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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2012

§1 IMPORTANT

1.1 The board of directors (the "**Board**") and supervisory committee (the "**Supervisory Committee**") of Tianjin Capital Environmental Protection Group Company Limited (the "**Company**") and its directors (the "**Directors**"), supervisors (the "**Supervisors**") and senior management confirm that the information in this 2012 interim report (the "**Interim Report**") does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of the contents of this report.

1.2 The interim financial statements of the Company for the six months ended 30 June 2012 are unaudited.

1.3 Did the controlling shareholder of the Company or its connected persons 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 The person in charge of the Company, Mr. Zhang Wenhui, the person in charge of the accounting work and the accounting department of the Company (the chief accountant), Ms. Shi Zhenjuan, have warranted the truthfulness and completeness of the financial statements in this Interim Report.

§2 COMPANY PROFILE

2.1 Basic Information of the Company

Short form of the A shares	創業環保
Stock code of the A shares	600874
Place for listing of the A shares	Shanghai Stock Exchange
Short form of the H shares	Tianjin Capital
Stock code of the H shares	1065
Place for listing of the H shares	The Stock Exchange of Hong Kong Limited (the "**HKSE**")

	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 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
E-mail	fu_yn@tjcep.com	cosec@tjcep.com	guo_fx@tjcep.com

2.2 **Principal accounting data and financial highlights as prepared in accordance with the PRC Accounting Standards**

2.2.1 Major accounting data and financial indicators

Unit: '000 Currency: RMB

	As at the end of the current reporting period	As at the end of last year	Increase/Decrease as at the end of the current reporting period as compared to the end of last year (%)
Total assets	9,647,030.00	9,085,324.00	6.18
Equity interest attributable to the owners of the Company (or shareholders' equity)	3,626,204.00	3,568,337.00	1.62
Net assets per share attributable to the shareholders of the Company (RMB/share)	2.54	2.50	1.60
	Reporting period (January – June)	**Same period of last year**	**Increase/Decrease for the current reporting period as compared to the same period last year (%)**
Operating profit	159,588.00	194,800.00	-18.08
Total profit	162,364.00	185,698.00	-12.57
Net profit attributable to the shareholders of the Company	114,956.00	137,674.00	-16.50
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	112,874.00	144,501.00	-21.89
Basic earnings per share (RMB)	0.08	0.10	-20.00
Basic earnings per share after deduction of extraordinary items (RMB)	0.08	0.10	-20.00
Diluted earnings per share (RMB)	0.08	0.10	-20.00
Weighted average return on net assets ratio (%)	3.17	4.00	Decreased by 0.83 percentage point
Net cash flow from operating activities	212,540.00	355,697.00	-40.25
Net cash flow per share from operating activities (RMB)	0.15	0.25	-40.00

2.2.2 Extraordinary profit and loss items

√ Applicable ☐ Not Applicable

Unit: ’000 Currency: RMB

Extraordinary items	**Amount**
Profit/loss from disposal of non-current assets	-2,190
Other non-operating income and expenses except for the above items	4,966
Income tax effect	-694
Total	2,082

2.2.3 Difference in accounting standards between the PRC and overseas

There is no difference between the financial reports prepared in accordance with Hong Kong Financial Reporting Standards and the PRC Accounting Standards for Business Enterprises.

§3 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Table of share changes

☐ Applicable √ Not Applicable

3.2 Number of shareholders and their shareholdings

Total number of shareholders as at the end of the reporting period					99,247 shareholders, including 108 shareholders holding H shares
Shareholdings of the top ten shareholders					
Shareholders	**Nature of shareholders**	**Percentage of shareholding (%)**	**Total number of shares held (shares)**	**Number of restricted circulating shares held (shares)**	**Number of shares pledged or frozen (shares)**
Tianjin Municipal Investment Company Limited ("**TMICL**")	State-owned legal person	51.60	736,499,791	0	Pledged 351,940,000
HKSCC Nominees Limited	Unknown	23.33	332,918,900	0	Unknown
Zhou Jun	Unknown	0.42	5,975,000	0	Unknown
Shenyang Railway Coal Dealing Co., Ltd.	Unknown	0.21	3,000,000	0	Unknown
HO MAN PING	Unknown	0.14	2,014,000	0	Unknown
Yu Yan	Unknown	0.11	1,499,128	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	0.09	1,272,289	0	Unknown
FUNG CHUN KIT	Unknown	0.08	1,130,000	0	Unknown
China Electronics Finance Co., Ltd	Unknown	0.08	1,100,000	0	Unknown
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	0.07	1,060,635	0	Unknown

Shareholdings of the top ten non-restricted circulating shares shareholders		
Shareholders	**Number of non-restricted circulating shares held (shares)**	**Type of shares**
TMICL	736,499,791	RMB Ordinary Shares
HKSCC Nominees Limited	332,918,900	H Shares
Zhou Jun	5,975,000	RMB Ordinary Shares
Shenyang Railway Coal Dealing Co., Ltd.	3,000,000	RMB Ordinary Shares
HO MAN PING	2,014,000	H Shares
Yu Yan	1,499,128	RMB Ordinary 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))	1,272,289	RMB Ordinary Shares
FUNG CHUN KIT	1,130,000	H Shares
China Electronics Finance Co., Ltd	1,100,000	RMB Ordinary 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)	1,060,635	RMB Ordinary 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 ten shareholders. It is not certain whether there is any connected relationship between the top ten non-restricted circulating shares shareholders and the top ten shareholders.	

3.3 **Changes in the controlling shareholder and the actual controller of the Company**

☐ Applicable √ Not Applicable

§4 DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

4.1 Changes in the shareholding of the Directors, Supervisors and senior management

☐ Applicable √ Not Applicable

§5 REPORT OF THE BOARD

(I) Discussion and analysis of the overall operations during the reporting period

During the first half of 2012, the Company and its subsidiaries (the "**Group**") under the leadership of the Board continued to take technology as guide and carry out technology research and development and achievements commercialisation in respect of the industrial chain of sewage water treatment business, to improve the competitive advantages of the Group in the water industry and optimize its business structure. In respect of the industrial chain of the sewage water treatment business, there were no changes in the water projects invested and operated by the Group. Due to the increase in the incoming volume of sewage water of certain operated projects and commencement of commercial operation of two projects, during the reporting period, the volume of sewage water being processed increased as compared to the same period last year. Due to factors such as operation at higher standards, the operating costs of the sewage water treatment projects increased significantly. Revenue from the sewage water treatment plant operation services and technical services business increased significantly as compared to the same period last year. There were no new projects for the sewage water treatment plant construction business and all the projects were finishing works in the previous year. Both revenue and costs have decreased significantly. In respect of the resources and energies business, there were no changes in the production scale of the recycled water business with decrease in the sales volume while revenue and costs of the recycled water pipeline connection business increased significantly. During the reporting period, the new energy heat and cold supply service projects operated stably with services conforming with standards, and began to have cold supply service capacities, thus had an additional source of revenue and achieved business expansion as compared to the same period last year. In respect of the scientific and technological achievements commercialisation business, the Group proactively carried out promotion of the patented product, namely CYYF sewage water treatment plant all-process deodorization technology and products, which laid foundation for further development.

Due to factors such as increase in the principal and interest rate of loans, the finance costs of the Group increased significantly during the reporting period as compared to the same period last year. Due to the substantial completion of the upgrade and renovation projects of four sewage water treatment plants in Tianjin, the assets retirement and non-operating expenses decreased significantly as compared to the same period last year.

During the reporting period, the operating income of the Group was RMB765,100,400, increased by 1.95% as compared to the same period last year. The operating profit was RMB159,588,300, decreased by 18.08% as compared to the same period last year. The net profit was RMB114,955,800 (excluding profit and loss attributable to minority shareholders), decreased by 16.5% as compared to the same period last year.

(II) Principal business of the Group and its operations

a. During the reporting period, the Group had a total sewage water treatment volume of 442,081,000 cubic metres, increased by 8.68% as compared to the same period last year. This was mainly attributable to an increase in the incoming volume of sewage water at the four sewage water treatment plants of the Company, namely in Jizhuangzi and the sewage water treatment plants in Baoying and Xianning, Hubei and the incoming volume of sewage water at the new sewage water treatment plants in Hanshan, Fuyang and Xicheng, Qujin during the reporting period as compared to the same period last year. Total income from sewage water treatment services increased by 8.16% to RMB597,571,900 and costs increased by 13.77% as compared to the same period last year. The operating profit margin of the sewage water treatment business decreased. Both revenue and costs of the sewage water treatment plant construction business decreased by 92% as compared to the same period last year. During the reporting period, the operating profit margin of the Group's sewage water treatment and construction business increased by 2.97% as compared to the same period last year.

b. During the reporting period, the Group continued to apply great efforts to boost the sewage water treatment plant operation services and technical services, and generated a revenue of RMB22,889,700, representing an increase of 33.94% as compared to the same period last year.

c. During the reporting period, the sales volume of recycled water of the Group was RMB4,937,000 cubic metres, decreased by 17.1% as compared to the same period last year. The decrease in the sales volume was mainly attributable to the decrease in the water usage volume of some users as well as no new users. Revenue from the recycled water pipeline connection business was RMB44,601,600, increased by 99.74% as compared to the same period last year. This was mainly attributable to the significant increase in the completion areas of the pipeline connection business as compared to the same period last year. Costs of the pipeline connection business increased accordingly. The operating profit margin of the recycled water pipeline connection business increased by 4.5% as compared to the same period last year.

d. During the reporting period, the sales volume of the tap water business of the Group was 21,243,000 cubic metres, increased by 7.8% as compared to the same period last year. This was mainly attributable to the increase in the on-grid agreed water volume of Anguo tap water plant. The tap water business generated a sales revenue of RMB21,545,500, representing an increase of 8.62% as compared to the same period last year. The operating costs increased by 4.49% as compared to the same period last year. The operating profit margin increased by 2.5% as compared to the same period last year.

e. During the reporting period, the toll collection business of the Group realized RM33,513,400 in revenue, which was similar to the level recorded during the same period last year. According to the relevant national requirements, the collection of toll for Tianjin City Indebted Road ceased on 1 January 2010, and the toll collection from 6 toll stations in which the Company owned the rights of toll collection also ceased. 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 was still able to recognize income from the road toll business based on the amount stated in the "Subcontracting Toll Collection Agreement" during the reporting period.

f. Heat and cold supply service business

The Tianjin Cultural Centre centralized energy station project invested, constructed and operated by the Group commenced successively to provide heat supply service to users within the area of the Tianjin Cultural Centre since the end of 2011. During the reporting period, this business generated a revenue from heat supply service of RMB20,928,000. This project commenced successively to provide cold supply service to users within the area of the Tianjin Cultural Centre since this June.

g. Revenue from the sewage water treatment technical consultation and deodorization ancillary engineering business

During the reporting period, the deodorization ancillary engineering and technical consultation business of the Group generated a total revenue of RMB3,100,000.

(III) Risk factors analysis

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 the second half of 2012, the upgrading and renovation 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.

5.1 **Principal business by industry**

Unit: 0'000 Currency: RMB

By industry	Operating revenue	Operating cost	Operating profit margin (%)	Increase/ decrease in operating revenue as compared to the same period last year (%)	Increase/ decrease in operating cost as compared to the same period last year (%)	Increase/ decrease in operating profit margin as compared to the same period last year (%)
Sewage water treatment and sewage water treatment plant construction business	60,332	33,308	44.79	-5.01	-9.87	Increased by 2.97 percentage points
Recycled water pipeline connection and water supply business (Note 1)	5,521	3,813	30.94	63.08	53.10	Increased by 4.5 percentage points
Toll collection business	3,351	356	89.38	Flat	Flat	Flat
Tap water supply business	2,155	1,364	36.68	8.62	4.49	Increased by 2.5 percentage points
Heat supply service (Note 2)	2,093	2,299	-9.84	—	—	—
Other business (Note 3)	101	59	41.80	-64.63	-71.90	Increased by 15.05 percentage points

Among which: During the reporting period, the total transaction amount of connected transactions in respect of the sale of products and provision of services by the Company to connected persons was RMB15,373,000.

Notes:

(1) The completion area of pipeline connection business of Tianjin Water Recycling Company Limited increased and accordingly both income and costs increased significantly as compared to the same period last year.

(2) During the same period last year, Tianjin Jiayuanxing Innovative Energy Technology Company Limited had not commenced operation, hence there was no revenue and cost.

(3) These mainly represented revenue from integrated system, software technology and consultation services, etc.

5.2 Principal business by geographical locations

Unit: 0'000 Currency: RMB

Region	Operating revenue	Increase/decrease in operating revenue as compared to the same period last year (%)
Tianjin	51,180	-0.73
Qujing	3,300	-12.59
Guizhou	1,206	-0.49
Fuyang	2,058	20.83
Baoying	612	0.55
Hangzhou	7,749	13.57
Wendeng	1,227	7.16
Xi'an	3,735	0.49
Anguo	820	31.38 *(Note 1)*
Wuhan	1,655	25.50
Hong Kong	11	-71.40 *(Note 2)*

Notes:

(1) The greater increase in the revenue from principal operations of Anguo Capital Water Company Limited as compared to the same period last year was mainly attributable to the increase in the water supply volume resulted from the completion of tap water plants and city pipeline network renovation projects.

(2) The revenue from integrated system and software technology services of Tianjin Capital Environmental Protection (Hong Kong) Company Limited decreased as compared to the same period last year.

5.3 **Reasons for the material changes in the principal operation and its structure**

☐ Applicable √ Not Applicable

5.4 **Reasons for the material changes in the profitability (gross profit margin) of the principal business as compared to last year**

☐ Applicable √ Not Applicable

5.5 **Analysis of the reasons for the material changes in the contribution to profit as compared to last year**

☐ Applicable √ Not Applicable

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

5.6.1 Use of proceeds from fund-raising

☐ Applicable √ Not Applicable

5.6.2 Changes in projects

☐ Applicable √ Not Applicable

5.7 **Projects funded by proceeds other than from fund-raising**

(1) The upgrading and renovation projects of four sewage water treatment plants in Tianjin, namely, Xianyanglu, Beicang, Jizhuangzi and Dongjiao: The investor was the Company, and the total investment amount of the projects was approximately RMB1.178 billion. During the reporting period, an investment of RMB103 million in these projects was completed. Currently, the projects are in the stage of settlement of project accounts and inspection and acceptance.

(2) Jizhuangzi recycled water plant reconstruction and expansion project: The investor was the Group's subsidiary, Tianjin Water Recycling Company Limited, and the total investment amount of the project was RMB87.57 million. The project has been entirely completed and is in the stage of joint testing and trial operation. During the reporting period, the project was conducting settlement of project accounts and inspection and acceptance.

(3) Tianjin Cultural Centre centralized energy station project: The investor was the Group's subsidiary, Tianjin Jiayuanxing Innovative Energy Technology Company Limited, and the total investment amount of the project was approximately RMB433 million. During the reporting period, an investment of RMB7.89 million was completed. During the reporting period, main work completed was supply of cold to southern area. Currently, the project is able to supply cold to all users within the area. The ice storage system is still in the stage of test run.

(4) Wendeng City Gejia Town sewage water treatment plant project: The investor was the Group's subsidiary, Wendeng Capital Water Company Limited, and the total investment amount of the project was RMB18.1 million. The project has been entirely completed and is currently in the test run and relevant inspection and acceptance stage.

(5) Purchase and installation of equipment with capacity of 50,000 tonnes per day for Phase 1 of the Qige sewage water treatment plant project: The investor was the Group's subsidiary, Hangzhou Tianchuang Water Company Limited, and the total investment amount of the project was RMB22.99 million. During the reporting period, an investment of RMB2.31 million was completed. Currently, the project has been entirely completed.

(6) Phase 2 of the Baoying Xianhe sewage water treatment plant project: The investor was the Group's subsidiary, Baoying Capital Water Company Limited, and the total investment amount of the project was RMB38.3 million. During the reporting period, an investment of RMB3.9 million was completed. During the reporting period, main works completed were clearance of backfill into deep treatment area and road pavement, rectification of analog screen and automatic control system, etc.

(7) Ninghe Modern Industrial Zone sewage water treatment plant project: The investor was the Group's subsidiary, Jinning Capital Environmental Water Company Limited, and the total investment amount of the project was RMB46.61 million. During the reporting period, an investment of RMB7.9 million was completed. During the reporting period, main works completed were construction of main structures throughout the plant, water supply, process pipelines and rain and sewage water pipelines in the plant, etc.

(8) City water supply system of Anguo City reconstruction and expansion project: The investor was the Group's subsidiary, Anguo Capital Water Company Limited, and the total investment amount of the project was RMB33 million. During the reporting period, an investment of RMB330,000 was completed. Currently, the project has been entirely completed and is in the stage of settlement of project accounts.

(9) Tianjin Ziya Circular Economy Industrial Zone sewage water treatment plant (Phase 1) project: The project was a BT project financed and constructed by the Group's subsidiary, Tianjin Zichuang Engineering Investment Company Limited. The total investment amount of the project was approximately RMB76.8 million. During the reporting period, main works completed were plant landscaping and installation and test run of deodorization system.

5.8 **Changes in the Board's operation plan for the second half year**

☐ Applicable √ Not Applicable

5.9 **Prediction of possible loss incurred for the accumulated net profit from the beginning of the year to the end of the next reporting period, and statement of the reason and warning for material changes incurred as compared to the same period last year**

☐ Applicable √ Not Applicable

5.10 **Statement from the Board of the Company concerning the qualified opinions issued by the auditors during the reporting period**

☐ Applicable √ Not Applicable

5.11 **Statement from the Board concerning changes and resolution of matters in relation to the qualified opinions issued by the auditors of the Company in the previous year**

☐ Applicable √ Not Applicable

§6 MAJOR EVENTS

6.1 **Acquisition of assets**

√ Applicable ☐ Not Applicable

6.1.1 During the reporting period, the Company had no acquisition of assets.

6.1.2 Other acquisition of assets

For details, please see 6.3.2 below about other assets swap.

6.2 **Disposal of assets**

√ Applicable ☐ Not Applicable

6.2.1 During the reporting period, the Company had no disposal of assets.

6.2.2 Other disposal of assets

For details, please see 6.3.2 below about other assets swap.

6.3 **Assets swap**

6.3.1 During the reporting period, the Company had no assets swap.

6.3.2 Other assets swap

On 13 July 2012, the relocation of Tianjin Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant was considered and approved at the 2012 first extraordinary general meeting of the Company.

According to the overall urban planning of Tianjin City, the People's Government of Tianjin City decided to implement the relocation of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant owned respectively by the Company and Tianjin Water Recycling Company Limited ("**Water Recycling Company**"), a wholly-owned subsidiary of the Company. The People's Government of Tianjin City designated and authorized Tianjin City Construction and Communication Committee (天津市城鄉建設和交通委員會) (the "**TCCC**") to oversee the relocation of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Water Recycling Plant.

Tianjin City Land Consolidation Center (天津市土地整理中心) has entrusted Tianjin Haihe Construction Development and Investment Company Limited (天津市海河建設發展投資有限公司) ("**Tianjin Haihe**") to fix and collect the lands of Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Recycled Water Plant. Tianjin Haihe is a wholly-owned subsidiary of Tianjin City Infrastructure Construction and Investment Group Company Limited which is the ultimate controller of the Company, and hence a connect person of the Company.

Concerning the relocation of Jizhuangzi Sewage Water Treatment Plant and Recycled Water Plant, TCCC and Tianjin Haihe and the Company and Water Recycling Company have signed Jizhuangzi Sewage Water Treatment Plant Relocation Agreement and Jizhuangzi Water Recycling Plant Relocation Agreement (the "**Relocation Agreements**") and Jizhuangzi Sewage Water Treatment Plant Land Consolidation Reserve Project Compensation Agreement and Jizhuangzi Water Recycling Plant Land Consolidation Reserve Project Compensation Agreement (the "**Compensation Agreements**"), respectively, to specify liabilities and obligations of the parties.

According to the Relocation Agreements and the Compensation Agreements, the relocation compensation for the Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant is based on the principle of "project for project", pursuant to which a new sewage water treatment plant and a new water recycling plant shall be constructed to replace the Jizhuangzi Sewage Water Treatment Plant and Jizhuangzi Recycled Water Plant. The Company and Water Recycling Company will continue to own the operation rights of the new sewage water treatment plant and new water recycling plant. The new sewage water treatment plant and new water recycling plant will be constructed according to the construction scale, content, standard and the estimated budget based on the preliminary designs approved by the competent authorities of Tianjin Government in the total amount of approximately RMB2,065,590,100 and RMB260,350,700 respectively, all inclusive. The land consolidation and compensation fees for Jizhuangzi Sewage Water Treatment Plant will be RMB2,065,590,100, while the land consolidation and compensation fees for Jizhuangzi Water Recycling Plant will be RMB260,350,700.

The Relocation Agreements and the Compensation Agreements were announced upon consideration and approval by the Board of the Company on 24 May 2012, and were passed and took effect at the extraordinary general meeting of the Company held on 13 July 2012.

According to the Listing Rules of the HKSE, the relocation of Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant and the related Relocation Agreements and Compensation Agreements should be disclosed as price sensitive information.

According to the listing rules of the Shanghai Stock Exchange, the Company is required to put forward the relocation of Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant and the related Relocation Agreements and Compensation Agreements to the general meeting of the Company for consideration and approval. However, in light of the nature and pricing principles of this project, the Shanghai Stock Exchange has granted the Company and Water Recycling Company a waiver of provision of asset evaluation reports in respect of Jizhuangzi Sewage Water Treatment Plant and Water Recycling Plant as well as a waiver of review and disclosure according to the review and disclosure procedures for a connected transaction.

For details of the above matters, please refer to the Company's announcements dated 24 May 2012 and 13 July 2012.

6.4 **Guarantee**

√ Applicable ☐ Not Applicable

Unit: 0'000 Currency: RMB

External guarantee granted by the Company (excluding guarantee provided to the subsidiaries of the Company)	
Total amount of guarantee granted during the reporting period (excluding guarantee provided to the subsidiaries of the Company)	0
Total amount of outstanding guarantee as at the end of the reporting period (A) (excluding guarantee provided to the subsidiaries of the Company)	0
Guarantee provided to the subsidiaries of the Company	
Total amount of guarantee provided to the subsidiaries of the Company during the reporting period	10,479
Total amount of outstanding guarantee provided to the subsidiaries as at the end of the reporting period (B)	80,443
Total amount of guarantee granted by the Company (including guarantee provided to the subsidiaries of the Company)	
Total amount of guarantee (A+B)	80,443
Percentage of the total amount of guarantee to the net assets of the Company (%)	22.18
Of which:	
Amount of guarantee provided to the shareholders, actual controller and other related parties (C)	0
Amount of guarantee provided directly or indirectly to the borrowers with gearing ratio of over 70% (D)	0
Total amount of guarantee exceeds 50% of net assets (E)	0
Total amount of the above three guarantees (C+D+E)	0

6.5 **Non-recurrent connected debts and liabilities**

☐ Applicable √ Not Applicable

6.6 **Significant litigation and arbitration**

☐ Applicable √ Not Applicable

6.7 **Other major issues and analysis on its impacts and solutions**

6.7.1 Securities investments

☐ Applicable √ Not Applicable

6.7.2 Holding of equity interest in other listed companies

☐ Applicable √ Not Applicable

6.7.3 Holding of equity interest in non-listed financial corporation

☐ Applicable √ Not Applicable

§7 FINANCIAL REPORTS

7.1 Audit opinion

Financial Report √ unaudited ☐ audited

7.2 **Prepared in accordance with Hong Kong Financial Reporting Standards**

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012

(All amounts in Rmb thousand unless otherwise stated)

		Unaudited Six months ended 30 June	
	Note	**2012**	**2011**
Revenue	3(a)	735,532	725,235
Business tax		(4,700)	(3,608)
Cost of sales		(411,983)	(413,176)
Gross profit		318,849	308,451
Other income - net	3(a)	10,436	4,237
Administrative expenses		(55,214)	(50,172)
Operating profit	4	274,071	262,516
Finance income		16,223	11,384
Finance costs		(128,514)	(87,713)
Finance costs - net	5	(112,291)	(76,329)
Share of profits /(loss) of an associate		584	(489)
Profit before income tax		162,364	185,698
Income tax expense	6	(44,205)	(45,987)
Profit for the period		118,159	139,711
Other comprehensive income for the period, net of tax		—	—
Total comprehensive income for the period		118,159	139,711
Profit /Total comprehensive income attributable to:			
– Owners of the parent		114,956	137,674
– Non-controlling interests		3,203	2,037
		118,159	139,711
Earnings per share for profit attributable to the owners of the parent (in Rmb per share)			
– basic		Rmb0.08	Rmb0.10
– diluted		Rmb0.08	Rmb0.10
Interim dividends	7	—	—

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
FOR THE SIX MONTHS ENDED 30 JUNE 2012
(All amounts in Rmb thousand unless otherwise stated)

	Note	As at 30 June 2012 Unaudited	 31 December 2011 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		3,272,743	3,264,574
Investment property		114,119	115,955
Intangible assets		2,758,662	2,803,037
Land use rights		445,902	451,784
Investment in an associate		41,253	40,669
Available-for-sale financial assets		4,000	4,000
Trade receivables due after one year	8	68,794	68,794
Long-term receivables		338,039	338,446
Other non-current assets		9,014	8,634
		7,052,526	7,095,893
Current assets			
Inventories		88,569	80,569
Trade receivables	8	1,382,039	1,096,583
Other current assets		14,751	7,831
Other receivables		16,353	17,049
Prepayments		107,941	95,706
Cash and cash equivalents		984,851	691,693
		2,594,504	1,989,431
Total assets		9,647,030	9,085,324

	Note	As at 30 June 2012 Unaudited	As at 31 December 2011 Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		1,427,228	1,427,228
Other reserves		708,492	708,492
Retained earnings		1,490,484	1,432,617
– Proposed final dividend		—	57,089
– Undistributed		1,490,484	1,375,528
		3,626,204	3,568,337
Non-controlling interests		150,075	147,372
Total equity		3,776,279	3,715,709
LIABILITIES			
Non-current liabilities			
Borrowings		3,706,601	3,051,136
Deferred revenue		394,177	369,928
Deferred income tax liabilities		54,151	48,479
		4,154,929	3,469,543
Current liabilities			
Trade payables	9	44,976	18,481
Advances from customers	9	525,124	423,387
Wages payables		6,564	8,227
Income tax payable		10,673	7,671
Other taxes payable		3,018	603
Dividend payable		59,050	1,461
Other payables	9	291,845	412,095
Borrowings		774,572	1,028,147
		1,715,822	1,900,072
Total liabilities		5,870,751	5,369,615
Total equity and liabilities		9,647,030	9,085,324
Net current assests		878,682	89,359
Total assets less current liabilities		7,931,208	7,185,252

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in Rmb thousand unless otherwise stated)

1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with HKFRSs.

2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

- HKFRS 9 'Financial instruments'
- HKFRS 10 'Consolidated financial statements'
- HKFRS 12 'Disclosures of interests in other entities'
- HKFRS 13 'Fair value measurement'
- HKAS 19 'Employee benefits' (Amendment)

3. Revenue and segment information

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

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

	Unaudited For the six months ended 30 June 2012	30 June 2011
Revenue from principal operation (Note 3(b))	735,532	725,235
Other income - net	10,436	4,237
	745,968	729,472

(b) 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 perspective. From a service perspective, management assesses the performance of processing of sewage water, 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). Tianjin plants represent sewage water processing plants of downtown Tianjin located at Dong Jiao, Ji Zhuang Zi, Xian Yang Lu and Bei Cang respectively. Other services include tolls collection, lease of office building or apartments and other services. These are not included within the reportable operating segments, as they are not individually included in the reports provided to the managers operating meeting. The results of these operations are 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.

(i) For the period ended 30 June 2012

	Sewage water processing services			Recycle water and collection pipeline	Tap water	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants				
Segment revenue	396,489	77,696	129,137	55,211	21,546	65,889	745,968
Segment expense	(304,421)	(63,488)	(117,558)	(42,900)	(19,591)	(36,230)	(584,188)
Results before share of profits of an associate	92,068	14,208	11,579	12,311	1,955	29,659	161,780
Share of profits of an associate							584
Profit before income tax							162,364
Income tax expense							(44,205)
Profit for the period							118,159
Segment assets	5,225,860	765,236	1,570,914	750,111	280,048	1,013,608	9,605,777
Investment in an associate	—	—	—	—	—	41,253	41,253
Total assets	5,225,860	765,236	1,570,914	750,111	280,048	1,054,861	9,647,030
Total liabilities	3,746,212	445,582	577,167	698,501	87,693	315,596	5,870,751
Other information							
– Interest income	6,091	326	706	2,665	20	6,415	16,223
– Interest expenses	(80,194)	(13,518)	(26,471)	(1,509)	(4,352)	(895)	(126,939)
– Depreciation	(58,063)	—	(1,783)	(11,241)	—	(2,518)	(73,605)
– Amortisation	(5,817)	(18,124)	(31,386)	(253)	(4,496)	(6,670)	(66,746)
– Capital expenditures	66,914	2,895	6,720	8,044	820	13,277	98,670

(ii) For the period ended 30 June 2011

	Sewage water processing services			Recycle water and collection pipeline			
	Tianjin plants	**Hangzhou plant**	**Other plants**		**Tap water**	**All other segments**	**Group**
Segment revenue	448,259	68,371	118,533	33,856	19,836	40,617	729,472
Segment expense	(309,440)	(63,759)	(110,728)	(30,396)	(19,281)	(9,681)	(543,285)
Results before share of loss of an associate	138,819	4,612	7,805	3,460	555	30,936	186,187
Share of loss of an associate							(489)
Profit before income tax							185,698
Income tax expense							(45,987)
Profit for the period							139,711
Segment assets	4,660,648	808,660	1,356,119	647,730	334,922	667,037	8,475,116
Investment in an associate	—	—	—	—	—	41,094	41,094
Total assets	4,660,648	808,660	1,356,119	647,730	334,922	708,131	8,516,210
Total liabilities	2,967,130	503,933	531,825	719,332	160,224	74,881	4,957,325
Other information							
– Interest income	2,493	171	738	1,973	37	5,972	11,384
– Interest expenses	(44,670)	(12,727)	(21,454)	(2,928)	(5,436)	—	(87,215)
– Depreciation	(60,060)	—	(1,038)	(7,651)	—	(3,004)	(71,753)
– Amortisation	(5,208)	(18,124)	(28,129)	(57)	(5,515)	(40)	(57,073)
– Capital expenditures	59,291	9,649	20,319	13,773	2,175	35,309	140,516

4. Operating profit

Operating profit is stated after (crediting)/ charging the following:

	Unaudited For the six months ended 30 June 2012	Unaudited For the six months ended 30 June 2011
Crediting:		
Rental	(5,078)	(5,217)
Charging:		
Depreciation and amortisation expenses	140,351	128,826
Staff costs	80,536	72,637
Raw materials and consumables used	20,848	19,773
Repair and maintenance expenses	28,025	21,192
Loss of disposal of property, plant and equipment	2,190	13,468

5. Finance costs-net

	Unaudited For the six months ended 30 June 2012	Unaudited For the six months ended 30 June 2011
Interest expenses of borrowings	138,009	96,528
Less: Capitalised interest	(11,070)	(9,313)
	126,939	87,215
Less: Interest income	(16,223)	(11,384)
– long-term receivables	(5,754)	(5,717)
– bank deposits	(10,469)	(5,667)
Others	1,575	498
	112,291	76,329

6. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% as at 30 June 2012 (2011: Nil). PRC income tax is calculated at the statutory rate of 25% (2011: 25%).

	Unaudited For the six months ended 30 June 2012	Unaudited For the six months ended 30 June 2011
Current income tax	38,533	41,867
Deferred income tax	5,672	4,120
	44,205	45,987

7. Interim dividends

No interim dividend was proposed by the Board of Directors of the Company for the six months ended 30 June 2012 (2011: Nil).

8. Trade receivables and trade receivables due after one year

Details of the trade receivables are as follows:

	Unaudited 30 June 2012	**Audited 31 December 2011**
Due from TSC for:		
– Water processing services	1,214,143	998,903
– Construction of plants	68,794	68,794
	1,282,937	1,067,697
Toll road fee	36,115	—
Due from others – current	131,781	97,680
	1,450,833	1,165,377
Less: Non-current portion	(68,794)	(68,794)
	1,382,039	1,096,583

(a) Aging of trade receivables prior to the reclassification is as follows:

	Unaudited 30 June 2012	**Audited 31 December 2011**
Within one year	965,695	865,014
One to two years	416,344	231,419
Over two years	68,794	68,944
	1,450,833	1,165,377

9. Trade payables, Advances and Other payables

	Unaudited 30 June 2012	**Audited 31 December 2011**
Trade payables (note (a))	44,976	18,481
Advances (note (b))	525,124	423,387
Other payables (note (c))	291,845	412,095
	861,945	853,963

(a) As at 30 June 2012, the majority of trade payables are aged within one year.

(b) Advances from customers comprise:

	Unaudited 30 June 2012	**Audited 31 December 2011**
For recycled water pipeline connection	509,882	407,679
For heating service	—	6,881
Received from project of Han Gu	4,761	4,521
Received from landfill project	5,335	—
Received from project of Yingli Energy	1,796	—
Received from deodorization project	2,000	—
Other advances	1,350	4,306
	525,124	423,387

(c) Other payables comprise:

	Unaudited 30 June 2012	**Audited 31 December 2011**
Construction costs payable	211,692	224,627
Payable for purchase of fixed assets and concession rights of plants	46,513	111,179
Long-term debenture interests payables	30,987	7,747
Others	2,653	68,542
	291,845	412,095

The carrying value of trade and other payables approximates their fair value due to their short-term maturities.

§8 PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

§9 CORPORATE GOVERNANCE CODE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the reporting period, in compliance with the code provisions of Corporate Governance Code as set out in the Appendix 14 to the Rules Governing the Listing of Securities on the HKSE.

§10 AUDIT COMMITTEE

On 31 July 2001, the Board approved the establishment of the Audit Committee to review and supervise the Company's financial reporting procedure and internal controls. The Audit Committee comprises the independent non-executive Directors, Mr. Xie Rong, Mr. Di Xiaofeng and Ms. Lee Kit Ying, Karen. The Audit Committee, together with the management of the Group, have reviewed the accounting principles and practices adopted by the Group and discussed with the management of the Group the internal controls and financial reporting matters including the review of the unaudited interim results and the Interim Report. The Audit Committee agreed with the accounting principles, standards and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2012.

By order of the Board
Zhang Wenhui
Chairman

Tianjin, the PRC
23 August 2012

As at the date of this announcement, the Board 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.