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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)

REPLY TO FEEDBACK ON THE APPLICATION DOCUMENTS OF THE COMPANY IN RESPECT OF THE NON-PUBLIC ISSUANCE OF A SHARES

The board of directors of Tianjin Capital Environmental Protection Group Company Limited (the “**Company**”) and all of its directors (the “**Directors**”) warrant that there are no false information, misleading statements or material omissions in this announcement, and accept joint and several responsibilities for the truthfulness, accuracy and completeness of its contents.

References are made to the circulars (the “**Circulars**”) of the Company dated 19 October 2016 and 16 May 2017 respectively, in relation to, among other things, the Non-public Issuance of A Shares of the Company, and the overseas regulatory announcement (the “**Overseas Regulatory Announcement**”) of the Company dated 15 November 2017 in relation to the reply to feedback on the application documents of the Company for the Non-Public Issuance of A Shares. Unless otherwise specified, capitalized terms used herein shall have the same meaning as those defined in the Circulars.

On 18 October 2017, the Company received the “Notice Regarding the First Feedback on Review of Administrative Permission Items from the CSRC (中國證監會行政許可項目審查一次反饋意見通知書)” (No. 171779) (the “**Feedback**”) issued by the CSRC. The Company and the relevant intermediaries have conducted careful verification and confirmation regarding the Feedback, and provided supplementary information and answers to the questions in relation to the matters concerned in accordance with the requirements of the Feedback (the “**Reply**”). Please refer to the Overseas Regulatory Announcement for the full text of the Reply.

An extract of the Reply is set out below:

Question: If the proceeds raised from the Non-public Issuance of A Shares are used as input for initial working capital, preparation costs or other costs, etc., it is regarded as using the proceeds raised from the Non-public Issuance of A Shares to supplement working capital. The applicant please provide supplementary explanation on the estimation basis for supplemental working capital with an explanation on the use of proceeds (when estimating the supplemental working capital, external income growth as a result of acquisitions should be excluded). By taking into account the existing gearing ratio level, status of bank credit facilities, balance of cash and cash equivalents and other conditions, please explain the necessity and reasonableness of supplementing working capital by way of this equity financing.

Reply:

(I) The applicant please provide supplementary explanation on the estimation basis for supplemental working capital with an explanation on the use of proceeds (when estimating the supplemental working capital, external income growth as a result of acquisitions should be excluded).

The Company will not use the proceeds raised from the Non-public Issuance of A Shares as input for initial working capital, preparation costs, interests during the construction period or other costs. Such costs will be financed by the internal resources of the Company.

1. *Estimation process of supplemental working capital*

Under the condition that there will not be material changes in the principal business and operation mode of the Company in the future, the turnover of all assets and liabilities will remain stable. The gap of working capital of the Company for the period from 2017 to 2019 will be estimated based on the changes in the relevant operating assets and operating liabilities resulting from future growth in operating income. This estimation does not take into account the effects on production, operation and financial conditions (such as finance cost and investment income), etc. of the Company after receipt of the proceeds raised from the Non-public Issuance of A Shares.

Of which: operating current assets include accounts receivable, bills receivable, prepayments and inventory; and operating current liabilities include accounts payable, advances from customers and bills payable.

Working capital requirement = operating current assets - operating current liabilities

(1) Estimated operating income and growth rate

The operating income of the Company increased from RMB1,749.860 million in 2013 to RMB1,958.666 million in 2016, and the growth rate of the operating income of the Company were 4.47%, 5.81% and 1.26% respectively over the last three years with an average growth rate of 3.85%. Accordingly, it is estimated that the operating income for the next three years will maintain an average annual growth rate of 3.85%, i.e. the operating income for 2017 to 2019 will be RMB2,034.009 million, RMB2,112.387 million and RMB2,193.713 million respectively.

(2) Ratio of operating assets and liabilities over operating income

Based on the ratio of all operating assets and all operating liabilities over operating income of the Company as at the end of 2016, it is assumed that the ratio of all operating assets and all operating liabilities over operating income will remain unchanged for 2017 to 2019.

Based on the above assumptions, the gap of working capital is calculated as follows:

<i>Unit: 0'000 Currency: RMB</i>					
	Actual value for 2016 (A)	As a percentage of operating income	Estimated value for 2017	Estimated value for 2018	Estimated value for 2019 (B)
Bills receivable	40.0	0.02%	40.7	42.2	43.9
Accounts receivable	181,542.0	92.69%	188,538.4	195,797.2	203,335.3
Prepayment	15,319.8	7.82%	15,906.5	16,518.9	17,154.8
Inventory	2,449.1	1.25%	2,542.6	2,640.5	2,742.1
Total of the above operating assets (1)	199,350.9	—	207,025.9	214,996.4	223,273.8
Bills payable	—	—	—	—	—
Accounts payable	10,723.9	5.48%	11,146.7	11,575.9	12,021.5
Receipts in advance	95,550.7	48.78%	99,222.2	103,042.2	107,009.3
Total of the above operating liabilities (2)	106,274.6	—	110,366.2	114,615.3	119,028.0
Working capital (1 - 2)	93,076.3	—	96,659.7	100,381.1	104,245.8
Gap of working capital (B - A)			11,169.5		

According to the estimation result as set out in the above table, the need of working capital of the Company for 2017 to 2019 will be RMB111.695 million, and upon comprehensive balance, it is determined that the Non-public Issuance of A Shares will provide supplemental working capital of RMB50 million, which does not exceed the amount of actual need and the scale is reasonable.

2. *The use of the supplemental working capital*

With expansion in the operating scale and commencement of new projects of the Company, the Company has an increasing need for working capital. This supplement of working capital of the Company is expected to be used as operating expenses, such as energy procurement, purchases of equipment and labour costs, etc. in the normal operating activities of the Company and its subsidiaries, in order to provide financial support for the sustainable development of the Company.

(II) By taking into account the existing gearing ratio level, status of bank credit facilities, balance of cash and cash equivalents and other conditions, please explain the necessity and reasonableness of supplementing working capital by way of this equity financing.

As at 30 September 2017, the gearing ratio of the Company was 53.75%, which was higher than that of comparable listed companies of 43.41% in the same industry. As at 30 September 2017, the balance of cash and cash equivalents of the Company was RMB1,335 million. As at 30 September 2017, outstanding amount of composite bank credit facilities amount of the Company was RMB1,136 million. It is necessary and reasonable for the Company to supplement working capital through this equity financing for the following reasons:

1. *The gearing ratio exceeds the level of comparable listed companies in the same industry, and debt financing is unable to provide continuous support to the business development of the Company*

As at the end of 2014, 2015 and 2016 and September 2017, the gearing ratio of the Company was 60.05%, 54.04%, 52.98% and 53.75% respectively, and such gearing ratios were obviously higher than the level of gearing ratios of comparable listed companies in the same industry. Details of the comparison is set out below:

Name of company	Gearing Ratio (%)			
	As at 30 September 2017	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Heilongjiang InterChina Water Treatment Co., Ltd.* (黑龍江國中水務股份有限公司)	23.73	34.52	33.42	28.34
Chongqing Water Group Co., Ltd.* (重慶水務集團有限公司)	29.97	33.47	30.55	35.56
Chengdu Xingrong Environment Co., Ltd.* (成都市興蓉環境股份有限公司)	44.12	45.90	41.45	38.35
Beijing Capital Co., Ltd.* (北京首創股份有限公司)	67.00	65.65	67.34	69.01
GrandBlue Environment Co., Ltd.* (瀚藍環境股份有限公司)	57.17	58.26	60.24	66.41
Jiangsu Jiangnan Water Co., Ltd.* (江蘇江南水務股份有限公司)	40.93	44.24	38.30	41.38
Zhongyuan Environment Protection Co., Ltd.* (中原環保股份有限公司)	13.79	15.24	58.81	60.67
Jiangxi Hongcheng Waterworks Co., Ltd.* (江西洪城水業股份有限公司)	55.83	56.28	62.00	61.53
Qianjiang Water Resources Development Co., Ltd.* (錢江水利開發股份有限公司)	56.17	66.28	64.62	75.13
Zhongshan Public Utilities Group Co., Ltd.* (中山公用事業集團股份有限公司)	22.61	23.60	19.69	23.30

Name of company	Gearing Ratio (%)			
	As at 30 September 2017	As at 31 December 2016	As at 31 December 2015	As at 31 December 2014
Wuhan Sanzhen Industry Holding Co., Ltd.* (武漢三鎮實業控股股份 有限公司)	48.30	44.58	42.75	42.61
Guangxi Nanning Waterworks Co., Ltd.* (廣西綠城水務股份有限 公司)	70.46	62.90	62.65	74.26
Industrial Average	43.41	45.91	48.49	51.38
The Company	53.75	52.98	54.04	60.05

Assuming that the Company continued its project construction and supplement of working capital by way of debt financing, instead of considering an increase in equity size by way of equity financing, the gearing ratio will continue to increase, intensifying financial risks. The high gearing ratio imposed significant restriction on the debt financing capability of the Company and increased indebtedness risk and liquidity risk of the Company, which become a material adverse factor to the business development of the Company.

In order to increase the share capital of the Company, maintain the gearing ratio at a reasonable level and respond to the call for deleveraging of State-owned enterprises, it is necessary to raise proceeds through the Non-public Issuance of A Shares.

2. *The balance of cash and cash equivalents is reasonable with clear arrangement for use of funds, and the current balance of cash and cash equivalents is unable to satisfy funding requirements*

(1) Ratio of the balance of cash and cash equivalents over total assets of the Company is basically the same as the industry level

As at the end of September 2017, the horizontal comparison between the level of balance of cash and cash equivalents of the Company and that of the comparable listed companies in the same industry is set out below:

Unit: 0'000 Currency: RMB

Name of company	Cash and cash equivalents	Total assets	Cash and cash equivalents as a percentage of total assets
Heilongjiang InterChina Water Treatment Co., Ltd.* (黑龍江國中水務股份有限公司)	29,926.24	479,860.54	6.24%
Chongqing Water Group Co., Ltd.* (重慶水務集團有限公司)	447,233.83	1,951,022.34	22.92%
Chengdu Xingrong Environment Co., Ltd.* (成都市興蓉環境股份有限公司)	168,846.41	1,789,410.90	9.44%
Beijing Capital Co., Ltd.* (北京首創股份有限公司)	359,343.51	4,730,455.33	7.60%
GrandBlue Environment Co., Ltd.* (瀚藍環境股份有限公司)	123,602.03	1,386,308.50	8.92%
Jiangsu Jiangnan Water Co., Ltd.* (江蘇江南水務股份有限公司)	114,580.89	450,383.06	25.44%
Zhongyuan Environment Protection Co., Ltd.* (中原環保股份有限公司)	77,575.39	637,465.62	12.17%
Jiangxi Hongcheng Waterworks Co., Ltd.* (江西洪城水業股份有限公司)	85,083.02	782,160.61	10.88%
Qianjiang Water Resources Development Co., Ltd.* (錢江水利開發股份有限公司)	62,981.01	495,800.08	12.70%
Zhongshan Public Utilities Group Co., Ltd.* (中山公用事業集團股份有限公司)	77,979.06	1,564,973.39	4.98%
Wuhan Sanzhen Industry Holding Co., Ltd.* (武漢三鎮實業控股股份有限公司)	54,204.38	959,270.75	5.65%

Name of company	Cash and cash equivalents	Total assets	Cash and cash equivalents as a percentage of total assets
Guangxi Nanning Waterworks Co., Ltd.* (廣西綠城水務股份有限公司)	47,745.00	1,111,233.60	4.30%
Average	137,124.43	1,344,958.04	10.99%
The Company	133,516.80	1,146,109.80	11.65%

As at the end of September 2017, the balance of cash and cash equivalents of the Company was RMB1,335.1680 million, representing 11.65% of the total assets of the Company as at the end of September 2017, which was basically the same as the average of the level of comparable listed companies in the same industry.

To conclude, the size of the balance of cash and cash equivalents of the Company was consistent with the characteristics of its industry and business. The expansion in business scale in 2017 led to loans from banks and an increase in the balance of cash and cash equivalents as at the end of September 2017, but the amount of cash and cash equivalents held was still lower than the industrial average level, and thus the size of cash and cash equivalents was reasonable.

(2) Arrangement for use of cash and cash equivalents

As at 30 September 2017, the total amount of cash and cash equivalents of the Company was RMB1,335.1680 million. Although the absolute value of the current balance of cash and cash equivalents was relatively high, it was still unable to satisfy the business development needs of the Company.

Save for the supplemental working capital of RMB111.695 million required for the next three years estimated on the basis of income growth forecast and ratio of working capital over operating income, the demand of the Company for funds in large amounts mainly includes the funding gap for BT, BOT, PPP and other types of projects, details of which are set out below:

Apart from fundraising investment projects, as at the end of September 2017, the key information about the projects that the Company has won the tender or has signed the relevant contracts, with the Company being the private capital contributor, was set out below:

Unit: 0'000 Currency: RMB

No.	Project name	Project type	Total investment amount of the Company	Invested amount of the Company	Funding gap of the Company
1	Yuwan Sewage Treatment Plant Project	Sewage Treatment	17,630.11	6,562.25	11,067.86
2	Houtai Scenic Area No. 2 Energy Station Engineering Project	Provision of Heat and Cold by New Energy	11,738.00	1,044.71	10,693.29
3	Ninghe Modern Industrial Zone Sewage Plant	Sewage Treatment	4,321.98	4,051.39	270.59
4	Karamay City No. 2 Sewage Treatment Plant Phase 2 Engineering Project	Sewage Treatment	24,298.20	75.35	24,222.85
5	Linxia City Sewage Treatment Plant Reconstruction and Expansion PPP Project, a project under the Public-Private Partnership (PPP) model	Sewage Treatment	15,000.00	7,677.00	7,323.00
6	Yishui Hazardous Waste Project	Hazardous Waste Treatment	29,000.00	3,181.48	25,818.52
7	Tancheng Hazardous Waste Project	Hazardous Waste Treatment	31,800.00	450.13	31,349.87
8	Yingshang County Town South Sewage Treatment Engineering BOT Project	Sewage Treatment	17,600.00	5,631.00	11,969.00
9	Jieshou City Sewage Treatment Plant (Phase 2) Upgrading and Reconstruction Project	Sewage Treatment	3,087.84	630.36	2,457.48
10	Jieshou City Sewage Treatment Plant and Sludge Deep Dehydration Reconstruction Project	Sewage Treatment	1,946.97	424.43	1,522.54
11	Guangwu Circular Economy Industrial Park Centralized Sewage Treatment Plant Phase 1 Upgrading and Phase 2 Expansion Project	Sewage Treatment	6,336.00	77.16	6,258.84

No.	Project name	Project type	Total investment amount of the Company	Invested amount of the Company	Funding gap of the Company
12	Jieshou City Town East Sewage Treatment Plant and Ancillary Pipeline Network Engineering	Sewage Treatment	9,845.00	1,631.63	8,213.37
13	Ningxiang Economy and Technology Development Zone Sewage Treatment Plant and Ancillary Pipeline Network Phase 1 Engineering	Sewage Treatment	14,152.25	7,189.74	6,962.51
Total			186,756.35	38,626.63	148,129.72

As at the end of September 2017, the funding gap of the Company reached RMB1,481.2972 million for its BT, BOT, PPP and other types of projects that the Company has won the tender or has signed the relevant contracts. Taking into account the tenders won after the reporting period and the funding requirements for projects under the tender process, the funding gap of the Company for such types of projects will be even higher.

To conclude, save for the amount of the supplemental working capital required for the next three years estimated on the basis of the estimated operating income and operating costs of the enterprise after comprehensive consideration of various factors, including the turnover of various assets and liabilities of the enterprise, the Company has a funding gap of up to RMB1,481.2972 million for its current projects which have entered into contracts (without taking into account the projects that won the tender, under the tender process or under negotiation after the reporting period). As at the end of September 2017, the balance of cash and cash equivalents was RMB1,335.168 million, and the current balance of cash and cash equivalents is unable to satisfy the funding requirements of the existing projects.

3. *Although the current amount of bank credit facilities is relatively high, the loans are subject to satisfaction of the corresponding conditions*

As at 30 September 2017, outstanding amount of bank credit facilities of the Company was RMB1,136 million. The Company currently still has certain amount of outstanding bank credit facilities mainly due to the corresponding restrictive conditions and scope of usage attached to specific withdrawal of bank

credit facilities. The actual withdrawal of bank loans is affected by factors including the credit scale of various bank branches and the funding costs, with relatively high uncertainty in time of grant of loans and relatively short loan terms, which does not match with the characteristics of funding requirements for long-term business operations. Meanwhile, if the size of debts further increases, the gearing ratio of the Company will be driven up to a level further above the level of comparable listed companies in the same industry, which has adverse impacts on the optimization of the Company's capital structure.

4. *Increase the registered capital of the Company to enhance market competitiveness*

During the tender process of BT, BOT and other types of projects, the government has certain requirements on the registered capital of the bidding company, for example, the registered capital of the bidding company must reach 30% of the total investment amount of the projects. Therefore, the increase in the net assets and share capital of the Company after completion of the Non-public Issuance of A Shares enhances its qualification and ability for bidding some large-scale projects, which in turn will enable the Company to better grasp the opportunities of large-scale projects and lay a more solid foundation for the future development of the Company.

To conclude, the gearing ratio of the Company is 53.75%, which is significantly higher than the average of the level of comparable listed companies in the same industry, and with the rapid growth in business scale, it will be difficult to continue to support business development through bank loan financing. Although the balance of cash and cash equivalents of the Company as at the end of the reporting period was RMB1,335.168 million, which was a relatively high absolute value, the current balance of cash and cash equivalents still cannot satisfy the funding gap of the existing BT, BOT, PPP and other projects, and therefore, the current cash and cash equivalents held by the Company cannot be used to supplement its working capital gap. In other words, the need for supplemental working capital of the Company is not affected by the current balance of cash and cash equivalents. In order to satisfy normal operation requirements of the Company, secure sufficient funds for the projects and maintain the gearing ratio of the Company at the reasonable level, it is necessary and reasonable to supplement working capital through this equity financing.

Question: The applicant please provide the breakdown details of this repayment of loans obtained from financial institutions (borrower, amount, lending period and usage, etc.). If there is advance repayment of bank loans, please advise whether consent letter for advance repayment has been obtained from the banks.

Reply:**1. Proposed repayment of loans obtained from financial institutions**

It is proposed to use RMB500.0000 million from the proceeds raised from the Non-public Issuance of A Shares for repayment of loans obtained from financial institutions. The relevant amount was the outstanding loans of the Company obtained from financial institutions as at 24 April 2017 when the adjustment to the proposal of the Non-public Issuance of A Shares was considered at the 31st meeting of the 7th session of the Board of the Company. Details of the loans are set out below:

Unit: 0'000 Currency: RMB

Borrower	Lending bank	Date of loan	Date of repayment	Loan balance	Use of funds
Tianjin Jiayuan Xingchuang New Energy Technology Company Limited	Xinhua sub-branch, ICBC	2012-6-29	2018-5-25	1,708	Tianjin Cultural Centre centralized energy station project
Qujing Capital Water Company Limited	Qilin sub-branch, China Construction Bank	2006-5-26	2018-5-26	4,000	Loan for acquisition of exclusive operation license for tap water and sewage in Qujing
Fuyang Capital Water Company Limited	Yingquan sub-branch, Agricultural Bank of China	2014-9-11	2020-9-30	2,080	Water recycling project
Wendeng Capital Water Company Limited	China Development Bank	2009-12-10	2022-12-9	3,400	Loan for asset transfer of Wendeng Sewage Treatment Plant

Borrower	Lending bank	Date of loan	Date of repayment	Loan balance	Use of funds
Hangzhou Tianchuang Capital Water Company Limited	Sales department of Zhejiang Branch, ICBC	2016-4-1	2026-3-29	5,400	Loan for upgrading and reconstruction project of Phase 1 and Phase 2 of Hangzhou Qige Sewage Treatment Plant
Hangzhou Tianchuang Capital Water Company Limited	Sales department of Zhejiang Branch, ICBC	2016-8-12	2026-3-29	8,010	Progress payment of Hangzhou Qige Sewage Treatment Plant Project
Baoying Capital Water Company Limited	Baoying sub-branch, the Bank of China	2006-2-27	2018-3-15	500	Loan for engineering construction and equipment procurement of Baoying Sewage Plant Project
The Company	Tianjin Rural Commercial Bank	2017-4-12	2018-4-11	15,000	Dongjiao Sewage Treatment Plant Project
The Company	Hexi sub-branch, the Bank of China	2017-4-13	2018-4-12	10,000	Xianyanglu Sewage Treatment Plant Project
Total				50,098	

Among which, regarding the portion of the proposed repayment amount in the above table that exceeds the proceeds raised from the Non-public Issuance of A Shares, it will be settled by the Company through self-financing. Taking into account the fact that the actual receipt time of the proceeds raised from the Non-public Issuance of A Shares cannot be accurately estimated, if some of the

above loans obtained from financial institutions are due for repayment before the receipt time of the proceeds raised from the Non-public Issuance of A Shares, the Company will use the proceeds raised from the Non-public Issuance of A Shares to replace the amounts already repaid in the earlier period.

2. Advance repayment of loans

Among the loans obtained from financial institutions which the Company has proposed to repay, Baoying Capital Water Company Limited has obtained consent letter from the bank for advance repayment. The bank loans of the Company that are due for repayment by the end of April 2018 do not involve arrangement for advance repayment and do not have to obtain consent letter for advance repayment. For the remaining bank loans, the contracts stipulated provisions to entitle the Company to make advance repayment, and the Company may repay in advance in accordance with the procedures contained in the contracts, without the need to obtain consent letter for advance repayment.

The Non-public Issuance of A Shares of the Company is subject to the approval of the CSRC and the Company will make further announcement(s) in respect of the Non-public Issuance of A Shares in accordance with the requirements of the Listing Rules. Shareholders and potential investors should exercise caution when dealing in the Shares.

By Order of the Board
Liu Yujun
Chairman

Tianjin, the PRC
29 November 2017

As at the date of this announcement, the Board comprises four executive Directors: Mr. Liu Yujun, Mr. Tang Fusheng, 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.

** For identification purposes only*