

IV. REVIEW OF OPERATIONS AND PROSPECTS

(Financial data contained herein are prepared under PRC GAAP)

1. The Company's principal operating conditions during the period

The scope of operations of the Company includes the construction of auxiliary facilities, design, management, operation, technological consultation and auxiliary services of Dongjiao Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant in Tianjin, the PRC, the construction of auxiliary facilities, design, toll collection, repair and maintenance, management, technological consultation and auxiliary services of the Southeastern Half Ring Road and toll stations in Tianjin, and the development and operation of environmental protection technology and products.

During the period, the Company focused on internal reform and improvement in internal control system. Since the completion of the Company's restructuring in December 2000, the nature of the Company's current business is different from the previous period, and therefore the technology applicable to the Company and the requirements for staff and management are also different from the previous period. In view of the changes in nature of business, the Company's management adopted different measures for the operations and achieved good results. During the period, the Company carried out a series of staff training programmes including training for specific duties, training for professional qualifications, training for operation safety and training for directorship and secretarial practices relating to listed companies.

At present, the Company's principal operations can be classified into two categories: sewage water treatment and related environmental protection and city road and toll station businesses. Details of the operating conditions for each of the above businesses are set out below:

- (1) The sewage water treatment and related environmental protection businesses include the management, operation, repairs and maintenance of Dongjiao Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant in Tianjin. The source of income for sewage water treatment is based on the Sewage Water Processing Agreement entered into between the Company and Tianjin Sewage Company. In respect of the control over the operation of sewage water plants, the Company focused on efficiency enhancement and cost reduction in order to ensure that the sewage water processing operation complies with the prescribed standards of the State and at a lower cost. The specific measures include the carrying out of staff training to strengthen the concept of market mechanism and enhancing the technical skills of the staff, and the recruitment of professional and technical staff to strengthen the manpower resources. During the period, the two sewage water processing plants processed 93,878,607 cubic meters in total of sewage water, representing an increase of 7,488,831 cubic meters or 8.67% as compared with 86,389,776 cubic meters of sewage water processed in the corresponding period last year.
- (2) The city road and toll stations business and related services include the management, operation and maintenance of a city road and sixteen toll stations. As the revenue of this business is directly collected at the toll stations, it is crucial to take into consideration the safety of staff on duty and the measures of safeguarding the tolls collected. During the period, management of the Company focused on strengthening the surveillance of the toll stations and enhancing the safety of the toll collection procedures, and installed surveillance system at the toll stations with heavier traffic flows. However, owing to the construction and maintenance carried out at roads surrounding Tianjin city, the volume of tolled traffic flow decreased. During the period, the traffic flow at the Company's toll stations in term of the number of vehicles was 1,523,710 times, representing a decrease of 389,555 times or 20% as compared with 1,913,265 times during the corresponding period last year.

The financial data of the above businesses are summarised as follows:

	Volume	Income <i>Rmb'000</i>	Percentage to total income %	Net profit <i>Rmb'000</i>	Percentage to net profit %
Sewage water treatment business	93,879,607 cu.m.	177,864	81	82,786	87
Road and toll stations business	1,523,710 times	42,616	19	12,004	13
		<u>220,480</u>	<u>100</u>	<u>94,790</u>	<u>100</u>

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2. The Company's investment projects

In accordance with the resolutions of the board of directors passed on 16th March 2001 and considered at the shareholders' meeting held on 8th May 2001, the Company plans to acquire and construct the Haihe Bridge Construction Project this year. It is expected that the total investment in the project is approximately Rmb485 million. The Company is analysing the investment plan for such acquisition. In addition, the Company is currently evaluating the opportunity of acquiring a 90% equity interest in Tianjin Zhongshui Construction Company, a company engaged in the sale and processing of re-used sewage water.

3. Changes in the operating environment

During the period, there were no significant changes in the production and operating environment of the Company and the macro policies, laws and regulations related to the Company's operations. There is no significant effect to the Company's financial positions and operating results.

4. Financial position of the Company

Item	30th June	31st December	Increase/
	2001	2000	(decrease)
	Rmb'000	Rmb'000	Rmb'000
Total assets (note 1)	1,538,906	1,419,534	119,372
Accounts receivable	12,073	11,890	183
Inventories	2,657	2,854	(197)
Fixed assets (note 2)	1,336,228	715,110	621,118
Intangible assets	—	637,244	(637,244)
Shareholders' equity	1,501,444	1,406,654	94,790

	Six months ended		Increase/
	30th June	2000	
	2001	2000	Rmb'000
	Rmb'000	Rmb'000	Rmb'000
Profit from principal operations (note 3)	153,393	244,731	(91,338)
Net profit/(loss) (note 3)	94,790	(75,432)	170,222

- (1) Total assets increased by Rmb119,372,000 because of the increase in cash and bank balances of Rmb134 million.
- (2) Fixed assets increased by Rmb621,118,000 mainly because of the reclassification of land use rights of Rmb637 million to fixed assets.
- (3) Profits from principal operations and net profit/(loss) for the current and the previous period are not comparable. This is because the results for the six months ended 30th June 2001 relate to the current New Business while the results of the six months ended 30th June 2000 relate to the previous Chemical Business.

5. Prospects for the second half of the year

- (1) The Company will continue to strengthen the management of Dongjiao Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant including a series of measures in work flow control, cost control and quality control. In respect of the road and toll station business, the Company will close certain driveways and reduce the number of staff at toll stations thereby reducing staff cost and related expenses in view of the reduction in the tolled traffic flow.
- (2) The Company will continue to strengthen staff training in the second half of the year, including the training of operation and technical skills of various departments and training for the middle-ranked technicians.

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- (3) In respect of investment projects, the Company will continue to evaluate the opportunity in acquiring the Haihe Bridge Construction Project and Tianjin Zhongshui Construction Company. It is expected that these two projects will be acquired before the end of the year 2001.
- (4) Ms Ma Baiyu currently holds a concurrent post in the controlling shareholder of the Company, Tianjin Municipal Investment Company Limited ("TMICL"). In order to further refine the corporate management structure, Ms Ma Baiyu will resign from her position in TMICL before the end of the year 2001.
- (5) In accordance with the requirements of The Stock Exchange of Hong Kong Limited, the Company should establish an independent audit committee to review and supervise the Company's financial system and internal control procedures. A proposal to set up an independent audit committee and the terms of reference for the audit committee has been approved at the meeting of the board of directors held on 31st July 2001. The establishment of the audit committee will be completed before the end of year 2001.