

NOTES TO THE ACCOUNTS

(Prepared under PRC Accounting Regulations)

1. FUNDAMENTAL CHANGES DURING THE YEAR

The Company was established on 8th June 1993 in the People's Republic of China (the "PRC") as a joint stock limited company. Its former name was Tianjin Bohai Chemical Industry (Group) Company Limited which had been re-named as Tianjin Capital Environmental Protection Company Limited. The former controlling shareholder of the Company is Tianjin Bohai Chemical Industry Group Corporation ("TBC") and the current controlling shareholder is Tianjin Municipal Investment Company Limited ("TMICL"). The former principal activities of the Company and its subsidiaries (the "Group") were the manufacture and sale of marine chemical products (the "Chemical Business") and the current principal activities are the sewage water processing business and road and toll stations business (the "New Business"). All of these changes were effected during the year through the following steps:

- (a) The 63.09% equity interests held by the former controlling shareholder was transferred to the current controlling shareholder at nil consideration. The share transfer was effective on 2nd November 2000.
- (b) The Chemical Business and related net assets formerly conducted by the Group were transferred to the current controlling shareholder in exchange, on a portfolio basis, for the New Business and related assets formerly conducted by the current controlling shareholder. Details of the transaction are set out in note 2 to the accounts. The transaction was approved by the Company's shareholders at an extraordinary general meeting of the Company held on 20th December 2000 ("EGM") and became effective immediately on that date.
- (c) The former name was changed to the current name which was approved on 20th December 2000 by the Company's shareholders at the EGM. The change of name became effective officially on 8th January 2001.

Particulars of the New Business, now conducted by the Company subsequent to the Business and Asset Exchange, are set out below:

Operating unit	Location	Principal activities
Dongjiao Sewage Treatment Plant	Tianjin, the PRC	Provision of sewage water processing services to Tianjin Sewage Company, details of which are set out in note 2 to the accounts.
Jizhuangzi Sewage Treatment Plant	Tianjin, the PRC	Provision of sewage water processing services to Tianjin Sewage Company, details of which are set out in note 2 to the accounts.

1. FUNDAMENTAL CHANGES DURING THE YEAR (Cont'd)

Operating unit	Location	Principal activities
Southeastern Half Ring Road and toll stations	Tianjin, the PRC	Ownership of the right to set up toll stations at the junctions between the city roads of Tianjin and expressways leading to the city, and to collect toll fees from all motor vehicles entering the city of Tianjin at such toll stations, other than vehicles which are registered in Tianjin or exempted from toll payments under the relevant PRC rules and regulations, for a term expiring on 28th February 2029.

As a result of the exchange of businesses and related net assets as described above, the Company had fully disposed of its subsidiaries and its accounts for the year ended 31st December 2000 comprise the following:

- (a) The balance sheets of the Group and the Company as at 31st December 2000 reflect only the financial position of the New Business.
- (b) The profit and loss accounts of the Group and the Company for the year ended 31st December 2000 incorporate the results of the Chemical Business for the period from 1st January 2000 to 20th December 2000, and those of the New Business for the period from 21st December 2000 to 31st December 2000.
- (c) The cash flow statements of the Group and the Company for the year ended 31st December 2000 incorporate the cash flows of the Chemical Business for the period from 1st January 2000 to 20th December 2000, and those of the New Business for the period from 21st December 2000 to 31st December 2000.
- (d) The comparative figures reflect only the financial position and results of the Chemical Business as at and for the year ended 31st December 1999.

2. BUSINESS AND ASSET EXCHANGE

As described in note 1 to the accounts, the Group transferred the Chemical Business and related net assets to the current controlling shareholder in exchange, on a portfolio basis, for the New Business and related net assets (the "Business and Asset Exchange"). The book value of the net assets of the businesses as at 20th December 2000, the date the Business and Asset Exchange became effective, are as follows:

	Rmb'000
Net assets of the New Business acquired	
Fixed assets	714,018
Intangible assets	637,613
Inventories	2,854
Prepayments and other receivables	603
Bank balances and cash	52,905
Trade and other payables	(8,704)
	1,399,289
Net assets of the Chemical Business transferred out	
Fixed assets	4,349,225
Construction in progress and construction materials	383,001
Intangible assets	51,627
Long-term investments	130,878
Long-term loans receivable	133,691
Inventories	398,953
Accounts receivable and other receivables	930,170
Loans receivable	311,815
Short-term investments	21,922
Bank balances and cash	501,236
Accounts payable and other payables	(1,811,400)
Taxes payable	(62,864)
Bank and other loans and long-term payables	(3,945,180)
	1,393,074
Difference in book value (credited to capital reserve fund) (note 11)	6,215

As stated in supplementary information note (ii) of the cash flow statements, the Business and Asset Exchange involved a significant amount of net cash outflows and, therefore, the Company regards the Business and Asset Exchange is not a non-monetary transaction.

2. BUSINESS AND ASSET EXCHANGE (Cont'd)

The net assets of the New Business and the Chemical Business as at 31st December 1999 were valued by China Enterprise Appraisal, a firm of independent valuers registered in the PRC, on a replacement cost basis to be respectively Rmb 1,399 million and Rmb 1,355 million which had both been confirmed by the Ministry of Finance of the PRC. Pursuant to the agreements governing the Business and Asset Exchange, the businesses were exchanged based on these valuations as at 31st December 1999 and no consideration is required to be paid for the difference in these valuations. However a consideration adjustment is required for changes in net asset value of the businesses, caused solely by operations, during the period from 1st January 2000 to 20th December 2000, calculated as follows:

	Rmb'000
With respect to the New Business	
Valuation of net assets as at 31st December 1999	1,399,289
Add: Audited profit after taxation for the period from 1st January 2000 to 20th December 2000 in accordance with PRC accounting regulations	67,919
Less: Dividend distribution	(67,919)
	1,399,289
Less: Valuation of net assets as at 31st December 1999	(1,399,289)
Difference	—
With respect to the Chemical Business	
Valuation of net assets as at 31st December 1999	1,354,761
Less: Audited results for the period from 1st January 2000 to 20th December 2000 in accordance with PRC accounting regulations excluding the effect of the reversal of provisions against certain assets which had already been accounted for in the valuation of net assets as at 31st December 1999	(92,901)
	1,261,860
Less: Valuation of net assets as at 31st December 1999	(1,354,761)
Shortfall regarded as payable by the Company to TMICL	(92,901)

The payable by the Company to TMICL amounting to Rmb 92,901,000 as stated above had been waived by TMICL according to the terms of the agreements governing the Business and Asset Exchange. Accordingly, there is no net consideration payable between the Company and TMICL as a result of the Business and Asset Exchange.

2. BUSINESS AND ASSET EXCHANGE (Cont'd)

Upon the Business and Asset Exchange which became effective on 20th December 2000, the following agreements previously entered into by TMICL were automatically assigned to the Company:

(a) The sewage water processing agreement

According to the agreement, sewage water processing services shall be rendered by the Dongjiao Sewage Treatment Plant and Jizhuangzi Sewage Treatment Plant to Tianjin Sewage Company, at prices to be determined in accordance with a pricing formula stipulated in the agreement. Tianjin Sewage Company is a state-owned enterprise under the supervisory control of the Urban Construction Bureau of the Tianjin Municipality ("UCB").

The pricing formula effectively allows the sewage water processing business to fully recover the actual operating costs, including depreciation and amortisation of fixed assets but excluding interest expenses and foreign exchange gains or losses, and to earn a return of 15% per annum of the average balance of the monthly net book value of fixed assets (as defined in the agreement) of the sewage water processing operations, and incentive payments for cost saving and/or when actual processing volume exceeds the minimum processing volume stipulated in the agreement.

(b) The road repair and maintenance agreement

According to the agreement, Tianjin Urban Road & Bridge Construction Company ("TURBCC"), a company established in the PRC and under the supervisory control of UCB, shall provide road repair and maintenance services to the Company in relation to the Southeastern Half Ring Road for fees based on the rates prescribed in the Index For Estimation of Repair and Maintenance Costs For National Urban Construction (Jian She Bu Cheng [1993] No. 412) issued by the Ministry of Construction of the PRC from time to time. Nevertheless, the Company has the right to obtain the services from third parties if such services are offered on better terms.

(c) The office premises leasing agreement

According to the agreement, the Company shall lease a building from TMICL as its office premises for an annual rental of Rmb 450,000 and such rental will be adjusted every three years based on the then market rentals determined by an independent valuer.

(d) The land leasing agreement

The road and toll stations business of the New Business has sixteen toll stations as at 31st December 2000. According to the agreement, the land on which thirteen of the sixteen toll stations are located is granted by UCB for perpetual use of the road and toll stations business free of charge.

3. PRINCIPAL ACCOUNTING POLICIES

The accounts are prepared in accordance with the Accounting Standards for Business Enterprises, and the Accounting Regulations for Joint Stock Limited Companies of the PRC.

The principal accounting policies adopted for the accounts are as follows:

The Chemical Business

(a) Financial year

The financial year is from 1st January to 31st December of each calendar year.

(b) Basis of accounting

The Company adopts the accrual concept and, except for indicated otherwise, the historical cost convention as its basis of accounting.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December 2000. These consolidated accounts are prepared in accordance with Cai Hui Zi (1995) No. 11 "Temporary Regulations for Preparation of Consolidated Accounts" issued by the Ministry of Finance. Profits or losses arising from transactions between Group companies have been eliminated.

(d) Subsidiaries

A subsidiary is an enterprise in which the Company holds an interest of more than 50% of the equity as a long-term investment or has the power to cast the majority of votes at meetings of the management committee.

In the Company's accounts, investments in subsidiaries that are included in the consolidated accounts are accounted for using the equity method.