

17. RESERVES (Cont'd)

Notes:

- (a) Transactions of the following nature are recorded in the capital reserve fund:
 - (i) share premium arising from the issue of shares;
 - (ii) donations received;
 - (iii) surplus arising from the revaluation of assets; and
 - (iv) any other items required by PRC regulations to be so treated.
- (b) The general reserves comprise the statutory common reserve and the statutory provident fund. According to the Company's Articles of Association, it is required to transfer 10% and 5% to 10% of the net profit of the Company as shown in the accounts prepared under PRC accounting regulations to the statutory common reserve (until the reserve reaches 50% of the registered capital) and statutory provident fund, respectively. The transfers to these reserves must be made before the distribution of dividends to shareholders. The transfers to the reserves during the year represented 10% and 5% of the net profit of the Company derived from the New Business, transferred to the statutory common reserve and statutory provident fund, respectively.
- (c) The Group received subsidy income from the local government for the technological development of the Chemical Business in 2000 amounting to Rmb5,383,000 (1999: Rmb 2,786,000). The subsidy income received is not distributable under the PRC accounting regulations and therefore transferred to the capital reserve fund.
- (d) It was approved by the shareholders of the Company at the EGM on 20th December 2000 that the accumulated losses shall be set off against the general reserves and capital reserve fund immediately following the Business and Asset Exchange. Accordingly accumulated losses of Rmb 648,307,000 immediately following the Business and Asset Exchange were set off against the general reserves and the capital reserve fund in the amounts of Rmb 106,468,000 and Rmb 541,839,000 respectively. Such amounts of losses set off were subsequently confirmed by the Company's board of directors on 16th March 2001.
- (e) The distributable reserve available to the Company as at 31st December 2000 amounted to Rmb 6,261,000 (1999: nil).

18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash inflow from operating activities

	2000	1999
	Rmb'000	Rmb'000
Profit/(loss) before taxation	182,573	(363,688)
Share of (profit)/loss of an associated company	(4,658)	868
Loss on disposal of fixed assets	10,635	300
Provision for diminution in value of investment securities	5,795	14,700
Depreciation	305,441	293,178
Interest income	(7,538)	(24,666)
Interest expense	223,657	229,185
Income from other investments	(2,486)	(1,412)
Recovery of certain assets at gross value (note 5)	(254,140)	—
Proceeds from recovery of certain assets at gross value (note 5)	305,249	—
Increase in amount due to an associated company	1,012	733
(Increase)/decrease in inventories	(55,096)	40,483
Decrease/(increase) in trade and other receivables	106,972	(88,910)
Increase in loans receivable	(10,226)	(18,998)
Increase in other investments	(11,974)	(1,917)
Increase in trade and other payables	110,435	211,167
Net cash inflow from current account with the former controlling shareholder	150,251	7,888
Exchange loss	—	636
Net cash inflow from operating activities	1,055,902	299,547

(b) Net cash outflow arising from the Business and Asset Exchange and cash flows of the New Business attributable to the Group

	Rmb'000
Cash consideration for the Business and Asset Exchange	—
Bank balances and cash transferred to TMICL (note 2)	(501,236)
Bank balances and cash acquired from TMICL (note 2)	52,905
Net cash outflow arising from the Business and Asset Exchange	(448,331)

The New Business acquired during the year contributed Rmb 938,000 to the Group's net operating cash inflow, received Rmb 9,000 in respect of the net returns on investments and servicing of finance, and paid Rmb 2,013,000 for investing activities.

18. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(Cont'd)

(c) Analysis of changes in financing during the year

	Share capital and capital reserve fund		Bank and other loans and long-term payables	
	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000
At 1st January	1,992,755	1,989,969	4,037,237	4,011,519
Net cash (outflow)/inflow from financing	—	—	(92,058)	85,055
Transfer out with the Chemical Business to TMICL	—	—	(3,945,179)	—
Difference in book value of the exchanged net assets credited to capital reserve fund (note 2)	33,917	—	—	—
Realisation of revaluation surplus upon the transfer of the Chemical Business to TMICL	(90,927)	—	—	—
Set off accumulated losses against reserves	(541,839)	—	—	—
Set off against long-term loans receivable	—	—	—	(242,000)
Other increase during the year	5,383	2,786	—	182,663
At 31st December	1,399,289	1,992,755	—	4,037,237

19. COMMITMENTS

(a) Capital commitments

	Company		Group
	2000	1999	1999
	<i>New</i>	<i>Chemical</i>	<i>Chemical</i>
	<i>Business</i>	<i>Business</i>	<i>Business</i>
	Rmb'000	Rmb'000	Rmb'000
Contracted but not provided for	1,547	—	9,274
Authorised but not contracted for	503,000	—	302,493
	504,547	—	311,767

(b) Operating lease commitments

The New Business leases certain office premises and toll station premises from TMICL and a third party. At 31st December 2000, the Company had commitments to make payments in respect of land and buildings for the New Business in the next twelve months under operating leases which expire as follows:

	Company		Group
	2000	1999	1999
	<i>New</i>	<i>Chemical</i>	<i>Chemical</i>
	<i>Business</i>	<i>Business</i>	<i>Business</i>
	Rmb'000	Rmb'000	Rmb'000
After the fifth year	830	—	3,636

20. CONTINGENT LIABILITIES

Subsequent to the Business and Asset Exchange, the Company did not have any contingent liabilities as at 31st December 2000 (1999: guarantees to the extent of Rmb 171,290,000 and Rmb 75,527,000 relating to the Chemical Business were provided by the Group and the Company respectively).

21. RELATED PARTY TRANSACTIONS

The Chemical Business

The following is a summary of significant transactions with the former controlling shareholder and its private group companies during the period from 1st January 2000 to 20th December 2000, which were carried out in the normal course of operations of the Chemical Business:

	Period from 1st January to 20th December 2000 Rmb'000	Year 1999 Rmb'000
Income		
Sales of finished products (note a)	390,832	370,237
Sales of raw materials and spare parts (note a)	106	491
Subcontracting fees received (note b)	21,552	8,228
Management fee income	700	2,457
Interest income from loans receivable (note c)	3,131	18,148
Rental income from fixed assets	2,598	—
Expenses		
Purchases of raw materials and spare parts (note a)	(697,070)	(461,308)
Purchases of fixed assets (note a)	(2,960)	(18,960)
Subcontracting fees paid (note b)	(74,641)	(54,913)
Staff welfare expenses (note d)	(26,381)	(36,117)
Fees paid for repair and maintenance services	(600)	(2,600)
Fees paid for other supporting services (note b)	(11,621)	(7,401)
Operating lease rental expenses for land and facilities (note e)	(3,616)	(3,636)

Notes:

- (a) Sales and purchases of finished goods, raw materials, spare parts and fixed assets were conducted at prices no less favourable than the transaction of similar nature that were charged to or obtained from other third party customers or suppliers of the Group.
- (b) Fees paid for or received in respect of subcontracting services and other supporting services mainly represented fees charged or received for supplies of ancillary materials and services, management of staff quarters, technical services, maintenance and transportation services. The fees for these services were determined by reference to market prices for such services.
- (c) Interest income from loans receivable represented the interest charged on advances to private group companies of the former controlling shareholder at market rates in the PRC.

21. RELATED PARTY TRANSACTIONS (Cont'd)

The Chemical Business (Cont'd)

- (d) Fees paid for staff welfare expenses mainly represented fees charged for the provision of living support services to the employees of the Group and their family members, such as medical, catering, nursery and supply of recreational facilities. The fees for these services were determined by reference to market prices payable for such services in Tianjin or on the basis of cost plus a profit margin.
- (e) Operating lease rental expenses were paid to the former controlling shareholder for the right to use the land on which majority of the buildings of the Chemical Business, mainly for industrial purpose, were located.

The New Business

The following is a summary of significant transactions with related companies during the period from 21st December 2000 to 31st December 2000, which were carried out in the normal course of operations of the New Business:

	Period from 21st December to 31st December 2000 Rmb'000
Revenue from sewage water processing services (note f)	11,890
Road repair and maintenance expenses (note g)	92
Operating lease rental expenses in respect of office premises (note h)	13

Notes:

- (f) The sewage water processing services are rendered to Tianjin Sewage Company, details of which are described in note 2.
- (g) The repair and maintenance expenses were charged by TURBCC, details of which are described in note 2.
- (h) The operating lease rentals were paid to the current controlling shareholder, details of which are described in note 2.
- (i) As described in note 2, 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.

22. ULTIMATE HOLDING COMPANY

Subsequent to the Business and Asset Exchange, the directors of the Company regard the current controlling shareholder, Tianjin Municipal Investment Company Limited, as being the ultimate holding company.

23. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 16th March 2001.