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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)

**MAJOR TRANSACTION -  
ACQUISITION OF SEWAGE WATER TREATMENT PLANTS' ASSETS  
AND  
PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION  
OF THE COMPANY**

**Financial advisor to the Company**

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橋  
BRIDGE PARTNERS

**BRIDGE PARTNERS CAPITAL LIMITED**

**THE ACQUISITION**

The Board announces that on 9 November 2010 (after trading hours), the Company (as the Purchaser) entered into the Asset Transfer Agreement with TSC (as the Vendor), pursuant to which the Company has agreed to acquire certain Transferred Assets from TSC. The consideration for the Acquisition is the sum of (i) the deposit of RMB261,578,056.76 (equivalent to approximately HK\$305,183,000) and (ii) the outstanding amount of the principal loan and its accrued interest under the Asian Loan Agreement and the Japan Loan Agreement (after the Asset Transfer Agreement is taking effect). The Acquisition is subject to the satisfaction of the conditions as set out in the paragraph headed "Conditions Precedent" below.

**PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION**

In order to ensure rapid, continuous and healthy development of the Company, and gradually nurture its own professional capabilities in the areas of consultation, design, construction, equipment and technical services, etc. and continuously improve the industry chain segments, the Company proposed to amend paragraph 2 of Article 12 of the Articles of Association.

## **GENERAL**

As the consideration ratio under the Asset Transfer Agreement is more than 25% but less than 100%, the entering into of the Asset Transfer Agreement constitutes a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to announcement and Shareholders' approval at the EGM. Mr. Tan, who had retired from the position of an executive Director on 18 December 2009, is currently a legal representative and general manager of TSC. Pursuant to the Shanghai Listing Rules, as Mr. Tan has been serving in the capacity as an executive Director within the preceding 12 months, Mr. Tan and TSC are deemed as person/party connected to the Company. Accordingly, the Acquisition constitutes a connected transaction under the Shanghai Listing Rules. However, pursuant to the Hong Kong Listing Rules, TSC is not an associate of Mr. Tan since Mr. Tan does not have absolute control over TSC nor have any interest in the Acquisition, hence TSC would not be deemed as a connected person of the Company and the Acquisition does not constitute a connected transaction.

As no Shareholder has an interest in the Acquisition, no Shareholder is required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the Asset Transfer Agreement and the transaction(s) contemplated thereunder.

A circular containing, among other things, (i) further details of the Acquisition, including the valuation reports of the Transferred Assets; and (ii) details of the amendment to the Articles of Association, will be despatched to the Shareholders on or before 30 November 2010.

## **THE ACQUISITION**

Reference is made to the announcement of the Company dated 25 August 2003 in relation to the co-operation agreement (the "**Co-operation Agreement**") entered into between the Company and the Vendor on 25 August 2003 concerning the possible acquisition of the Transferred Assets.

The Board announces that on 9 November 2010 (after trading hours), the Company (as the Purchaser) entered into the Asset Transfer Agreement with TSC (as the Vendor), pursuant to which the Company has agreed to acquire certain Transferred Assets from TSC.

## **THE ASSET TRANSFER AGREEMENT**

The following is a brief summary of some of the principal terms of the Asset Transfer Agreement:

**Date:** 9 November 2010

**Parties:**

Vendor: TSC

Purchaser: The Company

According to the Hong Kong Listing Rules and to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, TSC and its ultimate beneficial owner(s) are third parties independent of the Company and connected persons of the Company.

### **Transferred Assets to be acquired**

The scope of the Transferred Assets are (i) the assets in 咸陽路污水處理廠 (Xianyanglu Sewage Water Treatment Plant<sup>#</sup>) and 紀莊子污水處理廠 (Jizhuangzi Sewage Water Treatment Plant<sup>#</sup>), which are financed by Japan Bank for International Cooperation (“**JBIC**”) under the Japan Loan Agreement; and (ii) the assets in 北倉污水處理廠 (Beicang Sewage Water Treatment Plant<sup>#</sup>), which are financed by Asian Development Bank (“**ADB**”) under the Asian Loan Agreement. The Transferred Assets include machineries and equipment which are currently used by the Company's Sewage Water Treatment Plants, such as effluent pumping stations, storm pumping stations, transformer substations, coarse bar screens, fine bar screens, digesters, boiler rooms, chlorine contact tanks, sedimentation pools, pipes, wells and other equipment for using in sewage and sludge treatment. The Transferred Assets form parts of the water treatment lines in the Company's Sewage Water Treatment Plants and must be combined with other machineries and equipment in the plants in order to generate sewage output. They are beneficially owned by the Vendor but are currently managed and operated at no cost by the Company. Further information on the Transferred Assets is set out in the paragraph headed “Reasons for the Acquisition” below.

## Consideration for the Acquisition

The consideration for the Acquisition is the sum of (i) the deposit of RMB261,578,056.76 (equivalent to approximately HK\$305,183,000) (the “**Deposit**”) and (ii) the outstanding amount of the principal loan and its accrued interest under the Asian Loan Agreement and the Japan Loan Agreement (after the Asset Transfer Agreement is taking effect) (the “**Repayment Amount**”). The consideration for the Acquisition will be settled by the Company out of its internal resources in the following manner:

- a) The Deposit of RMB261,578,056.76 (equivalent to approximately HK\$305,183,000) shall be paid by cash within 5 Business Days after the Asset Transfer Agreement is taking effect; and
- b) The Repayment Amount shall be paid by cash to the Vendor in accordance with the repayment schedule of the Asian Loan Agreement and the Japan Loan Agreement before the repayment dates.

As the loans under the Japan Loan Agreement (the “**JBIC Loan**”) and the Asian Loan Agreement (the “**ADB Loan**”) shall be repaid in Japanese Yen and US Dollars respectively and the interest payable for the ADB Loan shall be calculated at 6 months LIBOR, the Directors are of the view that that the exact repayment amount for each installment in the future is uncertain and the Company shall bear the risks of interest rate and exchange rate.

By using the exchange rates of US 1 Dollar against RMB6.6830, 100 Japanese Yen against RMB8.1040 and 6 months LIBOR of 0.4587% on 8 October 2010 (for reference only), the Repayment Amount (in accordance with the repayment schedule of the Asian Loan Agreement and the Japan Loan Agreement) shall be approximately RMB834,200,000 (equivalent to approximately HK\$973,261,000). Pursuant to the repayment schedule of the above loan agreements, the Repayment Amount shall be repaid in 91 installments for 31 years. Based on the discount rate of 5.94% (being the medium to long term benchmark lending rate for 5 years or above announced by the People’s Bank of China as at 8 October 2010), the net present value for the Repayment Amount (91 installments) shall be approximately RMB430,300,000 (equivalent to approximately HK\$502,031,000). Together with the Deposit of RMB261,578,056.76 (equivalent to approximately HK\$305,183,000), the present value of the consideration for the Acquisition is RMB691,878,056.76 (equivalent to approximately HK\$807,214,000) which is equivalent to the book value of the Transferred Assets as at 27 December 2007 (being the Acceptance Date). The present value of the consideration for the Acquisition represents a premium of approximately

0.4% over the appraised value of the Transferred Assets of approximately RMB689.10 million (equivalent to approximately HK\$803,973,000) valued by 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Company Limited<sup>#</sup>) (“China Enterprise”), an independent PRC valuer.

### **Basis of determination of the consideration for the Acquisition**

The consideration for the Acquisition was determined after arm’s length negotiations between the Company and the Vendor after taking into account of (i) the terms of the Co-operation Agreement; (ii) the book value of the Transferred Assets as at the Acceptance Date; and (iii) the appraised value of the Transferred Assets of approximately RMB689.10 million (equivalent to approximately HK\$803,973,000) as stated in the valuation reports issued by China Enterprise, an independent PRC valuer, on 28 April 2010. Details of the valuation reports will be included in the circular of the Company which will be despatched to the Shareholders on or before 30 November 2010. The Directors are of the view that the consideration for the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Conditions precedent**

The Asset Transfer Agreement shall take effect upon the following conditions having been fulfilled:

1. The passing of resolution(s) to approve the Asset Transfer Agreement and the Acquisition at the Shareholders’ meeting of the Company; and
2. The Asset Transfer Agreement and the Acquisition having been duly approved by the relevant PRC government authorities, and the relevant regulatory authorities and superior organisation of the Vendor.

If the above conditions are not satisfied or fulfilled on or before 31 December 2010 (or such later date to be agreed by the parties to the Asset Transfer Agreement in writing), the Asset Transfer Agreement shall lapse and neither party shall be bound to proceed with the Acquisition and the outstanding obligation under the Asset Transfer Agreement shall cease to be of any effect save and except for the existing rights and obligations of the parties.

### **Completion**

Completion of the Acquisition shall take place within 5 Business Days after all the above conditions precedent are fulfilled by the Company and/or the Vendor. The Transferred Assets shall be beneficially owned by the Company upon Completion.

## REASONS FOR THE ACQUISITION

The Company and its subsidiaries are principally engaged in the management and operation of sewage water treatment plants. The Sewage Water Treatment Plants, i.e. 紀莊子污水處理廠 (Jizhuangzi Sewage Water Treatment Plant<sup>#</sup>), 咸陽路污水處理廠 (Xianyanglu Sewage Water Treatment Plant<sup>#</sup>) and 北倉污水處理廠 (Beicang Sewage Water Treatment Plant<sup>#</sup>), are the major assets of the Company.

Prior to the Acquisition, TSC has obtained the ADB Loan and JBIC Loan according to the Asian Loan Agreement and Japan Loan Agreement respectively to finance the reconstruction and expansion project of 紀莊子污水處理廠 (Jizhuangzi Sewage Water Treatment Plant<sup>#</sup>), the construction project of 咸陽路污水處理廠 (Xianyanglu Sewage Water Treatment Plant<sup>#</sup>) and 北倉污水處理廠 (Beicang Sewage Water Treatment Plant<sup>#</sup>) (the “**Sewage Water Treatment Plant Projects**”). TSC will continue to be the borrower under the Asian Loan Agreement and the Japan Loan Agreement and will repay to the above banks after the Acquisition. With a view to smoothing out the operation of the Sewage Water Treatment Plant Projects after the expansion/construction period and preserve the integrity of the said Sewage Water Treatment Plants, the Company entered into the Cooperation Agreement with TSC in 2003 and both parties have agreed that the Transferred Assets would be transferred to the Company (after the Transferred Assets being successfully tested and installed) at a consideration which would be determined in accordance with the book value of the Transferred Assets at the time of transfer (subject to the approval by the Shareholders).

According to the Co-operation Agreement, the Transferred Assets form parts of the sewage system in the Sewage Water Treatment Plants and are beneficially owned by the Vendor. The Transferred Assets must be combined with other machineries and equipments in the Sewage Water Treatment Plants in order to process sewage water and could not stand alone to generate revenue. Accordingly, the Directors consider that the assets base of the Group will be enhanced after the Acquisition and the Acquisition helps to preserve the integrity of the assets in the Sewage Water Treatment Plants. After considering the above factors, the Directors consider that the Acquisition and the terms of the Asset Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Immediately upon Completion of the Acquisition, the fixed assets and long-term liabilities of the Company will increase. Since the Transferred Assets must be combined with other machineries and equipments in the Sewage Water Treatment Plants to process sewage water and they could not stand alone to generate revenue, the Acquisition will not generate additional income for the Company. However, the depreciation and finance costs of the Company will increase which will affect the revenue of the Sewage Water Treatment Plants. Nevertheless, the Directors are of the view that the above factors will not adversely affect the normal operation of the Company.

### **INFORMATION ON TSC**

The Vendor is a PRC state-owned enterprise and owned by 天津市水務局 (Tianjin Water Bureau<sup>#</sup>, “**TWB**”) and its principal activities are the provision of maintenance, operation, development and construction of rain water pipes, pumping stations, drainage facilities, sewage treatment plants and providing drainage technical advisory services. As at the date of this announcement, TWB is owned by the Tianjin People’s Government and is a third party independent of the Company.

### **PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION**

In order to ensure rapid, continuous and healthy development of the Company, and gradually nurture its own professional capabilities in the areas of consultation, design, construction, equipment and technical services, etc. and continuously improve the industry chain segments, the Company proposed to amend paragraph 2 of Article 12 of the Articles of Association to read as follow for the Shareholders’ consideration and approval at the EGM:

“The scope of business of the Company: investment, construction, design, management, operation, technological consultation and auxiliary services of sewage water and tap water and other water treatment facilities; design, construction, management, building and operation management of municipal infrastructural facilities; licensed operation, technological consultation and auxiliary services of the Southeastern Half Ring Urban Road of the Middle Ring of Tianjin City; development and operation of environmental protection technologies and environmental protection products and equipment; leasing of self-owned housing, etc.”

Please note that the above English version of the Articles of Association is an unofficial translation of its Chinese version. In case of any discrepancy between the two versions, the Chinese version shall prevail.



## GENERAL

As the consideration ratio under the Asset Transfer Agreement is more than 25% but less than 100%, the entering into of the Asset Transfer Agreement constitutes a major transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and is subject to announcement and Shareholders' approval at the EGM. Mr. Tan, who had retired from the position of an executive Director on 18 December 2009, is currently a legal representative and general manager of TSC. Pursuant to the Shanghai Listing Rules, as Mr. Tan has been serving in the capacity as an executive Director within the preceding 12 months, Mr. Tan and TSC are deemed as person/party connected to the Company. Accordingly, the Acquisition constitutes a connected transaction under the Shanghai Listing Rules. However, pursuant to the Hong Kong Listing Rules, TSC is not an associate of Mr. Tan since Mr. Tan does not have absolute control over TSC nor have any interest in the Acquisition, hence TSC would not be deemed as a connected person of the Company and the Acquisition does not constitute a connected transaction.

As no Shareholder has an interest in the Acquisition, no Shareholder is required to abstain from voting on the resolution(s) to be proposed at the EGM to approve the Asset Transfer Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Acquisition, including the valuation reports of the Transferred Assets; and (ii) details of the amendment to the Articles of Association, will be despatched to the Shareholders on or before 30 November 2010.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless otherwise states:

“Acceptance Date”	27 December 2007, being the date when the Company completed the acceptance test of the Transferred Assets
“Acquisition”	the acquisition of the Transferred Assets by the Company
“Articles of Association”	the articles of association of the Company
“Asian Loan Agreement”	the loan agreement by Asian Development Bank to finance the assets in 北倉污水處理廠 (Beicang Sewage Water Treatment Plant <sup>#</sup> )



“Asset Transfer Agreement”	the asset transfer agreement in respect of the acquisition of the Transferred Assets entered into between the Company and the Vendor on 9 November 2010
“associates”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day on which licensed banks in the PRC are open for normal banking business throughout their normal business hours (excluding Saturdays and Sundays)
“Company” or “Purchaser”	Tianjin Capital Environmental Protection Group Company Limited, a joint stock limited company established in the PRC whose A Shares and H Shares are listed on the Shanghai Stock Exchange and the Stock Exchange respectively
“Completion”	completion of the acquisition of the Transferred Assets
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Director(s)”	the directors of the Company, including the independent non-executive directors
“EGM”	the 2010 first extraordinary general meeting of the Company to be convened and held at 10:00 a.m. on 28 December 2010 for the Shareholders to consider and, if thought fit, approve the Asset Transfer Agreement and the transaction(s) contemplated thereunder, and the amendment to the Articles of Association
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange

“Japan Loan Agreement”	the loan agreement by Japan Bank for International Cooperation to finance the assets in 咸陽路污水處理廠 (Xianyanglu Sewage Water Treatment Plant <sup>#</sup> ) and 紀莊子污水處理廠 (Jizhuangzi Sewage Water Treatment Plant <sup>#</sup> )
“Mr. Tan”	Mr. Tan Zhaofu
“PRC”	The People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Transferred Assets”	(i) the assets which are financed by Japan Bank for International Cooperation in 咸陽路污水處理廠 (Xianyanglu Sewage Water Treatment Plant <sup>#</sup> ) and 紀莊子污水處理廠 (Jizhuangzi Sewage Water Treatment Plant <sup>#</sup> ); and (ii) the assets which are financed by Asian Development Bank in 北倉污水處理廠 (Beicang Sewage Water Treatment Plant <sup>#</sup> )
“Sewage Water Treatment Plants”	紀莊子污水處理廠 (Jizhuangzi Sewage Water Treatment Plant <sup>#</sup> ), 咸陽路污水處理廠 (Xianyanglu Sewage Water Treatment Plant <sup>#</sup> ) and 北倉污水處理廠 (Beicang Sewage Water Treatment Plant <sup>#</sup> )
“Shanghai Listing Rules”	the Shanghai Stock Exchange Share Listing Rules
“Share(s)”	ordinary share(s) of RMB1.00 each in the existing share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TSC” or “Vendor”	天津市排水公司 (Tianjin Sewage Company <sup>#</sup> ), an indirect wholly-owned subsidiary of the Tianjin People’s Government
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the PRC

“%” per cent.

By order of the Board  
**Tianjin Capital Environmental  
Protection Group Company Limited**  
**Zhang Wenhui**  
*Chairman*

# *English translation for reference only*

*Note:* For the purpose of this announcement, foreign currency amounts have been converted into Hong Kong dollars using an exchange rate of RMB1 = HK\$1.1667.

Tianjin, the PRC  
9 November 2010

*As at the date of this announcement, the Board comprises four executive Directors: Mr. Zhang Wenhui, Mr. Lin Wenbo, Ms. Fu Yana and Ms. Zhong Huifang; two non-executive Directors: Mr. An Pindong and Ms. Chen Yinxing; and three independent non-executive Directors: Mr. Xie Rong, Mr. Di Xiaofeng and Ms. Lee Kit Ying, Karen.*