Tianjin Capital Environmental Protection Company Limited
天津創業環保股份有限公司

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

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2007

1. IMPORTANT

1.1 The board (the "**Board**") of directors ("**Directors**"), supervisory committee ("**Supervisory Committee**") of Tianjin Capital Environmental Protection Company Limited (the "**Company**") and its Directors, supervisors ("**Supervisors**"), senior management ("**Senior Management**") confirmed that the information in this 2007 interim report ("**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 Mr. Wang Zhanying, the Director was unable to attend the Board meeting due to business affairs, and had appointed Mr. Gu Qifeng, the vice Chairman to vote on his behalf. Mr. Gao Zongze and Mr. Ko Poming, both independent non-executive Directors, were unable to attend the Board meeting due to business trip, and had appointed Mr. Wang Xiangfei, the independent non-executive Director to vote on their behalf.

1.3 The interim financial statements of the Company for the six months ended 30 June 2007 are unaudited but have been reviewed by the audit committee (the "**Audit Committee**") of the Company.

1.4 Ms. Ma Baiyu, the Chairman of the Company, Mr. Gu Qifeng, the person in charge of the accounting function, and Ms. Chen Yinxing, the person in charge of the accounting department of the Company, have declared that they shall be responsible for 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 ("**SSE**")
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**")
Short form of the Company's A share convertible bonds ("**A Share Convertible Bonds**")	Tianjin Convertible Bonds
Code for the A Share Convertible Bonds	110874
Place for listing of the A Share Convertible Bonds	SSE

	Secretary to the Board	**Company Secretary in Hong Kong**	**Securities Affairs Representative**
Name	Ms. Fu Yana	Mr. Kwan Man Fai	Ms. Guo Fengxian
Correspondence address	TCEP Building, 76 Weijin South Road, Nankai District, Tianjin, The 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	852-2218-0920	86-22-23930128
Facsimile number	86-22-23930126	852-2501-0028	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 Accounting Standards and the Accounting System for Business Enterprise of the PRC (collectively the "PRC GAAP")**

During the reporting period, the net profits of the Company and its subsidiaries (the "**Group**") as prepared under the PRC GAAP amounted to RMB109,374,000. The major financial information for the reporting period and the corresponding period of last year and the last year are as follows:

2.2.1 *Major Financial Information and Benchmarks*

Unit:'000 Currency: RMB

	At the end of the reporting period	**At the end of last year**		**Increase/ Decrease (%)**
		After adjustment	**Before adjustment**	
Total assets	6,166,050.00	5,882,459.00	5,892,527.00	4.82
Equity interests (or shareholder's equity)	2,719,148.00	2,386,858.00	2,402,070.00	13.92
Net assets value per share (RMB)	2.02	1.88	1.81	7.45
	Reporting period (January to June)	**Corresponding period of last year**		**Increase/ Decrease (%)**
		After adjustment	**Before adjustment**	
Operating profit	156,099.00	141,633.00	146,401.00	10.21
Total profit	157,115.00	142,584.00	147,352.00	10.19
Net profit	110,585.00	93,030.00	96,225.00	18.87
Net profit after extraordinary items	109,904.00	92,393.00	95,588.00	18.95
Basic earnings per Share (RMB)	0.08	0.07	0.07	14.29
Diluted earnings per Share (RMB)	0.08	0.07	0.07	14.29
Return on net assets (%)	4.07	3.90	4.13	Increase 0.17%
Net cash flow from operating activities	54,528.00	118,181.00	118,181.00	-53.86
Net cash flow from operating activities per Share	0.04	0.09	0.09	-55.56

2.2.2 *Extraordinary items*

√ Applicable ☐ Not applicable

Unit:'000 Currency: RMB

Extraordinary items	**Amount**
Other non-operating income and expenses save for the above, net	681
Total	681

2.2.3 *Significant differences between accounts prepared under the PRC GAAP and Hong Kong Financial Reporting Standards ("**HKFRS**")*

√ Applicable ☐ Not applicable

Unit:'000 Currency: RMB

	PRC GAAP	**HKFRS**
Net profit	109,374	109,374
Net assets	2,834,048	2,834,048
Explanation	The net profit and net assets calculated in accordance with the new corporation accounting principles adopted this year are the same as those calculated in accordance with HKFRS.	

3 CHANGES IN THE SHARES AND SHAREHOLDERS OF THE COMPANY

3.1 Changes in the Share Capital of the Company

√ Applicable ☐ Not Applicable

	Before the changes		Increase/reduction during the reporting period (+, -)					After the changes	
	Number of Shares	Percentage	Number of new Shares issued	Bonus issues	Transfer of surplus to share capital	Others	Sub-total	Number of Shares	Percentage
	(Unit: Shares)	*(%)*	*(Unit: Shares)*	*(Unit: Shares)*	*(Unit: Shares)*	*(Unit: Shares)*	*(Unit: Shares)*	*(Unit: Shares)*	*(%)*
I. Restricted circulating Shares									
1. State - owned Shares	797,152,609	59.91	–	–	–	-66,533,005	-66,533,005	730,619,604	52.09
2. State-owned legal person Shares	–	–	–	–	–	–	–	–	–
3. Shares held by other domestic entities	38,485,000	2.89	–	–	–	-38,485,000	-38,485,000	0	0
Including:									
Shares held by domestic corporate entities	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign entities	–	–	–	–	–	–	–	–	–
Including:									
Shares held by overseas corporate entities	–	–	–	–	–	–	–	–	–
Shares held by overseas natural persons	–	–	–	–	–	–	–	–	–
II. Non-restricted circulating Shares									
1. RMB ordinary Shares	155,028,410	11.65	–	–	–	176,988,925	176,988,925	332,017,335	23.67
2. Domestic listed foreign Shares	–	–	–	–	–	–	–	–	–
3. H Shares	340,000,000	25.55	–	–	–	0	0	340,000,000	24.24
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of Shares	1,330,666,019	100	–	–	–	176,988,925	176,988,925	1,402,636,939	100

3.2 Number of the Shareholders and their shareholdings

Total number of the Shareholders as at the end of the reporting period	97,662 Shareholders, including 83 Shareholders holding H Shares				
Shareholdings of the top ten Shareholders					
Shareholders	**Nature of the Shareholders**	**Percentage of shareholding**	**Total number of Shares held**	**Number of restricted circulating Shares held**	**Number of Shares pledged or frozen**
		(%)	*(Unit: Shares)*	*(Unit: Shares)*	*(Unit: Shares)*
Tianjin Municipal Investment Company Limited ("**TMICL**")	State-owned Shareholder	55.25	774,984,445	730,619,604	Pledged 279,520,000
HKSCC Nominees Limited	Unknown	24.05	337,280,900	0	Unknown
Zhou Jun	Domestic Natural Person	0.29	4,096,094	0	Unknown
Shenyang Railway Bureau Economy Development Co., Ltd.	State-owned	0.25	3,500,000	0	Unknown
China Huadian Power Plant Equipment Engineering (Group) Co., Ltd.	State-owned	0.18	2,557,596	0	Unknown
Wei Jianzhong	Domestic natural person	0.17	2,425,859	0	Unknown
Yu Fei	Domestic natural person	0.13	1,780,000	0	Unkown
BOC - Harvest Bond Open-end Securities Investment Fund	Others	0.13	1,759,067	0	Unkown
Galaxy Securities Co. Ltd	Others	0.11	1,500,000	0	Unknown
BOC - Shanghai Shenzhen '300 Index Securities Investment Fund	Others	0.11	1,475,604	0	Unknown

Shareholdings of the top ten non-restricted circulating Shares Shareholders		
Shareholders	**Number of the non-restricted circulating Shares held** *(Unit: Shares)*	**Type of Shares**
HKSCC Nominees Limited	337,280,900	H Shares
TMICL	44,364,841	Ordinary Shares
Zhou Jun	4,096,094	Ordinary Shares
Shenyang Railway Bureau Economy Development Co., Ltd.	3,500,000	Ordinary Shares
China Huadian Power Plant Equipment Engineering (Group) Co., Ltd.	2,557,596	Ordinary Shares
Wei Jianzhong	2,425,859	Ordinary Shares
Yu Fei	1,780,000	Ordinary Shares
BOC - Harvest Bond Open-end Securities Investment Fund	1,759,067	Ordinary Shares
Galaxy Securities Co. Ltd.	1,500,000	Ordinary Shares
BOC- Shanghai Shenzhen 300 Index Securities Investment Fund	1,475,604	Ordinary Shares
Notes on the connected relationship or parties acting in concert among the above Shareholders	Of the 10 largest shareholders of non-restricted circulating Shares, "BOC — Harvest Bond Open-end Securities Investment Fund" (中國銀行 — 嘉實債券開放式證券投資基金) and "BOC - Shanghai Shenzhen 300 Index Securities Investment Fund" (中國銀行 — 嘉實滬深 300 指數證券投資基金) are both related to Harvest Fund Management Co., Ltd. (嘉實基金管理有限公司). It is not certain whether there are any connected relationships among other shareholders and not certain whether they belong to concerted action persons under the "Regulations regarding information management disclosures on changes in shareholdings of listed companies".	

3.3 Changes in the controlling Shareholder and the actual controllers of the Company

√ Applicable ☐ Not Applicable

On 7 June 2007, the Company received a notice from TMICL, the controlling shareholder of the Company, that as agreed by the Tianjin Municipal Government, Tianjin Municipal Engineering Bureau (holder of the State-owned assets of TMICL) ("**Tianjin Municipal Bureau**") will transfer the shares in TMICL owned by it to Tianjin Infrastructure Investment Group ("**Tianjin Investment Group**").

Pursuant to the requirements under the "Company Law", "Securities Law", "Administration Measures for Acquisition of Listed Companies", "Rules Governing the Listing of Securities on the Shanghai Stock Exchange" of the PRC, the related share transfer procedures are being processed. Upon the completion of the present transfer of the State-owned assets, Tianjin Investment Group shall directly own 100% equity interest in TMICL, and become the actual controller of the Company.

For details, please refer to the Shanghai Securities, Hong Kong Wen Wei Po and The Standard dated 8 June 2007.

4 DIRECTORS, SUPERVISORS, AND THE SENIOR MANAGEMENT

4.1 Changes in the shareholding of the Directors, Supervisors and Senior Management

☐ Applicable √ Not Applicable

5 BOARD'S REPORT

During the first half year of 2007, the Group recorded income from principal operations of RMB474,882,000, representing an increase of 29.40% over the corresponding period of 2006. The increase in income from principal operations was mainly attributable to the increase in both the Group's processed sewage water and sewage water processing business by 49.97% and 32.42% respectively over the same period last year. During the reporting period, the Group recorded a net profit of RMB110,585,000, representing an increase of 18.87% over the corresponding period of 2006.

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

(1) **Sewage water processing business**

The Group's sewage water processed in first half year of 2007

Unit: '0000 cubic meters

	First half year of 2007	**First half year of 2006**	**Increase/ decrease over the corresponding period of last year (%)**
Tianjin District	17,047.30	14,723.00	15.79%
Companies in other cities	9,228.61	2,797.96	229.83%
Total	26,275.91	17,520.96	49.97%

(a) *Sewage water processing business in Tianjin District*

During the reporting period, the four sewage water treatment plants in Tianjin District had processed 15.79% more sewage water over the same period last year, of which the sewage water processed in Jizhuangji Sewage Water Treatment Plant and Xianyanglu Sewage Water Treatment Plant, which had both expanded their water collection areas, increased by 11.32% and 32.1% respectively. In addition, in comparison with the corresponding period of last year, the sewage water volume processed in the five-month period by Beicang Sewage Water Treatment Plant was included in the reporting period (Beicang Sewage Water Treatment Plant commenced production of standard-level water from June 2006).

During the reporting period, the Group's four sewage water treatment plants in Tianjin District received a total income of RMB329,013,000 from the operation of processing sewage water, representing an increase of RMB44,861,000 or 15.79% over the corresponding period of last year.

(b) *Sewage water processing business by companies in other cities*

In the second half year of 2006, the volume of the processed sewage water of the subsidiaries in other cities increased by the volume treated by the three sewage water treatment plants, namely Honghu, Baoying and Hangzhou, which all commenced commercial operation from the second half year of 2006. During the reporting period, the subsidiaries in other cities processed 92,286,100 cubic meters of sewage water in aggregate, representing an increase of 229.83% over the corresponding period of last year.

(2) **Recycled water business**

During the reporting period, sales of recycled water by the Group were 1,367,700 cubic meters in aggregate, representing an increase of 727,700 cubic meters or 113.70% over the corresponding period of last year. Such increase over the same period of last year was due to the increase in both the number of users and water consumption.

(3) **Tap water business**

The Group's tap water business maintained a steady growth to achieve a water supply of 16,552,300 cubic meters, representing an increase of 7.76% over the corresponding period of last year.

(4) **Toll collection business**

In the first half year of 2007, the Group's toll collection business realized an income of approximately RMB34,880,000, representing an increase of 5.87% over the corresponding period of last year. Since the change of toll collection arrangement to subcontracting toll collection on 1st July 2003 by the Company, incomes from toll collection have been stable, and there have been no major changes.

5.1 The principal business by industry and products

By industry or by products	Operating income *(RMB'000)*	Operating cost *(RMB'000)*	Profit margin *(%)*	Increase/ decrease of operating income as compared over the corresponding period of last year *(%)*	Increase/ decrease of operating cost as compared over the corresponding period of last year *(%)*	Profit margin as compared over the corresponding period of last year *(%)*
By industry						
Sewage water processing business	410,799	175,734	57.22	32.42	66.83	-8.82
Road and toll collection business	34,880	7,634	78.11	5.87	81.12	-9.1

5.2 Principal business by geographical locations

Regions	Operating income (RMB'000)	Increase/decrease of operating income as compared over last year (%)
Tianjin	379,725	19.75
Guizhou	15,697	20.23
Yunan Qujing	20,490	-8.3
Anhui Fuyang	12,217	66.22
Jiangsu Baoying	5,068	Not yet commenced commercial operation in the corresponding period of last year
Hubei Honghu	3,747	Not yet commenced commercial operation in the corresponding period of last year
Zhejiang Hangzhou	37,835	Not yet commenced commercial operation in the corresponding period of last year

5.3 Reasons for the material changes on the principal operation and its structure

☐ Applicable √ Not Applicable

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

□ Applicable √ Not Applicable

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

□ Applicable √ Not Applicable

5.6 **Overall utilisation of the proceeds**

5.6.1 *Utilisation of the proceeds*

√ Applicable □ Not Applicable

Proceeds raised from the issue of the A Share Convertible Bonds by the Company in 2004 amounted to RMB1,165,390,000. In August 2005, the sale back of the A Share Convertible Bonds to the Company accumulated to RMB823,902,000, and the balance of the proceeds from the A Share Convertible Bonds amounted to RMB341,488,000. As at the end of the reporting period, an aggregate of proceeds of RMB273,090,000 has been utilised, of which RMB32,450,000 was utilised during this year. The unutilised amount of RMB68,398,000 will continue to be invested in the projects committed.

Unit: dollar Currency: RMB

Name of the committed project	Intended investment amount	Any change in the project	Actual invested amount	Progress of the project	Compliance with schedule
Xianyanglu Sewage Water Treatment Plant	620,000,000	No	123,720,000	Acceptance on inspection of all works have been basically completed. The project has completed the trial run, and the water discharged from the plant met the qualified requirements. Currently, the preparation of the final accounts of the projects is in progress.	No
Jizhuangji Sewage Water Treatment Plant (expansion) project (including sewage water discharge project around southeastern rural areas)	321,000,000	No	73,720,000	Acceptance on inspection of all works have been basically completed. The project has completed the trial run, and the water discharged from the plant met the qualified requirements. Currently, the preparation of the final accounts of the projects is in progress.	No
Beicang Sewage Water Treatment Plant Project	149,900,000	No	75,650,000	Acceptance on inspection of all works have been basically completed. The project has completed the trial run, and the water discharged from the plant met the qualified requirements. Currently, the preparation of the final accounts of the projects is in progress.	Yes
Total	1,090,000,000	—	273,090,000	—	—

Explanation for not complying with the progress and revenue as scheduled:

Due to reasons such as the explosion of Severe Acute Respiratory Syndrome (i.e. SARS) in 2003 and the complicated purchasing procedures for the foreign banks, which resulted in the delay in the progress of the above two projects as compared to those as stated in the "Prospectus relating to the Issue of the A Share Convertible Bonds" (the "**Prospectus**"). The projects subsequently progressed smoothly without further delay. Since the preparation of the final accounts of the projects has not been completed, currently the sewage water processing service fee is charged in accordance with the "Sewage Water Processing Interim Service Agreement" entered into between the Company and Tianjin Sewage Water Company, and thus such revenue could not be compared with those as set out in the Prospectus.

5.6.2 *Changes in projects*

☐ Applicable √ Not Applicable

5.7 Change in the Board's operation plan for the second half year

☐ Applicable √ Not Applicable

5.8 Prediction of possible loss incurred for the accumulated net profit from the beginning of the year and the end of the next reporting period, and statement of the reason and warning for material changes incurred as compared with that of last corresponding period

☐ Applicable √ Not Applicable

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

☐ Applicable √ Not Applicable

5.10 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 and disposal of assets and assets reorganisation

6.1.1 *Acquisition of assets*

√ Applicable ☐ Not Applicable

During the reporting period, the Company contributed RMB48,000,000 for incorporating a wholly-owned subsidiary, Wendeng Capital Water Company Limited ("**Wengdeng Capital**") at Wendeng, Weihai, Shandong. Wendeng Capital will acquire Phase I Project of Wendeng Sewage Water Treatment Plant and obtain its licensed operation at a consideration of RMB120,000,000. Phase I Project of Wendeng Sewage Water Treatment Plant has a treatment capacity of 40,000 cubic meters per day, and the term of licensed operation will be 30 years. Draft "Asset Transfer Agreement" and "Licensed Operation Agreement" have been entered into with Wendeng Environmental Protection Bureau and Wendeng Municipal Construction Bureau, and the Company is making efforts to get the formal agreements executed at the earliest possible.

During the reporting period, the Company invested in the constuction of Beichen Recycled Water Plant. The total investment of Beichen Recycled Water Plant is RMB96,000,000, of which RMB1,200,000 was effectively invested in the reporting period. Beichen Recycled Water Plant has a constructed capacity of 20,000 cubic meters per day to supply water in the Beichen New High-tech Development Area, and is expected to be completed at the end of 2008.

6.1.2 *Disposal of assets*

☐ Applicable √ Not Applicable

6.1.3 *Progress and impact on the operating results and financial performance since the publication of the assets restructuring report or announcement in relation to the acquisition or disposal of assets*

☐ Applicable √ Not Applicable

6.2 Guarantee

√ Applicable ☐ Not Applicable

Unit: dollar 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	0
Total amount of outstanding guarantee as at the end of the reporting period (A)	0
Guarantee provided to the subsidiaries of the Company	
Total amount of guarantee provided to the subsidiaries of the Company during the reporting period	0
Total amount of outstanding guarantee provided to the subsidiaries as at the end of the reporting period (B)	785,000,000
Total amount of guarantee granted by the Company (including guarantee provided to the subsidiaries of the Company)	
Total amount of guarantee (A+B)	785,000,000
Percentage of the total amount of guarantee to the net assets of the Company	27.70%
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 gear 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

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

☐ Applicable √ Not Applicable

6.4 **Significant litigation and arbitration**

☐ Applicable √ Not Applicable

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

6.5.1 *The holding of shares and securities investments issued by other listed companies by the Company*

☐ Applicable √ Not Applicable

6.5.2 *The holding of equity interests of non-listed financial corporation and proposed listed company by the Company*

☐ Applicable √ Not Applicable

6.5.3 *Notes on the other major events*

☐ Applicable √ Not Applicable

7. FINANCIAL REPORTS

7.1 **Audit opinion**

Financial Report

√ unaudited ☐ audited

7.2 **Prepared in accordance with HKFRS**

CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 JUNE 2007
(All amounts in RMB thousand unless otherwise stated)

	Note	As at 30 June 2007 Unaudited	As at 31 December 2006 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	3,294,065	3,288,848
Investment property		113,828	113,925
Land use rights		693,707	704,466
Investment in an associate	6	64,159	61,660
Deferred income tax assets		792	2,288
Available-for-sale financial assets		6,000	6,000
Trade receivables due after one year	7	749,973	749,973
Other non-current assets	8	117,191	142,146
		5,039,715	5,069,306
Current assets			
Inventories		6,876	7,839
Trade receivables	7	254,482	43,210
Other receivables and prepayments		45,293	28,360
Cash and bank balances		819,684	733,744
		1,126,335	813,153
Total assets		6,166,050	5,882,459

	Note	As at 30 June 2007 Unaudited	As at 31 December 2006 Audited
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	9	1,402,637	1,330,666
Reserves		1,316,511	1,056,192
		2,719,148	2,386,858
Minority interests		114,900	116,111
Total equity		2,834,048	2,502,969
LIABILITIES			
Non-current liabilities			
Borrowings	10	2,086,480	2,157,980
Deferred income tax liabilities		1,493	2,362
		2,087,973	2,160,342
Current liabilities			
Trade and other payables	11	293,999	253,258
Income tax payables		60,532	67,376
Borrowings	10	889,498	898,514
		1,244,029	1,219,148
Total liabilities		3,332,002	3,379,490
Total equity and liabilities		6,166,050	5,882,459
Net current liabilities		(117,694)	(405,995)
Total assets less current liabilities		4,922,021	4,663,311

CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007
(All amounts in RMB thousand unless otherwise stated)

	Note	Unaudited Six months ended 30 June 2007	2006
Revenue	4	452,949	345,177
Cost of sales		(201,346)	(130,104)
Gross profit		251,603	215,073
Other gains, net	4	7,601	6,880
Administrative costs		(41,836)	(37,545)
Operating profit	12	217,368	184,408
Finance costs	13	(62,752)	(41,824)
Share of profits of an associate		2,499	—
Profit before income tax		157,115	142,584
Income tax expense	14	(47,741)	(50,257)
Profit for the period		109,374	92,327
Attributable to:			
Equity holders of the Company		110,585	93,030
Minority interests		(1,211)	(703)
		109,374	92,327
Earnings per share for profit attributable to the equity holders of the Company during the period (in RMB per share)			
- basic and diluted	15	RMB0.08	RMB0.07
Interim dividends	16	—	—

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2007

(All amounts in RMB thousand unless otherwise stated)

		Unaudited			
	Note	Equity holders of the Company		Minority Interests	Total
		Share capital	Reserves		
Balance at 1 January 2007		1,330,666	1,056,192	116,111	2,502,969
Profit for the period		—	109,374	—	109,374
Profit attributable to minority interest for the period		—	1,211	(1,211)	—
Conversion of convertible bonds	10(d)	71,971	205,839	—	277,810
Dividends	16	—	(56,105)	—	(56,105)
Balance at 30 June 2007		**1,402,637**	**1,316,511**	**114,900**	**2,834,048**
Balance at 1 January 2006		1,330,658	950,703	49,132	2,330,493
Profit for the period		—	93,030	—	93,030
Profit attributable to minority interest for the period		—	—	(703)	(703)
Conversion of convertible bonds		6	23	—	29
Dividends	16	—	(53,226)	—	(53,226)
Minority shareholders' investment in subsidiaries		—	—	68,520	68,520
Balance at 30 June 2006		1,330,664	990,530	116,949	2,438,143

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

(All amounts in RMB thousand unless otherwise stated)

	Unaudited Six months ended 30 June	
	2007	**2006**
Net cash generated from/ (used in)		
- operating activities	54,528	118,181
- investing activities	(128,653)	(551,925)
- financing activities	154,765	463,613
Net increase in cash and bank balances	80,640	29,869
Cash and bank balances at beginning of the period	718,744	744,112
Cash and bank balances at end of the period*	**799,384**	**773,981**

* *Excluding restricted cash and bank balances of RMB20.3 million for 2007, representing collateral deposit as guarantee for project bidding (2006: RMB6 million).*

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

(All amounts in RMB thousand unless otherwise stated)

1 Company profile and principal activities

Tianjin Capital Environmental Protection Company Limited (the "**Company**") was established on 8 June 1993 in the People's Republic of China (the "**PRC**") as a joint stock limited company. The activities of the Company and its subsidiaries (the "**Group**") include sewage water processing, tap water supply, production of recycled water and construction materials and operation of toll roads.

The operation mode of the Group's principal activities is described below:

(a) ***Sewage water processing***

Pursuant to relevant agreements ("**Sewage Water Processing Agreements**"), the Group provides sewage water processing services via the following operating plants:

Plant Location	**Contract commencement date**	**Customer**
Dong Jiao, Tianjin	10 October 2000	Tianjin Sewage Company ("**TSC**")
Ji Zhuang Zi, Tianjin	10 October 2000	TSC
Xian Yang Lu, Tianjin	10 October 2000	TSC
Bei Cang, Tianjin	10 October 2000	TSC
Guiyang, Guizhou	16 September 2004	*Guiyang City Administration Bureau* ("**GCAB**")
Fuyang, Anhui	18 December 2005	*Anhui Fuyang Construction Committee* ("**AFCC**")
Qujing, Yunnan	25 December 2005	*Qujing City Water General Company* ("**QCWG**")
Hong Hu, Hubei	29 December 2005	*Honghu Construction Bureau*
Hang Zhou, Zhejiang	12 November 2006	*Hangzhou Sewage Company*

TSC is a state owned enterprise under supervisory control of Tianjin Municipal Engineering Bureau ("**TMEB**").

The background of principal terms and pricing formula as set out in the relevant contracts are briefly summarised below:

<u>Dong Jiao</u>

The Group will have full recovery of actual operating costs, including depreciation and amortisation of fixed assets, excluding interest expenses and foreign exchange gains or losses and at minimum:

(i) earns a return of 15% per annum of the average balances of the monthly net book value of property, plant and equipment (as defined in the agreement) of the plants; and

(ii) incentive pricing adjustments will be made for cost saving and/or when actual processing volume exceeds the minimum processing volume as stipulated in the agreement.

Ji Zhuang Zi, Xian Yang Lu and Bei Cang:

Based on the supplementary agreement reached with TSC on 10 March 2006, the Company is entitled to sewage processing fee at RMB1.93 per cubic meter from the completion date of construction to the completion date of inspection of Ji Zhuang Zi, Xian Yang Lu and Bei Cang plants. Processing fee after the completion of inspection of these three plants will be collected from TSC using the same principle as for Dong Jiao plant.

The construction of these plants was substantially completed during the first quarter 2006 and inspection which was expected to be finalised no later than end 2007.

All sewage water processing plants outside Tianjin:

Initial sewage water processing price ranges from RMB0.60 to RMB1.12 per cubic meter, thereafter processing price may be revised after considering various factors including renovation of equipment, additional investment power and energy and labour force, and other significant changes of government policy, etc.

All sewage processing plants outside Tianjin are guaranteed a minimum processing volume by their respective customers except for Gui Yang. If the actual volume is lower than the guaranteed volume, processing fee will be settled using the guaranteed volume.

In the case of Gui Yang, the new price shall be commenced from 1 January 2007 and determined by a pricing formula which will effectively allow full recovery of the actual costs, including operating cost, depreciation, income tax and a return of 8% on budgeted net assets of the plant. On 6 December 2006, Guiyang Price Bureau confirmed the new price at RMB0.83 per cubic meter for the year 2007.

On 24 April 2007, the Company established a new subsidiary engaging in sewage water processing services in Wendeng, Shandong Province. No Sewage Water Processing Agreements were signed as at 30 June 2007.

(b) ***Construction of sewage water processing plants***

The construction of Ji Zhuang Zi, Xian Yang Lu and Bei Cang was completed in late 2005. The Company did not incur sewage water processing plant construction fee since 2006. The background to the relevant agreements of sewage water processing plants since 2003 refers to Note 1(b) of the annual financial statements of the Group for the year ended 31 December 2006.

(c) ***Road toll stations***

There are no changes of terms in the following agreements since 2003, the background is detailed as below:

Prior to 2003, the Company owned the right, to set up toll stations at the junctions between the Tianjin city roads and expressways leading to the city, and to collect tolls generally from non-Tianjin registered motor vehicles (other than those exempted by law) passing these toll stations. The right was for a term expiring on 28 February 2029.

During 2003, following the reform of the public transportation network, the Tianjin Municipal Government relocated certain toll stations, including those of the Company, to the boundary of the interstate highways surrounding Tianjin. The collection of tolls from non-Tianjin registered vehicles was then centralised at a Tianjin Toll Collection Office ("**Toll Collection Office**") set up by TMEB. As a result, the Company's toll stations were demolished since 31 May 2003 and TMEB agreed to compensate the Company principally as follows:

- a one-off cash compensation by TMEB equivalent to the net book value of the assets of the demolished toll stations as at 30 June 2003 of about RMB33 million;

- compensation for loss in revenue, during the period from 31 May 2003 to the date of completion of construction of the new toll stations, equivalent to the revenue received in the same period of last year of about RMB5.5 million net of expenses (confirmed by the Company in June 2003); and

- Company was granted the collection right of six new toll stations from 1 July 2003 to 28 February 2029. However, the Company is not allowed to transfer, lease or pledge the right to other parties without TMEB's consent.

In tandem, the Company entered into an agreement ("**Toll Collection Agreement**") with Toll Collection Office on 24 July 2003 with following principal terms:

- the Company engaged the Toll Collection Office to collect the tolls at the six new toll stations on its behalf for which it will pay a management fee;

- the Company is to receive the actual tolls collected from the six new stations for the corresponding period/year, subject to minimum toll fee for each period/year based on the forecast traffic flow and tolls for the corresponding period/year as stipulated in a traffic flow and tolls forecast report for the six new toll stations issued by a professional consulting company in July 2003; and

- any shortfall to the Company between actual and the agreed minimum will be compensated to the Company by the Toll Collection Office.

(d) ***Tap water processing***

Pursuant to agreement reached with Qujing City Water General Company on 25 December 2005, a subsidiary of the Company, Qujing Capital Water Co., Ltd., provides tap water supply service to Qujing City via the Yunnan Qujing tap water processing plant.

Tap water supply price is RMB1.1 per cubic meter for the three years prior to 2008, and will increase in stage to RMB1.25 per cubic meter by 2036. In addition:

(i) Supply price as determined above may be revised after considering various cost factors based on contract terms;

(ii) Qujing City Water General Company guarantees a minimum supply volume. If the actual volume is lower than the guaranteed volume, supply fee will be settled based on the guaranteed volume.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with HKAS 34, "Interim financial reporting". The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

As at 30 June 2007, the Group's current liabilities exceeded its current assets by approximately RMB117.7 million.

Despite the foregoing, these financial statements have been prepared on a going concern basis, because the Directors of the Group believe that the undrawn banking facilities together with the continuing support of the Group's bankers are sufficient to enable the Group to meet its liabilities as and when they fall due.

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006 except that:

(a) the Group adopted the following new standards, amendments to standards and interpretations, which are effective 1 January 2007:

HKAS1	Amendments to Capital Disclosures
HKFRS7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2, Share-based Payment
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new standards, amendments and interpretations did not have a significant impact on the Group's results and financial position. Full disclosure as required by HKFRS 7 will be disclosed in the year-end financial statements.

(b) the Group have not adopted the following new standards, amendments to standards and interpretations have been issued but are not effective for 2007:

HKAS 23 (Revised)	Borrowing Costs
HKFRS8	Operating Segments
HK(IFRIC)-Int 11	HKFRS2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

4. Revenue and segment information

The Group is organised into the following main business segments:

(a) Sewage water processing;

(b) Road toll;

(c) Tap water processing

(d) Water recycling and pipeline; and

(e) Others, mainly including construction materials.

An analysis of sales, stated net of business tax, and contributions to operating profit for the period by principal activities is as follows:

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

	Unaudited	
	For the six months ended	
	30 June 2007	30 June 2006
Turnover	452,949	345,177
Other gains, net		
- Rental income from investment property	2,546	2,050
- Interest income	1,935	1,761
- Subsidy income	1,340	—
- Others	1,780	3,069
	7,601	6,880
	460,550	352,057

(b) ***Business segment analysis***

	Unaudited	
	For the six months ended	
	30 June 2007	30 June 2006
Turnover		
Sewage water processing	392,545	292,578
Tolls	32,962	32,945
Tap water processing	13,008	—
Water recycling and pipeline connection	13,224	17,517
Others	1,210	2,137
	452,949	345,177
Segment results		
Sewage water processing	188,720	175,904
Tolls	24,619	16,301
Tap water processing	2,234	—
Water recycling and pipeline connection	1,904	(6,569)
Others	(109)	(1,185)
	217,368	184,408
Finance costs	(62,752)	(41,824)
Share of profits of an associate	2,499	—
Profit before income tax	157,115	142,584
Income tax expense	(47,741)	(50,257)
Profit for the period	109,374	92,327

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

	Unaudited For the six months ended 30 June 2007	Unaudited For the six months ended 30 June 2006
Depreciation		
Sewage water processing services	59,209	26,221
Tolls	1,900	1,726
Tap water processing	5,042	—
Water recycling and pipeline connection	4,113	3,929
Others	941	1,045
Unallocated	8,180	—
	79,385	32,921
Amortisation		
Sewage water processing services	10,676	5,163
Tolls	1,370	2,105
Others	40	42
	12,086	7,310

The segment assets and liabilities as at 30 June 2007 and capital expenditure for the period then ended are as follows:

	Unaudited 30 June 2007	Audited 31 December 2006
Total assets		
Sewage water processing	4,931,388	4,714,602
Tolls	322,798	323,397
Tap water processing	238,564	242,630
Water recycling and pipeline connection	368,897	296,891
Others	31,868	33,845
Associate	70,159	61,660
Unallocated	202,376	209,434
	6,166,050	5,882,459
Total liabilities		
Sewage water processing	2,884,029	2,978,668
Tolls	10,244	17,020
Tap water processing	149,216	152,790
Water recycling and pipeline connection	284,566	212,752
Others	2,133	12,922
Unallocated	1,814	5,338
	3,332,002	3,379,490

	Unaudited For the six months ended	
	30 June 2007	30 June 2006
Capital expenditure		
Sewage water processing	72,400	381,521
Water recycling and pipeline connection	11,516	35,417
Others	—	1,150
Unallocated	2,233	—
	86,149	418,088

No geographical segment analysis is presented since all of the Group's assets, operations and customers are located in the PRC.

5. Capital expenditure

	Unaudited For the six months ended 30 June 2007	Unaudited For the six months ended 30 June 2006
Net book value, at beginning of period	3,288,848	2,430,690
Additions in construction in progress in respect of:		
- sewage plant construction projects	23,862	81,574
- sewage water recycling project of subsidiaries	1,697	35,309
- others	1,958	4,046
Additions of other property, plant and equipment	58,632	297,159
Disposals	(1,547)	(8)
Depreciation	(79,385)	(45,889)
Net book value, at end of period	3,294,065	2,802,881

6. Investment in an associate

	2007
Beginning of the period	61,660
Share of net profits	2,499
End of the period	64,159

The Group has a 45% interest in an unlisted associate, incorporated in Tianjin, PRC.

7. Trade receivables

Details of the trade receivables are as follows:

	Unaudited 30 June 2007	Audited 31 December 2006
Due from TSC for :		
- water processing services (Note 1(a))	485,085	283,788
- construction of plants (Note 1(b))	466,185	466,185
	951,270	749,973
Others	53,185	43,210
	1,004,455	793,183
Less: non-current portion	(749,973)	(749,973)
Current portion	254,482	43,210

Under the Co-operative Agreement, TSC will sell certain of its assets to the Company upon completion and verification (Note 1(b)). Accordingly, in April 2007, the Company reached an agreement with TSC on a repayment plan, whereby TSC will use the mentioned assets to settle the construction fees and part of sewage water processing fees of 2006 owed to the Company. As at 31 December 2006, these assets amounted to about RMB750 million. As such, the Directors believe that the amount due from TSC is mainly recoverable by asset swap.

Pursuant to the repayment plan, the carrying value of balance due from TSC as at 30 June 2007 includes about RMB750 million (2006: RMB750 million) which has been reclassified to trade receivables due after one year resulting in aging of the total trade receivables as follows:

	Unaudited 30 June 2007	Audited 31 December 2006
One to two years	749,973	749,973
Within one year	254,482	43,210
	1,004,455	793,183

8. Other non-current assets

	Unaudited 30 June 2007	Audited 31 December 2006
Restricted bank deposits (note (i))	17,600	40,067
Proceeds for Fuyang project (note (ii))	96,630	98,321
Others	2,961	3,758
	117,191	142,146

notes:

(i) These deposits represent collateral deposited with a financial institution as guarantee for the issuance of the Company's convertible bonds stated at fair value.

(ii) Pursuant to an agreement dated 18 December 2005, the Group obtained the right to use, operate and maintain assets of a sewage plant in Fuyang, PRC ("**Fuyang project**") at a consideration of RMB102 million for a term of 30 years effective 18 December 2005. The proceeds for Fuyang project are amortised using straight-line method within its operating periods. As at 30 June 2007, RMB10.2 million remains to be settled.

9. Share capital

Issued and fully paid up capital	Number of shares ('000)	Unaudited 30 June 2007	Audited 31 December 2006
A shares with par value of RMB1:			
- Circulating shares	332,017	332,017	155,028
- Restricted circulating shares	730,620	730,620	835,638
	1,062,637	1,062,637	990,666
H shares with par value of RMB1:			
Circulating shares outside China	340,000	340,000	340,000
	1,402,637	1,402,637	1,330,666

"A" share represent shares listed on the Shanghai Securities Exchange and "H" shares represent shares listed on the Main Board of The Stock Exchange of Hong Kong. All the "A" and "H" shares rank pari passu in all respects.

The restricted circulating "A" Shares is in respect of the shares held by TMICL, whereby TMICL can only sell a maximum of 10% of its total shares within 3 years after the stock reform in March 2006.

During this period, in addition to the conversion of a portion of convertible bonds to circulating "A" Shares (Note 10(d)) resulted in an increase of share capital, another 105,018,005 restricted circulating shares were become non-restricted, amongst which 22,168,000 shares belonging to TMICL were sold. Consequently, TMICL's equity interest in the Company were reduced from 59.91% to 55.25% by end of period

10. Borrowings

	Note	**Unaudited 30 June 2007**	**Audited 31 December 2006**
Long-term:			
Bank borrowings	(a)	2,046,625	1,718,750
Loans payable	(c)	163,636	163,636
Convertible bonds	(d)	85,469	374,844
		2,295,730	2,257,230
Less: current portion		(209,250)	(99,250)
		2,086,480	2,157,980
Short-term:			
Current portion of long-term bank borrowings	(a)	209,250	99,250
Short-term bank borrowings	(b)	556,000	691,000
Loans payable	(c)	124,248	108,264
		889,498	898,514

Note:

(a) ***Long-term bank borrowings***

	Note	Unaudited 30 June 2007	Audited 31 December 2006
Borrowings from:			
State Development Bank	(i)	538,000	545,000
China Everbright Bank	(ii)	450,000	450,000
Industrial Commerce Bank of China	(iii)	408,000	250,000
China Construction Bank	(iv)	225,625	233,750
CITIC Industrial Bank	(v)	200,000	200,000
Shanghai Pudong Development Bank	(vi)	120,000	—
Bank of China	(vii)	55,000	40,000
Agriculture Development Bank of China	(viii)	50,000	—
		2,046,625	1,718,750

These borrowings mature as follows:

	Unaudited 30 June 2007	Audited 31 December 2006
Within one year	209,250	99,250
In the second year	624,250	416,250
In the third to fifth year	837,760	466,750
After the fifth year	375,365	736,500
	2,046,625	1,718,750

notes:

(i) This borrowing is secured by TMEB's guarantee together with certain of its fee collection rights and bears interest at 7.2%. (2006: 6.1% to 6.4%) per annum.

(ii) This borrowing is secured by the TSC's right to receive sewage water processing fees together with TMICL's guarantee and bears interest rate ranging from 6.5% to 7.2% (2006: 5% to 6.8%) per annum.

(iii) This borrowing is secured by the Company's guarantee and bears interest ranging from 6.2% to 6.3% (2006: 6.2%) per annum.

(iv) The balance includes RMB190 million secured by the right to receive tap water and sewage water processing fees. The remaining balance of about RMB36 million is secured by the Company's guarantee. These borrowings bear interest at 7.2% (2006: 6.1% to 6.4%) per annum.

(v) The borrowing is an unsecured loan and bears interest at 6.8% (2006: 6.1% to 6.4%) per annum.

(vi) The borrowing is an unsecured loan and bears interest ranging from 6.1% to 6.5% per annum.

(vii) This borrowing is secured by the Company's guarantee and bears interest at 6.1% (2006: 6.1% to 6.4%) per annum.

(viii) The borrowing is initially secured by the Company's guarantee during the construction period of plant and further secured by fixed assets upon commencement of operation of plant, which bears interest at 7.3% per annum.

(b) ***Short-term bank borrowings***

	Note	**Unaudited 30 June 2007**	**Audited 31 December 2006**
Borrowings from:			
China Minsheng Bank	(i)	200,000	200,000
Industrial Bank		100,000	100,000
Beijing Bank	(ii)	100,000	100,000
Shanghai Pudong Development Bank	(iii)	65,000	65,000
Bohai Bank		55,000	—
Huaxia Bank	(i)	36,000	36,000
Industrial Commerce Bank of China		—	190,000
		556,000	691,000

notes:

(i) Guaranteed by TMICL.

(ii) Guaranteed by Tianjin Expressway Investment and Construction Development Company.

(iii) Include RMB15 million secured by a bank deposit of RMB17 million.

(iv) All short-term borrowings bear interest ranging from 5.5% to 6.1% per annum.

The carrying amounts of all bank borrowings approximate their fair values as at 30 June 2007 either due to their short-term maturity or because they bear interest at prevailing market rates throughout their maturity period.

(c) ***Loans payable:***

	Unaudited 30 June 2007	Audited 31 December 2006
Long-term, due to:		
- TMEB *(note(i))*	163,636	163,636
Short-term, due to:		
- TMEB		
• Current portion *(note(i))*	16,364	16,364
• Others *(note(ii))*	81,215	81,215
- Tianjin Municipal Government *(note(iii))*	26,669	10,685
	124,248	108,264

notes:

(i) The RMB180 million from TMEB taken during 2005 is specifically for construction of sewage water processing plants. The loan is repayable in equal instalments over eleven years from 2007. The loan bears interest at 5% per annum for the first six years. From the seventh year to maturity, the interest will be based on the one-year deposit plus 0.3% premium.

(ii) Of the total amount loaned by TMEB, RMB81 million (2006: 81million) is specifically for the same purpose and under same terms as loan stated in note (iii) below.

(iii) The RMB27 million (2006: RMB11 million) borrowed from the Tianjin Municipal Government was for the construction of the Group's water recycling plant. The loan is interest free and the method and date of repayment which is supposed to be determined after the completion of the said plant has yet to be finalised.

(iv) The repayment scheme for the RMB81 million and RMB27 million loans mentioned in (ii) and (iii) above is still under negotiation. As the terms are uncertain, these loans have been classified as current liabilities.

(d) ***Convertible bonds payable:***

	Unaudited 30 June 2007	Audited 31 December 2006
Liability component of convertible bonds	85,469	374,844
No. of units ('000)	943	3,721

The value of the liability component, included in long-term borrowings, was carried at amortised cost and calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves net of deferred income taxes. Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 5.6% to the liability component.

During this period, RMB 277,810,000 bonds were converted into the Company's A share at RMB3.86 per share. As a result of the conversion, the Company's share capital and capital reserve increased by RMB71,971,000 and RMB205,839,000, respectively.

11. Trade and other payables

	Unaudited 30 June 2007	Audited 31 December 2006
Dividend payable *(note (a))*	57,384	1,299
Construction costs payable	10,992	64,696
Payable for purchase of property, plant and equipment	49,044	30,371
Advances received	86,986	50,431
Advances from TSC	27,385	27,385
Payable to Fuyang Construction Committee *(Note 8(ii))*	10,200	10,200
Accrued expenses	10,975	11,879
Trade payables *(note(b))*	6,227	9,852
Others	34,806	47,145
	293,999	253,258

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

notes:

(a) The balance as at 30 June 2007 represented RMB56,105,000 dividend declared for the year ended 31 December 2006 and RMB1,279,000 dividend declared in prior years.

(b) Ageing of trade payables are as follows:

	Unaudited 30 June 2007	Audited 31 December 2006
One to two years	—	—
Within one year	6,227	9,852
	6,227	9,852

12. Operating profit

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

	Unaudited For the six months ended 30 June 2007	30 June 2006
Crediting:		
Rental	(4,632)	(2,050)
Interest income	(1,935)	(1,761)
Charging:		
Depreciation and amortisation expenses	91,471	54,667
Staff costs	13,501	16,515
Raw materials and consumables used	12,382	6,315
Repair and maintenance expenses	8,050	8,217

13. Finance costs

	Unaudited For the six months ended 30 June 2007	30 June 2006
Interest expense on :		
- bank borrowings	64,381	48,861
- liability component of convertible bonds	999	9,405
Less: capitalised interest	—	(17,609)
	65,380	40,657
Other (gains)/borrowing costs	(2,628)	1,167
	62,752	41,824

14. Income tax expense

No Hong Kong profits tax has been provided as the Group has no assessable profit in Hong Kong (2006: Nil). PRC income tax has been charged at between 7.5% to 33% on the respective assessable profits of the Company and its subsidiaries (2006: 33%).

	Unaudited For the six months ended 30 June 2007	30 June 2006
Tax charge comprises:		
Current PRC income tax	47,114	51,830
Deferred income tax	627	(1,573)
	47,741	50,257

15. Earnings per share

(a) The calculation of basic earnings per share is based on profit attributable to shareholders of RMB110,585,000 (2006:RMB93,030,000) and 1,366,651,500 shares (2006: 1,330,664,000) in issue during the period.

	Unaudited For the six months ended 30 June 2007	30 June 2006
Profit attributable to equity holders of the Company	110,585	93,030
Weighted average number of ordinary shares in issue (million)	1,367	1,331
Basic earnings per share (RMB per share)	0.08	0.07

(b) Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: convertible debt. The convertible debt is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. The relevant calculation is set out as follows:

	Unaudited For the six months ended 30 June 2007	**30 June 2006**
Profit attributable to equity holders of the Company	110,585	93,030
Interest expense on convertible debt (net of tax)	1,484	3,141
Profit used to determine diluted earnings per share	112,069	96,171
Weighted average number of ordinary shares in issue *(thousands)*	1,366,651	1,330,664
Adjustments for — assumed conversion of convertible debt *(thousands)*	24,419	95,402
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	1,391,070	1,426,066
Diluted earnings per share *(RMB per share)*	0.08	0.07

16. Interim dividends

	Unaudited For the six months ended 30 June 2007	**30 June 2006**
2006 final, declared of RMB0.04 (2005 final, paid of RMB0.04) per share	56,105	53,226

No dividend was proposed by the Board of Directors of the Company for the six months ended 30 June 2007 (2006: nil).

17. Commitments

The Group's capital commitments at the balance sheet date in respect of construction projects is as follows:

	Contracted but not provided for		Authorised but not contracted for	
	Unaudited 30 June 2007 *RMB' million*	**Audited 31 December 2006** *RMB' million*	**Unaudited 30 June 2007** *RMB' million*	**Audited 31 December 2006** *RMB' million*
Sewage water processing plants in:				
- Ji Zhuang Zi	—	4	—	—
- Xian Yang Lu	—	2	—	—
- Bei Cang	—	2	—	—
- Chi Bi	34	59	—	—
- Hang Zhou	341	341	—	—
- Hong Hu	16	16	—	—
- Wen Deng	—	—	120	—
Recycled water factories:				
- Xian Yang Lu	17	67	50	—
- Bei Chen	18	2	77	107
- Dong Jiao	—	—	129	—
	426	493	376	107

18. Related party transactions

The majority of the business activities of the Company and its subsidiaries are conducted with state-owned enterprises (thereafter "**SOE**"). The Company and its subsidiaries have established procedures to determine, to the extent possible, the identification of the ownership structures of its customers and suppliers as to whether they are SOE. Management believes that all material related party balances and transactions have been adequately disclosed.

In addition to the related party information shown elsewhere in the condensed consolidated interim financial information, the following is a summary of significant related party transactions entered into in the ordinary course of the business between the Company and its subsidiaries and their related parties during the period and balances arising from related party transactions at the end of the period.

(a) Transactions with TMICL and its supervisory entities:

	Unaudited For the six months ended	
	30 June 2007 *RMB'million*	**30 June 2006** *RMB'million*
Revenue earned from TSC for sewage water processing services	311	284

(b) Transactions with other state-owned enterprises:

	Unaudited For the six months ended 30 June 2007 RMB' million	30 June 2006 RMB' million
Payment for plants construction	44	68
Drawdown of short-term loan	234	260
Drawdown of long-term loan	350	60
Interest expenses	64	26

The period end balances with TMICL and other state-owned enterprises are included in the financial statements as follows:

	Unaudited 30 June 2007 RMB'million	Audited 31 December 2006 RMB'million
Convertible bonds held by TMICL	—	209
Current liabilities		
Trade and other payables	56	202

(c) Key management compensation for the period ended 30 June 2007 is summarised as follows:

	Unaudited For the six months ended 30 June 2007	30 June 2006
Salaries and other short-term employee benefits	2,741	2,554
Other long-term benefits	460	61
	3,201	2,615

19. Subsequent events

On 31 July 2007, the Board of Directors of the Company resolved to exercise its option to redeem all the outstanding convertible bonds issued by the Company as at 27 August 2007, at a consideration of 106.7% (including interest and premium of 4.7% and 2%, respectively) of each bond's face value, in accordance with the term of the issuance.

7.3 **Prepared in accordance with PRC GAAP**

BALANCE SHEETS AS AT 30 JUNE 2007

	Group		Company	
	Unaudited 30 June 2007	**Audited 31 December 2006**	**Unaudited 30 June 2007**	**Audited 31 December 2006**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
ASSETS				
CURRENT ASSETS				
Cash and bank balances	819,684	733,744	545,433	607,136
Notes receivables	8,100	—	8,100	—
Trade receivables	246,382	43,210	218,792	16,473
Other receivables	24,710	16,927	64,627	83,584
Prepayments to suppliers	20,582	11,433	780	535
Inventories	6,877	7,839	2,530	2,699
Total current assets	**1,126,335**	**813,153**	**840,262**	**710,427**
NON-CURRENT ASSETS				
Long-term equity investments	70,159	67,660	744,751	696,751
Fixed assets	3,154,238	2,873,430	2,097,871	1,810,254
Investment property	113,828	113,925	96,520	97,611
Construction in progress	139,822	415,418	3,770	302,519
Fixed assets pending disposal	4	—	4	—
Trade receivables due after one year	749,973	749,973	749,973	749,973
Long-term prepaid expense	99,531	102,079	—	—
Intangible assets	693,768	704,466	571,263	578,741
Other long-term assets	17,600	40,067	17,600	40,067
Deferred tax assets	792	2,288	792	2,288
Total of non current assets	**5,039,715**	**5,069,306**	**4,282,544**	**4,278,204**
TOTAL ASSETS	**6,166,050**	**5,882,459**	**5,122,806**	**4,988,631**

	Group		Company	
	Unaudited 30 June 2007	Audited 31 December 2006	Unaudited 30 June 2007	Audited 31 December 2006
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
LIABILITIES				
CURRENT LIABILITIES				
Short-term loans	556,000	691,000	541,000	676,000
Accounts payable	6,227	9,852	2,200	3,563
Advances from customers	114,748	79,417	28,901	28,901
Wage payables	8,578	9,541	7,217	8,139
Dividend payable	57,384	1,299	57,384	1,299
Taxes payable	65,118	71,452	62,621	67,327
Other payables	88,207	133,020	29,190	97,188
Interest payable	4,069	5,853	4,069	5,853
Current portion of long-term loans	209,250	99,250	134,000	74,000
Current portion of long term payables	134,448	118,464	16,364	16,364
Total current liabilities	**1,244,029**	**1,219,148**	**882,946**	**978,634**
LONG-TERM LIABILITIES				
Long-term loans	1,837,375	1,619,500	1,262,000	1,071,000
Convertible bonds	85,469	374,844	85,469	374,844
Long-term payables	163,636	163,636	163,636	163,636
Specific payables	—	—	—	—
Deferred income tax liabilities	1,493	2,362	1,493	2,362
Total long-term liabilities	**2,087,973**	**2,160,342**	**1,512,598**	**1,611,642**
TOTAL LIABILITIES	**3,332,002**	**3,379,490**	**2,395,544**	**2,590,476**
SHAREHOLDERS' EQUITY				
Share capital	1,402,637	1,330,666	1,402,637	1,330,666
Capital reserve fund	307,137	101,297	307,137	101,297
General reserves	220,356	220,356	217,734	217,734
Undistributed profits	789,018	734,539	799,754	748,458
Minority interest	114,900	116,111	—	—
Total shareholders' equity	**2,834,048**	**2,502,969**	**2,727,262**	**2,398,155**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**6,166,050**	**5,882,459**	**5,122,806**	**4,988,631**

INCOME STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Group		Company	
	Unaudited Six months Ended 30 June 2007	**Unaudited Six months Ended 30 June 2006**	**Unaudited Six months Ended 30 June 2007**	**Unaudited Six months Ended 30 June 2006**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Income from principal operations	**474,882**	**366,986**	**367,700**	**319,364**
Less: Cost for principal operations	(198,262)	(130,104)	(123,489)	(93,561)
Business tax and surcharges	(20,367)	(17,641)	(20,014)	(17,440)
Sales expenses	—	—	—	—
Administrative expenses	(41,799)	(37,509)	(30,081)	(26,029)
Financial expenses - net	(60,854)	(40,099)	(41,302)	(36,742)
Add: Investment income	2,499	—	—	—
Including: Share of profit of an associate	2,499	—	—	—
Profit from principal operations	**156,099**	**141,633**	**152,814**	**145,592**
Add: Non-operating income	1,352	1,013	6	7
Less: Non-operating expenses	(336)	(62)	(46)	(61)
Total profit	**157,115**	**142,584**	**152,774**	**145,538**
Less: Income tax	(47,741)	(50,257)	(45,372)	(48,639)
Net profit	**109,374**	**92,327**	**107,402**	**96,899**
Attributable to				
Equity holders of the Company	110,585	93,030		
Minority interests	(1,211)	(703)		
	109,374	**92,327**		
Earnings per share for profit attributable to the equity holders of the Company during the period				
1. Basic	Rmb0.08	Rmb0.07		
2. Diluted	Rmb0.08	Rmb0.07		

CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Group Unaudited Six months Ended 30 June 2007 *Rmb'000*	Company Unaudited Six months Ended 30 June 2007 *Rmb'000*
Cash flows from operating activities		
Cash received from rendering of services	289,961	153,441
Refund of tax and levies	340	—
Other cash received relating to operating activities	16,304	6,764
Sub-total of cash inflows	306,605	160,205
Cash paid for goods and services	(92,077)	(52,025)
Cash paid to and on behalf of employees	(27,396)	(15,242)
Taxes paid	(77,701)	(70,239)
Other cash paid relating to operating activities	(54,903)	(41,835)
Sub-total of cash outflows	(252,077)	(179,341)
Net cash flows from operating activities	54,528	(19,136)
Cash flows from investing activities		
Cash received from disposal of fixed assets	121	97
Other cash received from investing activities	17,227	17,135
Sub-total of cash inflows	17,348	17,232
Cash paid to invest in new subsidiaries	—	(48,000)
Cash paid to acquire fixed assets	(141,701)	(98,358)
Other cash payments from investing activities	(4,300)	—
Sub-total of cash outflows	(146,001)	(146,358)
Net cash flows from investing activities	(128,653)	(129,126)

	Group Unaudited Six months Ended 30 June 2007 *Rmb'000*	Company Unaudited Six months Ended 30 June 2007 *Rmb'000*
Cash flows from financing activities		
Cash received from borrowings	403,000	313,000
Other cash receipts relating to financing activities	37,933	21,933
Sub-total of cash inflows	440,933	334,933
Cash repayments of amounts borrowed	(210,125)	(197,000)
Cash payments for interest expenses	(75,201)	(55,831)
Other cash payments relating to financing activities	(842)	(842)
Sub-total of cash outflows	(286,168)	(253,673)
Net cash flows from financing activities	154,765	81,260
Net increase/(decrease) in cash	80,640	(67,002)

SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS

Supplementary information of cash flow statements for the six months ended 30 June 2007

Supplementary Information	Group Unaudited Six months Ended 30 June 2007 *Rmb'000*	Company Unaudited Six months Ended 30 June 2007 *Rmb'000*
(i) Reconciliation of net profit to net cash flows from operating activities		
Net profit	110,585	107,402
Add: Minority Interest	(1,211)	—
Depreciation of fixed assets	91,719	61,277
Amortisation of fixed assets	10,759	7,478
Losses on disposal of fixed assets	269	46
Interest expenses — net	62,753	42,436
Investments income	(2,499)	—
Decrease in inventories	1,101	223
Increase in operating receivables	(244,864)	(225,758)
Increase/(Decrease) in operating payables	25,916	(12,240)
Net cash flows from operating activities	54,528	(19,136)
(ii) Net increase/(decrease) in cash		
Cash at end of the period	799,384	534,133
Less: Cash at beginning of the period	718,744	601,135
Net increase/(decrease) in cash	80,640	(67,002)

Consolidated statements of changes in equity for January to June 2007

For this Period

Item	Share capital	Capital reserve fund	General reserve	Undistributed profit	Minority Interests	Total
	Attributable to equity holders of the Parent Company					
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Balance at 31 December 2006	1,330,666	101,297	220,356	734,539	116,111	2,502,969
Change in accounting policy	—	—	—	—	—	—
Correction of error of previous period	—	—	—	—	—	—
Balance at 1 January 2007	1,330,666	101,297	220,356	734,539	116,111	2,502,969
Increase in January to June 2007:						
Net Profit	—	—	—	110,585	(1,211)	109,374
Conversion of convertible bonds	71,971	205,840	—	—	—	277,811
Subtotal	71,971	205,840	—	110,585	(1,211)	387,185
Decrease in January to June 2007:						
Distribution to Shareholders	—	—	—	(56,106)	—	(56,106)
Subtotal	—	—	—	(56,106)	—	(56,106)
Balance at 30 June 2007	**1,402,637**	**307,137**	**220,356**	**789,018**	**114,900**	**2,834,048**

For the corresponding period of last year

Item	Share capital	Capital reserve fund	General reserve	Undistributed profit	Minority Interests	Total
Balance at 31 December 2005	1,330,658	101,270	200,721	648,712	49,132	2,330,493
Change in accounting policy	—	—	—	—	—	—
Correction of error of previous period	—	—	—	—	—	—
Balance at 1 January 2006	1,330,658	101,270	200,721	648,712	49,132	2,330,493
Increase in January to June 2006:						
Net Profit	—	—	—	93,030	(703)	92,327
Conversion of convertible bonds	6	23	—	—	—	29
Minority Shareholders' investment in subsidiaries	—	—	—	—	68,520	68,520
Subtotal	6	23	—	93,030	67,817	160,876
Decrease in January to June 2006:						
Withdrawal of general reserve	—	—	—	—	—	—
Distribution to Shareholders	—	—	—	(53,226)	—	(53,226)
Subtotal	—	—	—	(53,226)		(53,226)
Balance at 30 June 2006	1,330,664	101,293	200,721	688,516	116,949	2,438,143

Statements of changes in equity in the Parent Company for January to June 2007

Item	Share capital	Capital reserve fund	General reserve	Undistributed profit	Total
	For this Period				
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Balance at 31 December 2006	—	—	—	—	—
Change in accounting policy	—	—	—	—	—
Correction of error of previous period	—	—	—	—	—
Balance at 1 January 2007	1,330,666	101,297	217,734	748,458	2,398,155
Increase in January to June 2007:					
Net Profit	—	—	—	107,402	107,402
Conversion of convertible bonds	71,971	205,840	—	—	277,811
Subtotal	71,971	205,840	—	107,402	385,213
Decrease in January to June 2007:					
Distribution to Shareholders	—	—	—	(56,106)	(56,106)
Subtotal	—	—	—	(56,106)	(56,106)
Balance at 30 June 2007	**1,402,637**	**307,137**	**217,734**	**799,754**	**2,727,262**
	For the corresponding period of last year				
Balance at 31 December 2005	1,330,658	98,721	200,721	664,560	2,294,660
Change in accounting policy	—	—	—	—	—
Correction of error of previous period	—	—	—	—	—
Balance at 1 January 2006	1,330,658	98,721	200,721	664,560	2,294,660
Increase in January to June 2006:					
Net Profit	—	—	—	96,899	96,899
Investment income from subsidiaries according to new standard	—	—	—	—	—
Conversion of convertible bonds	6	23	—	—	29
Subtotal	6	23	—	96,899	96,928
Decrease in January to June 2006:					
Withdrawal of general reserve	—	—	—	—	—
Distribution to Shareholders	—	—	—	(53,226)	(53,226)
Subtotal	—	—	—	(53,226)	(53,226)
Balance at 30 June 2006	1,330,664	98,744	200,721	708,233	2,338,362

7.4 **Accounting notes**

7.4.1 During the reporting period, there was no change in the accounting policies, accounting estimates or correction of accounting errors.

7.4.2 Wengdeng Capital is a new subsidiary in this reporting period with a registered capital of RMB48,000,000. The Company holds its 100% shares.

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 CODE ON CORPORATE GOVERNANCE PRACTICES

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

10 AUDIT COMITTEE

On 31st 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 Messrs. Ko Poming, Wang Xiangfei and Gao Zongze. The Audit Committee, together with the management of the Group have reviewed the accounting principles and practices adopted by the Group and discussed 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, standard, and methods adopted in the preparation of the Group's unaudited interim accounts for the six months ended 30 June 2007.

By order of the Board
Ma Baiyu
Chairman

Tianjin, the PRC
15 August 2007

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