

VI. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONDENSED PROFIT AND LOSS ACCOUNT

For The Six Months Ended 30th June 2001

		Unaudited Company Six months ended 30th June 2001 New Business (Note 1) Rmb'000	Unaudited Group Six months ended 30th June 2000 Chemical Business (Note 1) Rmb'000
TURNOVER			
Continuing New Business	3	208,354	—
Discontinued Chemical Business	3	—	1,767,596
		<u>208,354</u>	<u>1,767,596</u>
Cost of sales		(54,961)	(1,510,069)
Gross profit		153,393	257,527
Other revenues		563	23,863
Distribution costs		—	(30,901)
Administrative expenses		(12,449)	(181,942)
Other operating expenses		(29)	(28,627)
		<u>141,478</u>	<u>39,920</u>
Operating profit	4	141,478	39,920
Finance costs		—	(113,467)
Profit/(loss) before taxation		141,478	(73,547)
Taxation	5	(46,688)	(84)
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		94,790	(73,631)
Transfers to reserves	7	(14,219)	—
PROFIT/(LOSS) RETAINED FOR THE PERIOD		<u>80,571</u>	<u>(73,631)</u>
EARNINGS/(LOSS) PER SHARE	8	Rmb 0.07	Rmb (0.06)

No statement of recognised gains and losses has been prepared as the profit/(loss) attributable to shareholders for the period as stated above is the only component of that statement.

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CONDENSED BALANCE SHEET

As At 30th June 2001

		Unaudited Company 30th June 2001 New Business (Note 1) Rmb'000	Audited Company 31st December 2000 New Business (Note 1) Rmb'000
FIXED ASSETS		1,336,228	1,352,354
CURRENT ASSETS			
Inventories		2,657	2,854
Trade receivables	9	12,073	11,890
Other receivables and prepayments		1,940	597
Bank balances and cash		186,008	51,839
		<u>202,678</u>	<u>67,180</u>
CURRENT LIABILITIES			
Trade payables	10	1,210	1,139
Other payables	11	23,139	8,114
Taxation payable		13,113	3,627
		<u>37,462</u>	<u>12,880</u>
NET CURRENT ASSETS		<u>165,216</u>	<u>54,300</u>
		<u>1,501,444</u>	<u>1,406,654</u>
Financed by:			
SHARE CAPITAL	12	1,330,000	1,330,000
RESERVES		171,444	76,654
SHAREHOLDERS' FUNDS		<u>1,501,444</u>	<u>1,406,654</u>

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CONDENSED CASH FLOW STATEMENT

For The Six Months Ended 30th June 2001

	Company Six months ended 30th June 2001 New Business <i>(Note 1)</i> <i>Rmb' 000</i>	Group Six months ended 30th June 2000 Chemical Business <i>(Note 1)</i> <i>Rmb' 000</i>
Net cash inflow from operating activities	178,968	96,075
Net cash inflow from returns on investments and servicing of finance	248	148
Total taxation paid	(37,202)	(108)
Net cash outflow from investing activities	(7,845)	(100,365)
Net cash outflow from financing activities	—	(7,692)
Increase/(decrease) in cash and cash equivalents	134,169	(11,942)
Bank balances and cash at 1st January	51,839	200,120
Bank balances and cash at 30th June	<u>186,008</u>	<u>188,178</u>

NOTES TO THE CONDENSED INTERIM ACCOUNTS

1. PRINCIPAL ACTIVITIES AND MODE OF OPERATIONS

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 changed to Tianjin Capital Environmental Protection Company Limited. The former controlling shareholder of the Company is Tianjin Bohai Chemical Industry Group Corporation and the current controlling shareholder is Tianjin Municipal Investment Company Limited ("TMICL"). The previous principal activities of the Company and its subsidiaries were the manufacture and sale of marine chemical products (the "Chemical Business") and the current principal activities of the Company are the sewage water processing business and road and toll stations business (the "New Business"). All of the Chemical Business' net assets and former subsidiaries have been disposed of. All of these changes were effected during the fourth quarter of last year through the following steps:

- (a) The 63.08% equity interests held by the former controlling shareholder was transferred to the current controlling shareholder. The share transfer was effective on 2nd November 2000.
- (b) The Chemical Business and related net assets formerly conducted by the Company and its subsidiaries were transferred to the current controlling shareholder in exchange, on a portfolio basis, for the New Business and related net assets formerly conducted by the current controlling shareholder. 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.

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During the six months ended 30th June 2001, the Company only conducted the New Business, particulars of which are set out below:

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

The sewage water processing business of the New Business is conducted based on a sewage water processing agreement. According to the agreement, sewage water processing services are rendered by the Dongjiao Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant to Tianjin Sewage Company ("TSC"), a State-owned enterprise under the supervisory control of the Tianjin Municipal Engineering Bureau ("TMEB"), at prices to be determined in accordance with a pricing formula stipulated in the agreement. 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, incentives for cost saving and/or when actual processing volume exceeds the minimum processing volume stipulated in the agreement.

Subsequent to the exchange, on a portfolio basis, of business and related net assets on 20th December 2000 as described above, the Company conducts the New Business only through its operating units. Consequently, the condensed accounts for the six months ended 30th June 2001 comprise the Company's accounts and reflect only the state of affairs, results and cash flows of the New Business. As for the comparative figures, the condensed balance sheet as at 31st December 2000 is also the Company's balance sheet and reflects only the state of affairs of the New Business. However, those reflected in the condensed profit and loss account and condensed cash flow statement for the six months ended 30th June 2000 are the results and cash flows of the Company and its former subsidiaries in respect of the Chemical Business.

2. ACCOUNTING POLICIES

These unaudited condensed interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants (as applicable to condensed interim accounts) and Appendix 16 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000.

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3. TURNOVER AND SEGMENT INFORMATION

An analysis of the Company and the Group's turnover and contributions to operating profit for the period by principal activities is as follows:

	Turnover		Operating profit	
	Company Six months ended 30th June 2001 New Business <i>Rmb'000</i>	Group Six months ended 30th June 2000 Chemical Business <i>Rmb'000</i>	Company Six months ended 30th June 2001 New Business <i>Rmb'000</i>	Group Six months ended 30th June 2000 Chemical Business <i>Rmb'000</i>
New Business				
Sewage water processing operations	168,082	—	123,562	—
Road and toll stations operations	40,272	—	17,916	—
Chemical Business				
Manufacture and sale of marine chemical products	—	1,766,466	—	47,795
Finance management	—	1,130	—	(7,875)
	<u>208,354</u>	<u>1,767,596</u>	<u>141,478</u>	<u>39,920</u>

Pursuant to the PRC tax rules, the New Business is subject to PRC business tax levied at 5% of operating revenue and government surcharges levied at 10% of the amount of business tax. The business tax and government surcharges related to revenues derived from the New Business during the six months ended 30th June 2001 amounted to Rmb12,126,000 and has been deducted from the operating revenue to arrive at the turnover of the New Business.

4. OPERATING PROFIT

Operating profit is stated after charging the following:

	Company Six months ended 30th June 2001 New Business <i>Rmb'000</i>	Group Six months ended 30th June 2000 Chemical Business <i>Rmb'000</i>
Depreciation	23,948	142,415
Staff costs	15,238	203,088
Repair and maintenance costs	3,610	93,680
Provision for doubtful debts	—	17,466
Loss on disposal of fixed assets	23	18
	<u>42,819</u>	<u>456,667</u>

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5. TAXATION

No Hong Kong profits tax has been provided as the Company has no assessable profits in Hong Kong (2000: nil for the Group). PRC income tax has been charged at 33% on the assessable profits of the New business in 2001 and at 15% on the assessable profits of the Chemical Business in 2000.

The amount of taxation charged to the condensed profit and loss account represents:

	Company Six months ended 30th June 2001 New Business <i>Rmb'000</i>	Group Six months ended 30th June 2000 Chemical Business <i>Rmb'000</i>
PRC income tax		
New Business		
Company	46,688	—
Chemical Business		
Company and subsidiaries	—	84
	<u>46,688</u>	<u>84</u>

6. DIVIDEND

No dividend was proposed by the Company for the six months ended 30th June 2000 and 30th June 2001.

7. TRANSFERS TO RESERVES

The transfers to statutory common reserve and statutory provident fund were made at 10% and 5% of the net profit of the Company respectively, in accordance with the Company's Articles of Association.

8. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the profit attributable to shareholders of Rmb94,790,000 (2000: loss of Rmb73,631,000) and 1,330,000,000 shares (2000: 1,330,000,000 shares) in issue during the period.

9. TRADE RECEIVABLES

The trade receivables of the Company as at 30th June 2001 and 31st December 2000 were aged within three months.

10. TRADE PAYABLES

The trade payables of the Company as at 30th June 2001 and 31st December 2000 were aged within three months.

11. OTHER PAYABLES

The balances are unsecured, interest free and have no specific repayment terms. Included in other payables is an amount due to the current controlling shareholder of Rmb11,854,000 (31st December 2000: nil).

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12. SHARE CAPITAL

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered, issued and fully paid capital:		
990,000,000 A shares of Rmb 1 each	990,000	990,000
340,000,000 H shares of Rmb 1 each	340,000	340,000
	<u>1,330,000</u>	<u>1,330,000</u>

All the A and H shares rank pari passu in all respects.

13. COMMITMENTS

(a) Capital commitments

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for	658	1,547
Authorised but not contracted for	503,000	503,000
	<u>503,658</u>	<u>504,547</u>

(b) Operating lease commitments

At 30th June 2001, the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises leased from the current controlling shareholder as follows:

	30th June 2001	31st December 2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within one year	450	450
In the second to fifth year inclusive	1,800	1,800
After the fifth year	6,512	6,737
	<u>8,762</u>	<u>8,987</u>

In addition, certain leases in respect of land and buildings at toll stations of the Company were leased from third parties with no specified lease period. The yearly rental in respect of these leases in aggregate amounts to Rmb380,000.

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14. RELATED PARTY TRANSACTIONS

The New Business

The following is a summary of significant transactions with related companies for the six months ended 30th June 2001, which were carried out in the normal course of operations of the New Business:

Name of enterprise	Nature of transaction	Six months ended 30th June 2001
		Rmb'000
TSC	Revenue from sewage water processing services (note(a))	177,864
TURBCC	Road repair and maintenance expenses (note(b))	—
TMICL	Operating lease rental expenses in respect of office premises (note(c))	225
		<u>225</u>

Notes:

- (a) The sewage water processing services are rendered to TSC based on a sewage water processing agreement, details of which are set out in note 1 to the accounts.
- (b) According to a road repair and maintenance agreement, Tianjin Urban Road & Bridge Construction Company ("TURBCC"), being a company established in the PRC and under the supervisory control of the TMEB, 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. During the six months ended 30th June 2001, no repair and maintenance services were provided by TURBCC to the Company. Consequently, no accrual for such expense has not been made by the Company.
- (c) The operating lease rentals were paid to the current controlling shareholder based on an 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 Rmb450,000 and such rental will be adjusted every three years based on the then market rentals determined by an independent valuer.
- (d) The road and toll stations business of the New Business has sixteen toll stations as at 30th June 2001. According to a land leasing agreement, the land on which thirteen of the sixteen toll stations are located is granted by TMEB for perpetual use of the road and toll stations business free of change.

The Chemical Business

	Six months ended 30th June 2000 (Unaudited)
Income	
Sales of finished products	141,589
Sales of raw materials and spare parts	73
Subcontracting free received	10,508
Management fee income	1,700
	<u>163,870</u>
Expense	
Purchases of raw materials and spare parts	121,984
Purchases of fixed assets	13,100
Subcontracting fee paid	10,388
Transportation fee paid	7,610
Operating lease rental expenses for land and facilities	547
Staff welfare expenses	22,228
Fee paid for repair and maintenance services	2,886
	<u>178,733</u>