final dividend		**57,089**	156,995
- Others		**1,375,528**	1,181,007
		3,568,337	3,450,573
Non-controlling interests		**147,372**	125,596
Total equity		**3,715,709**	3,576,169
LIABILITIES			
Non-current liabilities			
Borrowings		**3,051,136**	2,838,538
Deferred revenue		**369,928**	284,974
Deferred income tax liabilities		**48,479**	38,427
		3,469,543	3,161,939
Current liabilities			
Trade payables	9	**18,481**	22,729
Advances from customers		**423,387**	310,478
Wages payables		**8,227**	7,374
Income tax payable		**7,671**	8,757
Other taxes payable		**603**	7,674
Dividend payable		**1,461**	1,056
Other payables		**412,095**	274,991
Borrowings		**1,028,147**	1,054,396
		1,900,072	1,687,455
Total liabilities		**5,369,615**	4,849,394
Total equity and liabilities		**9,085,324**	8,425,563
Net current assets		**89,359**	39,599
Total assets less current liabilities		**7,185,252**	6,738,108

Notes to the condensed consolidated financial statement

(All amounts in thousand unless otherwise stated)

1 **Basis of preparation**

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

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

New and amended standards having been issued but not yet effective for the financial year beginning 1 January 2011 and not being early adopted:

HKFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

The Group has not yet made a comprehensive assessment of the impact of these standards and amendments. 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

	2011	2010
Sales turnover	**1,493,146**	1,394,821
Other income — net	**30,523**	42,266
Total revenues	**1,523,669**	1,437,087

(b) Analysis of other income

	2011		2010	
	Income	**Cost**	Income	Cost
Technical service	**55,101**	**31,965**	51,562	23,342
Rental	**12,027**	**4,813**	19,272	4,961
Other	**2,416**	**2,243**	2,113	2,378
	69,544	**39,021**	72,947	30,681

(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 2011 and 2010 respectively is as follows:

(i) *For the year ended 31 December 2011*

	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	**825,075**	**146,946**	**298,530**	**105,099**	**39,976**	**108,043**	**1,523,669**
Segment expense	**(577,301)**	**(138,593)**	**(271,164)**	**(81,687)**	**(40,201)**	**(38,875)**	**(1,147,821)**
Results before share of profits of an associate	**247,774**	**8,353**	**27,366**	**23,412**	**(225)**	**69,168**	**375,848**
Share of profits of an associate							**186**
Profit before tax							**376,034**
Income tax expense							**(96,154)**
Profit for the year							**279,880**
Segment assets	**4,574,655**	**784,819**	**1,701,045**	**715,894**	**335,259**	**932,983**	**9,044,655**
Investment in an associate	**—**	**—**	**—**	**—**	**—**	**40,669**	**40,669**
Total assets	**4,574,655**	**784,819**	**1,701,045**	**715,894**	**335,259**	**973,652**	**9,085,324**
Total liabilities	**3,047,488**	**478,126**	**731,689**	**680,026**	**125,954**	**306,332**	**5,369,615**
Other information							
-Interest income	**6,513**	**430**	**1,055**	**4,250**	**65**	**11,650**	**23,963**
-Interest expenses	**(129,143)**	**(27,631)**	**(44,632)**	**(6,066)**	**(11,207)**	**(529)**	**(219,208)**
-Depreciation	**(113,184)**	**—**	**(3,476)**	**(16,700)**	**—**	**(6,477)**	**(139,837)**
-Amortization	**(9,949)**	**(36,249)**	**(57,515)**	**(132)**	**(11,624)**	**(1,959)**	**(117,428)**
-Capital expenditures	**168,180**	**13,326**	**51,775**	**21,978**	**52,497**	**358,940**	**666,696**

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

	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	865,384	141,867	213,043	69,918	37,583	109,292	1,437,087
Segment expense	(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

3 Expense by nature

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

	2011	2010
Utilities	**176,337**	162,521
Depreciation of property, plant and equipment and investment properties	**139,837**	117,826
Employee benefit expense	**137,742**	118,566
Amortisation of intangible assets and land use right	**117,428**	109,824
Cost for construction contract	**110,900**	116,549
Repair and maintenance expenses	**60,927**	65,163
Raw materials and consumables used	**48,919**	48,692
Cost of water recycling pipeline connection service	**28,205**	14,706
Other taxes	**9,624**	6,944
Toll road management fee	**7,120**	7,120
Auditors' remuneration	**4,200**	3,800
Operating lease rentals for land and buildings	**784**	860
Outgoings in relation to investment properties	**434**	798
Others	**96,864**	79,581
	939,321	852,950

4 Finance costs- net

	2011	2010
Interest expenses of borrowings	**238,355**	168,884
Less: Capitalised interest	**(19,147)**	(17,350)
Net interest expenses	**219,208**	151,534
Less: Interest income	**(23,963)**	(18,379)
- *long-term receivables*	**(11,433)**	(11,266)
- *bank deposits*	**(12,530)**	(7,113)
Others	**1,170**	2,635
	196,415	135,790
Interest rate per annum at which finance costs were capitalised	**6.75%**	5.83%

5 **Income tax expense**

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong (2010: Nil). PRC income tax is calculated at the statutory rate of 12.5% to 25% (2010: 12.5% to 25%).

	2011	2010
Tax charge comprises:		
Current income tax	**86,102**	83,441
Deferred income tax	**10,052**	8,229
	96,154	91,670

6 **Earnings per share**

Basic earnings per share is calculated based on the profit attributable to owners of the parent of Rmb276 million (2010: Rmb271 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2010: 1,427 million shares).

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

	2011	2010
Profit attributable to owners of the parent	**275,786**	271,160
Weighted average number of ordinary shares in issue (million shares)	**1,427**	1,427
Basic earnings per share (Rmb Yuan)	**0.19**	0.19

7 **Dividends**

The dividends paid in 2011 and 2010 were Rmb157 million (Rmb0.11 per share) and Rmb114 million (Rmb0.08 per share) respectively. A dividend in respect of the year ended 31 December 2011 of Rmb0.04 per share, amounting to a total dividend of Rmb57 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	
	2011	2010
Due from TSC for:		
- Sewage processing service	**998,903**	691,168
- Construction of sewage processing plants (note(b))	**68,794**	241,792
	1,067,697	932,960
Toll road fee receivable	**—**	38,200
Less: Non-current portion (note (b))	**(68,794)**	(68,794)
	998,903	902,366
Due from others — current	**97,680**	94,583
	1,096,583	996,949

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

	Group	
	2011	2010
Within one year	**865,014**	785,601
One to two years	**231,419**	38,350
Over two years	**68,944**	241,792
	1,165,377	1,065,743

(b) As at 31 December 2011, the balance of sewage water plant construction is over-due. Since TSC is the Chinese government subordinate enterprise which has good creditability history, management believes that the balance is not impaired.

9 **Trade payables**

As at 31 December 2011, the majority of trade payables are aged within one year.

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

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

§7 SALE AND PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

§8 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

§9 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.

§10 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.

§11 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.

§12 AUDIT COMMITTEE

On 31 July 2001, the Board approved the establishment of the audit committee (the "**Audit Committee**") to review and supervise the financial reporting procedures and internal controls of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31 December 2011 with the Directors.

By Order of the Board
Zhang Wenhui
Chairman

Tianjin, the PRC
22 March 2012

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.