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 2015

§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 2015 annual report of the Company. For detailed information, please read the 2015 annual report of the Company carefully.

1.2 PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the 2015 financial reports of the Company and have issued standard unqualified audit reports.

1.3 Mr. Liu Yujun, the Company's chairman, Ms. Peng Yilin, the officer in charge of the accounting work, and Mr. Liu Tao, the officer in charge of the accounting department (the accounting management officer), have declared that they are responsible for the truthfulness, accuracy and completeness of the financial reports contained in the 2015 annual report.

§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	Niu Bo	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
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§3 ACCOUNTING DATA AND FINANCIAL INDICATORS

(For each of the three years ended 31 December 2015 as prepared in accordance with the PRC Accounting Standards For Business Enterprises)

3.1 Major accounting data

Unit: 0'000 Currency: RMB

	2015	**2014**	**Increase/decrease for the period as compared to the same period last year (%)**	**2013**
Operating income	193,420.6	182,807.9	5.81	174,986.1
Net profit attributable to the shareholders of the Company	33,053.7	30,816.8	7.26	28,189.9
Net profit after deduction of extraordinary items attributable to the shareholders of the Company	29,723.7	29,128.3	2.04	26,848.9
Net cash flow from operating activities	231,067.9	60,936.9	279.19	57,147.3

	As at the end of 2015	**As at the end of 2014**	**Increase/decrease as at the end of the period as compared to the end of the same period last year (%)**	**As at the end of 2013**
Net assets attributable to the shareholders of the Company	440,111.5	417,048.4	5.53	397,649.4
Total assets	1,004,930.2	1,085,948.2	-7.46	1,107,375.1
Total share capital as at the end of the period	142,722.8	142,722.8	0.00	142,722.8

3.2 Major financial indicators

Currency: RMB

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

3.3 Extraordinary items

Unit: 0'000 Currency: RMB

	Amount in 2015	Amount in 2014	Amount in 2013
Profit/loss from disposal of non-current assets	0.4	-181.2	-485
Government grants recognized in current profit and loss, except for those closely related to business operation, in compliance with national policy and settled in certain amount which are constantly granted by government	4,113.7	2,316.9	2,291
Other non-operating income and expenses except for the above items	407.4	104.7	77
Effect on minority interests	-61.1	8.2	-71
Income tax effect	-1,130.4	-560.1	-471
Total	3,330.0	1,688.5	1,341

§4 DIRECTORS' REPORT

I. MANAGEMENT DISCUSSION AND ANALYSIS

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

1. To continue steady progress of water utilities business operation: During the reporting period, the subsidiaries of the Company in Guiyang, Hangzhou, Xi'an, etc., saw smooth progress including the upgrade of their sewage treatment facilities and the corresponding adjustment of service fees. This ensured the continuing revenue from the sewage treatment projects of the Company. The Company successfully recovered the receivables concerning the four sewage treatment plants in Tianjin area before the signing of licensed operation agreements, totaling RMB 1,890 million and repaid part of the bank loans. This has improved the Company's liabilities position and supported the healthy development of the Company.

2. To continue the increasing efforts in the transformation of achievements in technology research and development: During the continuous revenue growth from deodorant business, efforts in promoting the technology development in industrial sewage, the construction of high voltage sludge carbon source technology demonstration projects and the marketing of products such as biological agents will be made to provide new profit growth points for the Company in the future.

3. To vigorously promote market development: For sewage treatment business, the Company was awarded the sewage treatment PPP project in Jieshou city of the Anhui Province, and signed a third party environmental management agreement with Linyi city and Yishui county of the Shandong province respectively. For new energy cooling and heating supply business, the Company was awarded the licensed operation project of energy station 2 in Houtai scenic area of Tianjin. In March 2016, the Company was awarded the licensed operation project of energy station in Binhai New District Cultural Center (the first phase) in Tianjin. Currently, the Company has successfully commenced the above projects.

4. To further strengthen the Company's management: During the reporting period, in order to highlight the role and function of the Group's market development, project construction, operation and management and research and development in technology, the Company adjusted the organizational structure, changing from the original division-by-business system to a direct functional system. After the organizational restructuring, the integration of overall resources of the Group will be facilitated and this will further enhance the management efficiency.

II. OPERATION SITUATION OF PRINCIPAL BUSINESS DURING THE REPORTING PERIOD

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

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

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

During the reporting period, the Group made a loss provision of RMB 10.98 million for the Anguo Capital Water Company Limited's assets in the urban water supply and sewage treatment project and a loss provision of RMB18.28 million for the Tianjin Jinning Capital Environmental Water Company Limited's assets subject to licensed operation.

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

2. Analysis of the principal business

(1) Sewage treatment business

As at the end of the reporting period, the scale of sewage handled by the Group under licensed operation was 3.08 million cubic meters per day, which was basically the same as compared with that at the beginning of the reporting period; the operating scale under entrustment was about 0.79 million cubic meters per day, which has increased slightly from that at the beginning of the reporting period. During the reporting period, the Group handled sewage in a total of 1,280.05 million cubic meters, representing a 9% increase from that of 2014. This was mainly attributed to the increase in scale and capacity of Jingu Sewage Treatment Plant after the relocation of Jizhuangzi Sewage Treatment Plant in Tianjin region, as well as the increase in sewage treatment capacity by some of the subsidiaries. The revenue from sewage treatment totaled RMB 1,398.29 million, representing a 1.83% increase from that of 2014. The growth rate being less than that of sewage treatment capacity is mainly because of the payment of value-added tax starting from 1 July 2015 by the Group for its sewage treatment business in accordance with the provisions in the "Notice on the Issuing of the Catalogue of Value-Added Tax Preferences for Products and Labor Services Involving the Comprehensive Utilization of Resources" issued by the State Administration of Taxation of the PRC Ministry of Finance (the "**Cai Shui 2015 No.78**"), which regarded all unit price for the existing service fees to be tax inclusive. As a result, the Group's revenue incurred from the sewage treatment business was reduced by approximately RMB 107 million.

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

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

(2) Recycled water business

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

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

(3) Cooling and heating supply business

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

(4) Tap water business

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

(5) Transformation of achievements in technology research

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

(6) Toll collection business

The toll collection business has followed the spirit as laid down in JinZhengBan 2010 No. 51 Document "Opinions on the Implementation of Oil Prices and Tax Expenses Reforms and the Cancellation of Toll Collection on Government Indebted Tier 2 Roads", promulgated on 19 May 2010, and realised revenue of the toll collection business based on the amount agreed in the "Entrusted Toll Collection Agreement". The revenue level continued to remain stable. During the reporting period, the revenue from toll collection business amounted to RMB 67.03 million, which was in line with that of 2014.

(I) ANALYSIS OF PRINCIPAL BUSINESSES

Analysis on changes in profit statement and cash flow statement

Unit: 0,000 Currency: RMB

Item	Amount fot the current period	Amount for the same period last year	Percentage change (%)
Operating revenue	193,420.6	182,807.9	5.81
Operating costs	120,194.4	108,477.5	10.80
Sales expenses	316.6	0.0	—
Administrative expenses	10,536.6	10,341.5	1.89
Financial expenses	18,285.5	18,762.6	-2.54
Non-operating revenue (Note 1)	15,447.9	80,087.6	-80.71
Non-operating costs (Note 2)	3,494.5	77,847.2	-95.51
Net cash flow from operating activities	231,067.9	60,936.9	279.19
Net cash flow from investing activities	-49,285.5	-32,949.2	-49.58
Net cash flow from financing activities	-130,414.1	-45,996.7	-183.53
Research and development expenses (Note 3)	281.5	674.7	-58.27

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

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

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

1. Analysis of income and costs

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

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

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

Unit: 0,000 Currency: RMB

Major Business by Industry

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

Major business by region

Unit: 0,000 Currency: RMB

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

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

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

(2) Analysis of production and sales volume

Not applicable

(3) Cost analysis

Unit: 0,000 Currency: RMB

By industry

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

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

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

Industry	Cost item	Amount for the current period	Percentage of total costs for the current period (%)	Amount in the same period last year	Percentage of total costs for the same period last year (%)	Percentage change in the amount for the current period as compared to the same period last year (%)	Explanation
Transformation of achievements in technology research	Labor	822	0.76	869	0.89	-5.41	
	Payments for materials and facilities	2,588	2.39	1,237	1.26	109.24	Note 5
	Other manufacturing costs	862	0.80	764	0.78	12.78	
	Subtotal	4,272	3.95	2,870	2.93	48.85	
Others	Product sale	2,749	2.54	230	0.23	1,095.22	Note 6
	Other manufacturing costs	556	0.51	129	0.13	330.23	Note 7
	Subtotal	3,304	3.06	359	0.37	820.33	
Total		108,128	100	97,930	100	10.41	

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

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

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

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

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

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

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

2. Expenses

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

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

3. Research and development investment

(1) Research and development investment

Unit: 0,000 Currency: RMB

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

(2) Explanation

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

4. Cash flow

Unit: 0,000 Currency: RMB

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

(II) Major changes in profits caused by non-principal businesses

Not applicable

(III) Analysis of assets and liabilities

Assets and liabilities

Unit: 0,000 Currency: RMB

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

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

(IV) Industry analysis

(1) Water utilities industry

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

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

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

(2) New energy industry

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

(V) Analysis of investment

1. Overall analysis of equity investment

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

(1) Major equity investment

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

(2) During the reporting period, the Company, using its own financial resources, injected capital of RMB 84 million to its controlling subsidiary Hangzhou Company for the upgrading and reconstruction of Qige Sewage Treatment Plant (Phases I and II). The project is invested and operated by Hangzhou Company following the BOT model. The estimated total investment for this project is approximately RMB 400 million. Both sides of shareholders are responsible for providing additional fund of RMB 120 million for Hangzhou Company in accordance with their respective shareholding ratio (therefore, the other shareholder - Hangzhou Water Holding Group Co., Ltd. injected RMB 36 million) to be used as project fund. The remaining investment amount will be solved with bank loans obtained by Hangzhou Company. After the capital injection, the registered capital of Hangzhou Company will increase to RMB 377.445 million, with the Company's shareholding ratio remains unchanged. Currently, the construction is underway; a new licensed operation agreement will be executed upon the completion of construction.

(3) During the reporting period, the Company injected capital of RMB 15 million to its wholly-owned subsidiary, Kaiying Company, for the production and sales of new products, expansion in production capacity and supplementing the operating capital. After the capital injection, the registered capital of Kaiying Company will increase to RMB 20 million.

(4) In September 2014, the Company was awarded the licensed operation project of energy station 1 and 2 in Tianjin Heiniuchengdao. The project, with total investment of approximately RMB 247 million, relates to the provision of heating and cooling supply service for users in the specified area during the licensed operation period and fees of heating and cooling supply will be charged. After the licensed operation period, the project will be handed over to an institution designated by the government. The licensed operation period is 30 years. During the reporting period, the Company, using its own capital of RMB 64 million, registered and incorporated its wholly-owned subsidiary, Jiayuan Tianchuang, which will invest, construct and operate the project. Currently, the project is under the construction process.

(5) In January 2015, the Company was awarded the licensed operation project of energy station 2 in Houtai scenic area of Tianjin. The project, with total investment of RMB 117 million, relates to the provision of heating and cooling supply service for users in the specified area during the licensed operation period and fees of heating and cooling supply will be charged. After the licensed operation period, the project will be handed over to an institution designated by the government. The licensed operation period is 30 years. During the reporting period, the Company, using its own capital of RMB 33 million, registered and incorporated its wholly-owned subsidiary, Jiayuan Shengchuang, which will invest, construct and operate the project. Currently, the project is under pre-construction preparation.

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

(2) Major non-equity investment

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

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

(3) Financial assets measured by fair value

None

(VI) Disposal of major assets and equity interests

None

(VII) Analysis of major subsidiaries and companies in which the Company has invested

1. Analysis of major subsidiaries

Unit: 0,000 Currency: RMB

(Unless otherwise stated)

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

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

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

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

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

(VIII) Structured entities controlled by the Company

None

III. Discussion and analysis of the Company's future development

(I) Competitive landscape and development trend of the industry

(1) Development trend of the industry

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

(2) Competitive landscape of the market

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

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

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

(II) Development strategies of the Company

Combined with the new trend of national development of ecological civilization and the new features of development in the industry, to suit the new need requirements for business development of the Company, the Company will continue to adhere the vision of "returning clean water to the world, delivering fresh air to the earth" to pursue sustainable development in accordance with its strategic positioning as a provider of integrated environmental solutions. In the future, the Company will focus on promoting the upgrade of overall capabilities to achieve the upgrading of capabilities of a domestically-advanced service provider in capital operation, low-cost financing, agreement maintenance, cost control, market development, integrated environmental service, resource integration, strategic implementation and risk prevention and control.

1. Development mode

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

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

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

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

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

(3) Direct financing and capital operation

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

(III) Operating plans

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

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

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

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

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

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

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

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

(3) Strengthen capital operation and promote business development

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

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

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

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

(1) Improve the market development system; actively expand new projects in water utilities and environment; focus on acquisition opportunities in the secondary market; achieve the scale expansion in the amount of water;

(2) Continue to strengthen the management of various operating businesses of the Group and improve the overall operating level by updating and perfecting standards related to operation, technology and quality, etc.;

(3) Promote the upgrading and reconstruction of urban sewage treatment plants, ensuring the interests of the Group, and promote the upgrading and reconstruction of subsidiaries in other cities;

(4) Properly carry out the signing of licensed operation agreement, preliminary works and construction works related to the energy station projects in Heiniuchengdao, Houtai and Binhai New Area Cultural Center, and continue to follow up with the development of new energy projects in the Tianjin region;

(5) Continue to increase the investment in technological research and development work and start the site selection and construction of the base for research and development; further proceed with the market promotion of products and technologies on deodorants, industrial sewage process, sludge disposal, biological bacteria agents, carbon source extraction in sludge, etc., and commit to new research and development projects;

(6) Strengthen various basic management tasks and complete the upgrading of the Group's internal control system; put greater efforts in the management of legal affairs; improve remuneration and incentive mechanism; strengthen the supervision and monitoring of decision making.

3. Income, expenses and cost plan:

In 2016, assuming no material changes in the State's existing policy direction conformed by the Group and the operating environment, the range of changes in fee income from sewage treatment services will not exceed 3% as compared to 2015.

Cost control target:

In 2016, resource and energy expenses and labour costs will continue to increase, and the new environmental law will impose tougher provisions on the industry and the operation cost of each water plant will increase. Assuming no material changes in the existing State's policy direction conformed by the Group and the operating environment, it is expected the Group's cost of sewage treatment business will increase by not more than 10% in 2016 as compared to that of 2015. Also, it is expected that the increase in costs will not have material effect on the overall operation of the Company.

4. Technology R&D investment plan:

In 2016, the Group will invest no less than RMB5.14 million in technology research, development and reforms, and will continue to conduct research and development on the new technical processes and application technology in the areas of sewage water treatment and sludge treatment etc..

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

   In 2016, funding demand of relevant projects will be obtained through existing financing channels of the Group. The Company will improve the debt structure and raise capital for development through direct financing methods, and enhance capital cooperation in joint projects through timely introduction of strategic investors and financial investors.

(IV) Possible risks

1. General risk factors

(1) Risk of government credit

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

(2) Risk of change in policy

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

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

(3) Risks of operation and management

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

2. Risk control measures

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

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

(2) Strengthen comprehensive risk management

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

(3) Continue to raise the level of operating management

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

(3) Failure to disclose as per rules due to inapplicability or special reasons

Not applicable

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

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

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. 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.

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. 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.

§ 5 FINANCIAL ACCOUNTING REPORT

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

(All amounts in Rmb thousand unless otherwise stated)

	Note	Year ended 31 December 2015	2014
Continuing operations			
Revenue	2(a)	1,753,667	1,671,132
Business tax expense and surcharge		(33,289)	(16,219)
Cost of sales	3	(1,112,864)	(1,003,207)
Gross profit		607,514	651,706
Selling expenses	3	(3,166)	—
Administrative expenses	3	(105,366)	(103,415)
Other income – net	2(b)	59,870	51,469
Other gains – net	4	119,534	22,404
Operating profit		678,386	622,164
Finance income		26,853	46,607
Finance expenses		(209,708)	(234,233)
Finance expenses – net	5	(182,855)	(187,626)
Share of loss of investment accounted for using equity method		(5,349)	(1,274)
Profit before income tax		490,182	433,264
Income tax expense	6	(145,703)	(115,552)
Profit/total comprehensive income for the year		344,479	317,712
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		330,537	308,168
Non-controlling interests		13,942	9,544
		344,479	317,712
Earnings per share for profit attributable to the owners of the Company (in Rmb Yuan)			
– basic	7	0.23	0.22
– diluted	7	0.23	0.22

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015
(All amounts in Rmb thousand unless otherwise stated)

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

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

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

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

(a) The following new standards and amendments to standards which are relevant to the Group and are mandatory for the first time for the financial year beginning 1 January 2015 but have no material impact on the Group:

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

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

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

(c) New standards and interpretations not yet adopted

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

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

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective date not yet determined

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

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

	2015	**2014**
Revenue	1,753,667	1,671,132
Other income - net	59,870	51,469
Total	1,813,537	1,722,601

(b) Analysis of other income - net

	2015		2014	
	Income	**Cost**	**Income**	**Cost**
Contract operation service	121,708	(98,253)	113,402	(86,091)
Technical services	38,577	(8,076)	25,786	(7,819)
Rental	11,098	(5,705)	10,624	(5,179)
Others	9,156	(8,635)	7,135	(6,389)
	180,539	(120,669)	156,947	(105,478)

(c) Operating segment analysis

Management has determined the operating segments based on the reports reviewed by the managers operating meeting that are used to make strategic decisions for the purpose of allocating resources and assessing performance.

The meeting considers the business from both service and geographical perspectives. From a service perspective, management assesses the performance of processing of sewage water and construction of related facilities, recycled water and pipeline connection, heating and cooling services, tap water operations and sale of environmental protection equipment. Processing of sewage water is further evaluated on a geographical basis (Tianjin plants, Hangzhou plant and other plants). The environmental protection equipment is mainly the achievement of technology research. From the year of 2015, sale of environmental protection equipment segment was separately disclosed and disclosure information for the corresponding period was re-presented accordingly.

The assets are allocated based on the operations of the segment and the physical location of the asset. The liabilities are allocated based on the operations of the segment. Expenses indirectly attributable to each segment are allocated to the segments based on the proportion of each segment's revenue.

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

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

The segment information provided to the managers operating meeting for the reportable segments for the year ended 31 December 2015 and 2014 respectively is as follows:

(i) For the year ended 31 December 2015

	Sewage processing and facility construction services			Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	801,005	163,825	327,189	185,401	69,793	63,712	46,733	155,879	1,813,537
Segment expense	(560,144)	(117,772)	(287,569)	(132,454)	(46,766)	(52,703)	(48,682)	(71,916)	(1,318,006)
Results before share of profits of an associate	240,861	46,053	39,620	52,947	23,027	11,009	(1,949)	83,963	495,531
Share of investment accounted for using the equity method									(5,349)
Profit before tax									490,182
Income tax expense									(145,703)
Profit for the year									344,479
Segment assets	4,484,801	805,611	2,002,545	1,422,690	469,850	227,198	48,734	561,875	10,023,304
Investment accounted for using the equity method	—	—	—	—	—	—	–	25,998	25,998
Total assets	4,484,801	805,611	2,002,545	1,422,690	469,850	227,198	48,734	587,873	10,049,302
Total liabilities	2,877,487	210,755	690,793	1,134,419	206,453	54,493	22,825	233,324	5,430,549
Other information									
– Interest income (Note 5)	8,947	637	1,992	3,961	84	11	—	11,221	26,853
– Interest expenses (Note 5)	(117,868)	(16,825)	(48,220)	(246)	(6,471)	(5,710)	—	(2,080)	(197,420)
– Depreciation	(131)	—	(19)	(37,437)	(399)	—	(616)	(6,126)	(44,728)
– Amortization	(136,569)	(40,322)	(69,181)	(203)	(13,965)	(9,636)	(16)	(2,775)	(272,667)
– Capital expenditures	(188)	(84,920)	(150,106)	(2,831)	(92)	—	—	(2,732)	(240,869)

(ii) For the year ended 31 December 2014

	Sewage processing and facility construction services			Recycled water and pipeline connection	Heating and cooling services	Tap water operations	Sale of environmental protection equipment	All other segments	Group
	Tianjin plants	Hangzhou plant	Other plants						
Segment revenue	796,351	163,650	318,879	164,734	67,570	61,515	28,163	121,739	1,722,601
Segment expense	(545,711)	(138,521)	(273,912)	(137,354)	(45,919)	(59,286)	(31,670)	(55,690)	(1,288,063)
Results before share of profits of an associate	250,640	25,129	44,967	27,380	21,651	2,229	(3,507)	66,049	434,538
Share of investment accounted for using the equity method									(1,274)
Profit before tax									433,264
Income tax expense									(115,552)
Profit for the year									317,712
Segment assets	5,774,822	677,996	1,864,435	1,284,451	398,570	218,916	22,352	586,593	10,828,135
Investment accounted for using the equity method	—	—	—	—	—	—	—	31,347	31,347
Total assets	5,774,822	677,996	1,864,435	1,284,451	398,570	218,916	22,352	617,940	10,859,482
Total liabilities	3,868,171	276,649	756,348	1,072,181	244,937	64,036	11,704	227,476	6,521,502
Other information									
– Interest income (Note 5)	2,372	464	1,924	2,351	121	18	41	11,369	18,660
– Interest expenses (Note 5)	(146,979)	(20,792)	(43,432)	(434)	(8,167)	(7,463)	—	(1,855)	(229,122)
– Depreciation	(380)	(2,701)	(22,529)	(52,309)	(387)	(1,806)	(270)	(6,539)	(86,921)
– Amortization	(118,154)	(36,249)	(66,384)	(545)	(13,336)	(9,827)	—	(2,799)	(247,294)
– Capital expenditures	(365,582)	(844)	(218,885)	(119,437)	(15,934)	—	(3,009)	(1,466)	(725,157)

3 Expense by nature

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

	2015	2014
Amortisation of intangible assets and land use rights	272,667	247,294
Utilities	235,942	214,036
Employee benefit expenses	207,395	183,379
Depreciation of property, plant and equipment and investment properties	44,728	86,921
Repair and maintenance expenses	90,048	82,369
Raw materials and consumables used	86,718	43,828
Sewage mud processing fee	54,343	42,295
Cost of recycling water pipeline connection service	42,938	35,358
Construction cost of sewage water plants	29,005	28,557
Impairment of other current assets	10,981	6,900
Impairment of intangible assets	18,278	17,010
Provision of trade receivables	2,330	—
Factory environment, detection and fire prevention expenses	23,409	20,842
Network maintenance costs	18,351	19,252
Other taxes	14,213	11,320
Travel, meeting and business entertainment expenses	9,265	9,471
Toll road management fee	7,120	7,120
Consulting service expenses	6,229	4,476
Office expenses	4,704	4,305
Auditors' remuneration	4,200	4,200
Expenses of secretary of the board	3,185	3,642
Others	35,347	34,047
	1,221,396	1,106,622

4 Other gains - net

	2015	2014
VAT refund	74,319	—
Government grants	41,137	23,169
Gain/(loss) on disposal of property, plant and equipment	4	(1,812)
Others	4,074	1,047
	119,534	22,404

5 Finance costs- net

	2015	2014
Interest expenses of borrowings	197,420	229,122
Less: Capitalised interest	—	—
Net interest expenses	197,420	229,122
Less: Interest income	(26,853)	(18,660)
– long-term receivables	(11,089)	(11,343)
– bank deposits	(15,764)	(7,317)
Exchange loss/(gains) (note(a))	7,394	(27,947)
Others	4,894	5,111
	182,855	187,626

(a) For the year ended 31 December 2015, the exchange loss on the long-term payables denominated in JPY and US dollar were RMB7 million (2014: RMB28 million of the exchange gain).

6 Income tax expense

	2015	2014
Current income tax	126,671	97,751
Deferred income tax	19,032	17,801
	145,703	115,552

7 Earnings per share

Basic earnings per share is calculated based on the profit attributable to owners of the Company of RMB331 million (2014: RMB308 million) and weighted average number of ordinary shares of 1,427 million shares in issue during the year (2014: 1,427 million shares).

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has no dilutive potential ordinary shares. Diluted earnings per share are calculated using the same bases as described above for calculating basic earnings per share.

	2015	**2014**
Profit attributable to owners of the Company	330,537	308,168
Weighted average number of ordinary shares in issue (million shares)	1,427	1,427
Basic and diluted earnings per share (RMB yuan)	0.23	0.22

8 Dividends

The dividend paid in 2015 and 2014 were RMB129 million (RMB0.07 per share) and RMB91 million (RMB0.08 per share) respectively. A dividend in respect of the year ended 31 December 2015 of RMB0.07 (gross including tax) per share, amounting to a total dividend of RMB100 million, is to be approved at the annual general meeting. These financial statements did not reflect this dividend payable.

9 Trade receivables

	As at 31 December	
	2015	**2014**
Receivables from third parties	1,200,167	2,530,097
Receivables from related parties	48,778	40,186
	1,248,945	2,570,283
Less: allowance for impairment of trade receivables (note(b))	(9,499)	(7,169)
	1,239,446	2,563,114

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

	2015	**2014**
Within 1 year	1,108,109	649,382
1 to 2 years	124,862	786,811
2 to 3 years	15,974	795,627
Over 3 years	—	338,463
Total	1,248,945	2,570,283

(b) Movements on the Group's bad debt provision are as follows:

	2015	2014
At 1 January	(7,169)	(7,169)
Additions	(2,330)	—
At 31 December	(9,499)	(7,169)

On 31 December 2015, the total amount of trade receivables due from Qujing City Water General Company in respect of sewage processing fee and tap water fee was RMB103 million. The management estimated and provided RMB9.5 million bad debt provision for those foreseeable uncollectible receivables with ageing over 2 years.

10 Trade payables

As at 31 December 2015, the majority of trade payables are aged within one year.

5.2 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.

§6 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.

§7 CORPORATE GOVERNANCE CODE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the year, in compliance with the Corporate Governance Code 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**").

§8 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.

§9 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.

§10 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.

§11 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 2015 with the Directors.

§12 REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in this preliminary announcement of the Group's results for the year ended 31 December 2015 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

By Order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
29 March 2016

As at the date of this announcement, the Board of Directors comprises four executive Directors: Mr. Liu Yujun, Mr. Lin Wenbo, Ms. Fu Yana and Ms. Peng Yilin; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Mr. Gao Zongze, Mr. Guo Yongqing and Mr. Wang Xiangfei.