3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest of 20% to 50% is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

(f) Capitalisation of fixed assets

All direct and indirect costs relating to the acquisition or construction of plant and machinery including interest costs and operating results prior to the commissioning date are capitalised as fixed assets.

Plant and machinery are considered to be commissioned when they are capable of producing saleable quality output in commercial quantities on an ongoing basis notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate PRC authorities.

(g) Fixed assets and depreciation

Fixed assets are those items with an estimated useful lives of over one year and with an amount over Rmb 2,000. Fixed assets are stated at cost or valuation less accumulated depreciation.

Depreciation of fixed assets is calculated to write off their cost or valuation over their estimated useful lives using the straight line method, after taking into account their estimated residual values. The estimated useful lives of fixed assets are as follows:

Buildings	10 to 50 years
Plant, machinery and equipment	5 to 25 years
Motor vehicles and others	8 to 22 years

No depreciation is provided on construction in progress.

(h) Intangible assets

Intangible assets include land use rights at cost and trademark at valuation made by an independent valuer. Land use rights are amortised using the straight line method over the period of the lease. Trademarks are amortised using the straight line method over their estimated useful lives of 10 years.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Long-term and short-term investments

Investments held for the long term, except for investments in subsidiaries and associated company which are accounted for using the equity method, are stated at cost less any provision for permanent diminution in value considered necessary by the directors.

Short-term investments are stated at the lower of cost and net realisable value.

(j) Provision for bad debts

In the event that debtors become bankrupt or death which resulted in the accounts receivable not fully collectible even with the realisation of the bankrupt property or inheritance, or debtors cannot fulfil the repayment liability or when the debtors are overdue for more than three years, the corresponding accounts receivable are recognised as bad debts.

The bad debt provision is accrued based on the accounts receivable ageing analysis and after assessing the collectibility of individual account receivable.

(k) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined by reference to the proceeds from items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions. Provision for loss on realisation of inventories is based on the excess of the higher amount of the cost over the net realisable value. Spare parts and consumables are stated at cost less any provision for obsolescence.

(l) Repair and maintenance expenses

Repair and maintenance expenses are charged to the profit and loss account as incurred.

(m) Research and development expenses

Research and development expenses are charged to the profit and loss account as incurred.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(n) Retirement benefits

The Group participates in the employee pension scheme of the Tianjin Municipal Government whereby the Group is to make an annual contribution equivalent to 20% (1999: 20%) of its annual payroll costs and the Tianjin Municipal Government undertakes to assume the retirement benefits obligations of existing and future retired employees of the Group. The Group's contributions under the scheme are charged to the profit and loss account as incurred.

(o) Deferred taxation

Deferred taxation is accounted for at the current rate of taxation, using the liability method, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

(p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(q) Foreign currencies

The Company maintains its books and records in Renminbi. Transactions in foreign currencies are translated at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange quoted by the People's Bank of China at the balance sheet date.

All exchange differences are dealt with in the profit and loss account.

(r) Basis of revenue recognition

Revenue from sale of goods is recognised on the transfer of major risk and rewards of ownership to the purchaser, the seller can no longer manage or control these goods, the relevant revenue is received or the right to receive payment is established, and the cost relating to these goods can be reliably calculated.

Interest income is recognised on an accrual basis.

Dividend income is recognised when the right to receive payment is established.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Construction in progress

Construction in progress includes the preliminary preparation works for construction, assets under construction and construction completed but not yet put in use. Cost comprises materials, direct wages, sub-contractors' fees incurred during the construction and share of administrative expenses. Interest expense on borrowings to finance the construction works before completion are capitalised as the cost of construction in progress. The expenditure incurred for trial production before the construction is put in use is included in the cost of construction. The net revenue arising from the trial production after deducting sales tax is set off against the cost of construction.

(t) Taxation

The value-added tax rate for the Company's products is 17% on sales. The income tax rate of the Company and its subsidiaries is 15% which is stipulated in the relevant documents issued by the Ministry of Finance and the State Tax Bureau.

(u) Cash and cash equivalents

Cash comprises cash in hand and deposits repayable on demand. Cash equivalents are short-term, highly liquid investments with an original maturity within three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value less advances from banks and financial institutions payable within three months from the date of advance.

(v) Profit appropriation

In accordance with the Company's Articles of Association, the profit after tax will be distributed in the following order:

- make up losses;
- allocate 10% to the statutory common reserve;
- allocate between 5% and 10% to the statutory provident fund;
- make appropriation to the discretionary common reserve subject to approval at the shareholders' general meeting; and
- distribute dividends to shareholders as declared by the Directors in accordance with the relevant legal requirement and the Company's operating results and approved in the shareholders' general meeting.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(w) Related parties

Related parties refer to Tianjin Bohai Corporation and its unlisted group companies.

The New Business

The new business adopts the following accounting policies in addition to those set out in notes 3(a), 3(b), 3(f), 3(j), 3(k), 3(l), 3(m), 3(n), 3(o), 3(p), 3(q), 3(s), 3(u) and 3(v) above which are also applicable to the New Business:

(x) Inventories

Inventories comprise raw materials, spare parts and consumables. Raw materials are stated at the lower of cost and net realisable value and spare parts and consumables are stated at cost less provision for obsolescence. Cost is determined on the weighted average basis.

(y) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

Depreciation of the road is calculated on a units-of-usage basis whereby the depreciation is provided based on the share of actual traffic volume for a particular period over the projected total traffic volume throughout the period of 30 years for which the right to operate the road is granted. It is the policy of the road and toll stations business to review regularly the projected total traffic volume throughout the operating periods of the road. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

Depreciation of leasehold buildings and structures is calculated to write off their cost on a straight line basis over the unexpired periods of the leases, the unexpired periods of the rights to operate the road and the toll stations or their expected useful lives, whichever is the shortest. The periods adopted for depreciation range from 10 to 50 years.

Other tangible fixed assets are depreciated at rates sufficient to write off the cost or valuation of the assets, less estimated residual value, over their estimated useful lives on a straight line basis. The estimated useful lives are as follows:

Plant and machinery	10 - 30 years
Other equipment and motor vehicles	5 - 40 years

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determing the recoverable amounts.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. The expenses relating to improvements of fixed assets are capitalised and amortised over their expected useful lives to the New Business.

(z) Intangible assets

Amortisation of land use rights, other than those in relation to the road and toll stations business, is calculated to write off their cost or valuation on a straight line basis over the period of land use rights of 50 years.

Amortisation of land use rights in relation to the road and toll stations business is calculated to write off their cost or valuation on a units-of-usage basis whereby the depreciation is provided based on the share of actual traffic volume for a particular period over the projected total traffic volume throughout the period of 30 years for which the right to operate the road is granted. It is the policy of the road and toll stations business to review regularly the projected total traffic volume throughout the operating periods of the road. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change in the projected total traffic volume.

(aa) Revenue recognition

(1) Revenue from sewage water processing services is recognised when services are rendered.

(2) Toll fee income is recognised on a receipt basis.

(3) Rental income is recognised based on the contract terms.

(4) Interest income is recognised on a time proportion basis after taking into account the principal amounts outstanding and the interest rates applicable.

(bb) Taxation

(1) Income tax

The Company accounts for income tax using the tax payable method. The income tax rate is 33% of taxable income.

(2) Business tax

The business tax rate is 5% of gross service income.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(3) *Other government surcharges*

Other government surcharges comprise city construction tax, education surcharge and antiflood tax, calculated respectively at the tax rate of 7%, 3% and 1% of the amount of business tax.

(cc) Related parties

Related parties refer to state-owned companies or other companies under the supervisory control of UCB.

4. CASH AND BANK BALANCES

	Group		Company	
	2000	1999	**2000**	1999
	New	*Chemical*	***New***	*Chemical*
	Business	*Business*	***Business***	*Business*
Items	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000
Cash on hand	**1**	98	**1**	24
Cash in bank	**51,838**	197,458	**51,838**	3,847
Deposits with financial institutions	**—**	2,564	**—**	1,761
Total	**51,839**	200,120	**51,839**	5,632

5. ACCOUNTS RECEIVABLE

	Group			
	2000	**2000**	1999	1999
	New	***New***	*Chemical*	*Chemical*
	Business	***Business***	*Business*	*Business*
	Rmb'000	**%**	Rmb'000	%
Ageing analysis of accounts receivable is as follows:				
Within one year	**11,890**	**100**	419,808	55
Between one and two years	**—**	**—**	118,742	16
Between two and three years	**—**	**—**	58,041	7
Over three years	**—**	**—**	165,760	22
Sub-total	**11,890**	**100**	762,351	100
Less: Provision for bad debts	**—**		(171,973)	
Net accounts receivable	**11,890**		590,378	

Accounts receivable as at 31st December 2000 represented sewage water processing fees due from Tianjin Sewage Company.