3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Capitalisation of fixed assets

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

Plant and machinery are considered to be commissioned when it is 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 authorities of the PRC.

(e) Fixed assets and depreciation

Fixed assets other than investment properties mentioned in note 3(f) below are stated at cost or valuation less accumulated depreciation.

Leasehold land is depreciated over the remaining period of the lease while other fixed assets are depreciated at rates sufficient 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 other 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.

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 determining the recoverable amount.

The gain or loss on disposal of a fixed asset other than an investment property is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance being attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods more than 20 years are valued on an annual basis by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve and decreases are first set off against increases on earlier valuation on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining period of the relevant leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(g) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities is reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Inventories

Inventories comprise stocks, work in progress, spare parts and consumables.

Stocks and work in progress 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 proceeds of the items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

Spare parts and consumables are stated at cost less any provision for obsolescence and are expensed upon consumption and usage.

(i) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(j) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Rental income is recognised on a straight line accrual basis.

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

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

(k) Repair and maintenance expenses

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

(l) Research and development expenses

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

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Retirement benefits

The Group participates in a defined contribution pension scheme organised by the Tianjin Municipal Government whereby the Group is required to make contributions at 20% of the basic salaries of employees for the year. In return for the contributions made, the local municipal government has undertaken to assume the retirement benefits obligations of all 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 recoverable 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 into Renminbi 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 into Renminbi 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.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

The New Business

The New Business adopts the following accounting policies in addition to those set out in notes 3(i), 3(k), 3(n), 3(o), 3(p) and 3(q) above which are also applicable to the New Business:

(r) 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.

(s) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated amortisation/depreciation.

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

Depreciation of the road and amortisation of land use rights in relation to the road and toll stations business are calculated to write off their cost on a units-of-usage basis whereby the depreciation and amortisation are 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 adjustments 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 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

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) Fixed assets and depreciation (Cont'd)

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 determining the recoverable amounts.

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.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance being attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(t) Revenue recognition

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

Toll fee income is recognised on a receipt basis.

Rental income is recognised on a straight line accrual basis.

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