

# Chairman's Statement

## 1. OPERATIONS OF THE GROUP

### (1) Scope of the principal businesses of the Group and its operating condition

The principal businesses of the Group are (i) the design, management, operation, technological consultation of Dongjiao Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant in Tianjin, the PRC, and their related infrastructure facilities and auxiliary services; (ii) the design, toll collection, repair and maintenance, management, technological consultation of toll roads and auxiliary services in relation to the operation of the Southeastern Half Ring Road of the Middle Ring of Tianjin; and (iii) the development and operation of environmental protection technology and products.

During the period, the Group strengthened its internal structure and improved its internal control system, while continuously upgrading the corporate management structure. Since the completion of the Company's restructuring in December 2000, the business of the Company has undergone substantial changes. The Company's management has adopted a series of measures focusing on the existing business which has achieved good results.

#### a. Operations of the sewage water treatment and related environmental protection business

The income for sewage water treatment is derived from 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 has been focusing 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 budget control, enhancement of staff training and improvement of the technical skills of the staff, and the recruitment of professional and technical staff to strengthen the manpower resources. During the year, the two sewage water processing plants processed 218,818,896 cubic meters in total of sewage water, representing an increase of 25,242,396 cubic meters or 13% as compared with 193,576,500 cubic meters of sewage water processed in last year.

#### b. Operations of toll business

The toll income is directly collected by the toll collectors at the toll stations. During the period, the management of the Company has further strengthened the control over the toll stations, and further upgraded the surveillance system of the toll stations. Owing to the construction and maintenance carried out at the road surrounding Tianjin city, the volume of tolled traffic flow decreased during the year. During the year, the traffic flow at the Company's toll stations in terms of the number of vehicles was 3,049,512 times, representing a decrease of 597,492 times or 16.38% as compared with 3,647,004 times during last year. With the decrease in traffic flow, the Company has slashed part of the toll collection staff in order to reduce salary expenses.

## 1. OPERATIONS OF THE GROUP *(Cont'd)*

### (1) Scope of the principal business of the Group and its operating condition *(Cont'd)*

#### c. Operations of new projects

On 24th September 2001, the Company entered into a conditional agreement with Tianjin Sewage Company in respect of the constructions in progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant. Apart from completing the procedures for the transfer of loans that are still in process, other conditions as set out in the agreements have all been fulfilled. Approval from the State Ministry of Finance has been obtained for the transfer of loans denominated in Japanese Yen as of February 2002. The procedures for the transfer of the other two loans are still in process. The income from this business is derived from the "Sewage Water Treatment Plant Construction Fee Agreement" entered into by Tianjin Sewage Company and the Company on 24th September 2001. During the period, construction works completed amounted to Rmb 238,926,154 and, based on the progress of the construction, the Company obtained sewage water treatment plant construction fees amounting to Rmb 91,012,587.

There are six major sewage systems in Tianjin city. However, there are now only two sewage water treatment plants that can provide service to two of the systems. Therefore, new sewage water treatment plants have to be constructed to satisfy the demand of the other sewage systems. The designed processing capacity of the Xianyanglu Sewage Water Treatment Plant is 450,000 cubic meters per day with total investment of Rmb 1.190 billion. It will serve the Xianyanglu system. The designed processing capacity of the Beicang Sewage Water Treatment Plant is 100,000 cubic meters per day with the first stage investment of Rmb 0.416 billion. It will serve the Beicang sewage system. In the meantime, in order to solve the problem of insufficient capacity of the Jizhuangzi Sewage Water Treatment Plant, expansions have been carried out at the Jizhuangzi Sewage Water Treatment Plant. Following the completion of the expansion, it will add to the processing capacity by 280,000 cubic meters per day with total investment of Rmb 1.055 billion, inclusive of the auxiliary pipeline network.

On 24th September 2001, Tianjin Municipal Investment Company Limited and the Company entered into the agreement for project management of the construction of the Haihe Bridge. The project work completed during the year amounted to Rmb 127,130,549. Accordingly, the Company received a management fee of Rmb 2,730,000, calculated based on the project work completed.

## 1. OPERATIONS OF THE GROUP (Cont'd)

### (1) Scope of the principal business of the Group and its operating condition (Cont'd)

#### c. Operations of new projects: (Cont'd)

The financial data of the various business are as follows:

	Transaction volume	Income Rmb'000	Percentage of total income %	Net profit Rmb'000	Percentage of net profit %
Sewage water treatment	218,818,896 cubic metre	417,944	70.13	191,703	71.63
Road and toll collection	3,049,512 times of vehicle	84,299	14.14	27,574	10.30
New projects		93,743	15.73	48,357	18.07
Total		595,986	100.00	267,634	100.00

### (2) Operations and results of the major companies in which the Company has controlling interests and management participation

Tianjin Water Recycling Company Limited: As at the end of the year, the Company owns 90% equity interest in Tianjin Water Recycling Company Limited. The registered capital of the company is Rmb 20 million. The scope of its major business is the production and sales of recycled water, development and construction of facilities for re-used water; manufacture, installation, commissioning and operation of equipment for recycled water; technical consultation, service training relating to recycled water; labour services and car washing. The company was still at the set up stage during 2001. The company will actively explore water recycling projects and regards the development, construction, production and sales of recycled water as its core business. It will strive to solve the shortage of water resources in Tianjin city, achieve the utilisation of water resources for multiple purpose, and occupy the market of recycled water in Tianjin city. As at the end of 2001, the total assets of the company was Rmb55,142,381.

Tianjin Beifang Rencaigang Company Limited (天津北方人才港股份有限公司): As at the end of the year, the Company invested Rmb 2 million in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. The principal activities of the company comprise senior executive insurance; senior executive personnel services (employment agent, financial guarantee consultation service, personal creditworthiness assessment); enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. In 2001, the company was still at the set up stage. The company will actively explore the resources for talented personnel, establish and strengthen the personnel market in Tianjin city, and devote its effort to attract more senior personnel, expertise and technicians for Tianjin and surrounding the Bohai district.

## **1. OPERATIONS OF THE GROUP** *(Cont'd)*

### **(2) Operations and results of the major companies in which the Company has controlling interests and management participation** *(Cont'd)*

Tianjin Baotong Light Mass Materials Company Limited (天津市寶通輕集料有限責任公司) : As at the end of the year, the Company invested Rmb 2 million in Tianjin Baotong Light Mass Materials Company Limited, representing 20% of its registered capital. The principal activities of the company are the production and sales of high resistance and light mass materials. In 2001, the company was still at the set up stage. The company will actively devote its effort to the introduction of high technology into the construction of urban infrastructures.

### **(3) Major suppliers and customers of the Company**

Tianjin Sewage Company, being the representative of the Tianjin Municipal Government, is the Company's major customer and engages the Company to process the urban sewage of the Tianjin city on its behalf. Since Tianjin Sewage Company and the controlling shareholder of the Company are both under the supervision of the Tianjin Municipal Engineering Bureau, they are regarded as related parties. The major business of the Tianjin Sewage Company is the maintenance, operation, development and construction of pipelines, pumping station, rain and sewage water canals, drainage facilities, sewage water treatment plants; maintenance, installation of electrical equipment and drainage techniques consultation services. The income from sewage water treatment plants of the Company is derived pursuant to the "Sewage Water Processing Agreement" entered into between the Company and Tianjin Sewage Company.

### **(4) Problems and difficulties occurred during the course of operation and solutions thereof**

- a. In 2001, the sewage water treatment facilities in Dongjiao Sewage Water Treatment Plant underwent repair and maintenance. Expansion work was carried out at the Jizhuangzi Sewage Water Treatment Plant. During the process of the above mentioned work, the construction operations had not caused interruption to the production operations as a result of the implementation of appropriate scheduling of construction. Therefore, smooth operation of the repair and maintenance of the facilities and the volume of water treatment were achieved.
- b. Owing to the construction and maintenance carried out at roads surrounding Tianjin city, the volume of tolled traffic flow decreased. The Company enhanced the supervision and management at the toll stations, thus increasing the efficiency of the toll collection and the quality of management. At the same time, taking into account the reduction in toll and traffic flow, the Company shut down some lanes, and reduce the number of staff at the toll stations in order to save salary expenses and other related costs.

## 1. OPERATIONS OF THE GROUP *(Cont'd)*

### (5) Operation plans for the year disclosed previously by the Company

- a. During the year, the Company completed the investment in Tianjin Water Recycling Company Limited in which the Company has controlling interest. The total investment is Rmb 18 million.
- b. During the year, the Company did not acquire the Haihe Bridge construction-in-progress from Tianjin Municipal Investment Company Limited, in view of the significant amount of investment in the project. At the same time, in order to strengthen its principle operation, the Company acquired a number of sewage water treatment plants under construction, and entered into a project management contract with Tianjin Municipal Investment Company Limited in respect of the project of Haihe Bridge of the Southeastern Half Ring Road of the Middle Ring of Tianjin. On 24th September 2001, adjustment to the above investment plan was considered and passed in the 19th meeting of the Second Board Meeting, and was submitted for the approval at the extraordinary general meeting of the Company. Notice of the Board Meeting resolution was published in the Shanghai Securities, the Hong Kong Wen Wei Po and Hong Kong iMail on 25th September 2001. On 12th November 2001, the resolution on the investment plan was passed at the extraordinary general meeting of the Company. Notice of the extraordinary general meeting resolution was published in the Shanghai Securities, the Hong Kong Wen Wei Po and Hong Kong iMail dated 13th November 2001.

## 2. INVESTMENTS OF THE GROUP

During the period, the Company invested Rmb 22 million, an increase of Rmb22 million as compared with Rmb nil last year.

- (1)
  - a. During the year, the Company invested Rmb 18 million to obtain a 90% controlling interest in Tianjin Water Recycling Company Limited. The scope of the principal operation of the company is the production and sales of recycled water; development and construction of water recycling facilities; manufacture, installation, commissioning and operation of water recycling equipment; water recycling technical consultation, service, training, labour services and car washing.
  - b. During the year, the Company invested Rmb 2 million in Tianjin Northern Human Resources Company Limited, representing 6.1% of its registered capital. The principal activities of the company are senior executive insurance business; senior executive personnel service business (employment agent, financial guarantee consultation service, personal creditworthiness assessment); enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation business.
  - c. During the period, the Company invested Rmb 2 million in Tianjin Baotong Qinjilao Company Limited representing 20% of its registered capital. The principal activity of the company is the production and sales of high resistance and light mass materials.
- (2) During the year, the Company did not raise any fund. In addition, no balance of funds raised in previous years was brought forward to the reporting period.

### **3. FINANCIAL CONDITION OF THE GROUP**

During the year, the financial condition of the Group has been further improved as compared with that of last year. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants have prepared their unqualified audit reports to the Company. The financial conditions of the Company can be analyzed in detail as follows:

- (1) As at 31st December 2001, the total assets of the Group amounted to Rmb 1,926,984,000, representing an increase by 35.75% compared with the total assets of Rmb 1,419,534,000 last year.
- (2) As at 31st December 2001, the long term liabilities of the Group amounted to Rmb 36,200,000, representing an increase by Rmb 36,200,000 compared with the long term liabilities of Rmb nil last year, and was mainly attributed to the finance obtained by the subsidiary of the Company.
- (3) As at 31st December 2001, the shareholders' equity of the Group amounted to Rmb 1,567,888,000, representing an increase by 11.46% compared with the shareholders' equity of the Company of Rmb 1,406,654,000 last year, and was mainly attributable to the Company's profits for the year.
- (4) Profits from the principal operation of the Group for the year was Rmb 431,558,000, representing a decrease by 21.2% compared with the profits from the principal operation of the Company of Rmb 547,639,000 last year, and was mainly attributable to change of the mode in business operations.
- (5) Net profit for the year was Rmb 267,634,000, representing an increase by 58.74% compared with the net profit of Rmb 168,604,000 last year.
- (6) The net profit for the year of Rmb 47,072,000 was derived from the construction management of sewage water treatment plants. This represented new business of the Group during the year.

### **4. EFFECT ON THE CHANGES IN OPERATING ENVIRONMENT, MACROECONOMIC POLICIES AND REGULATIONS TO THE COMPANY**

Environmental protection business is one of the key important businesses to be developed by the State in the future. The State will gradually increase its investment in environmental protection business during the "Tenth Five Year Plan" period. Urban sewage water treatment is an important segment in the environmental protection business, and has become an important indicator for the evaluation on the internationalization of a city. In the "Notice regarding enhancement of urban water supplies, water saving and water contamination prevention" promulgated by the State Council in November 2000, it was clearly stated that "during the Tenth Five Year Plan period, sewage water treatment facilities should be established in all cities. In 2005, cities of over 500,000 population should attain a sewage water treatment rate of over 60%. In 2010, all cities should attain a sewage water treatment rate of not less than 60%. Sewage water treatment rate in municipalities, provincial capital cities, planned cities and designated scenic tourist cities should not be less than 70%". In the document of "Notice regarding the circulation of "The provisional regulation for the promotion of the development of urban sewage water treatment business in Fujian Province" issued by the National Environment Protection Bureau, the principle stated in the document will have a positive impact on the Company, which has a principal operation of sewage water treatment plant, operation and the business with water recycling, and provided a reliable market guarantee to the scale production of the Company.

#### **4. EFFECT ON THE CHANGES IN OPERATING ENVIRONMENT, MACROECONOMIC POLICIES AND REGULATIONS TO THE COMPANY** *(Cont'd)*

Following the entry of the PRC into the WTO, the PRC will undergo further reform and opening. A liberal investment environment is an important warranty for attracting investments in a district and city. With the construction of road networks surrounding the Tianjin city becoming further upgraded, it may have a negative impact to the toll collection business for the urban toll road of the Company.

#### **5. OPERATING PLANS IN THE COMING YEAR**

In 2002, the main obligation of the Group is to further improve its structure of corporate governance, and to operate in strict compliance with the relevant rules and regulations. It is necessary to enhance the shareholders meetings, Board and Supervisory meetings, and to fully capitalize on the functions of these meetings. The Company will endeavour to operate in compliance with the law, with a view to enhancing the quality of economic condition. The Company will continue to promote overall budget management, and to increase awareness of the concept of cost and savings; to complete certifications on quality management system, environment protection management system and safety management system; to conduct safety production and safety education in a persistent manner, and to ensure the sewage water treatment plants are operated in a safe and highly efficient manner, and the progress and quality of the construction projects of sewage water treatment plants; to ensure the stability and safety of the toll collection business; to further consolidate the principal operation, and form a business chain of water treatment, water engineering construction, water recycling, sewage water treatment equipment, production development application to form a business structure of competitive strength; to continue the expansion of sewage water treatment business into other districts outside Tianjin city; to aim at profit optimization, actively seek opportunities for growth in profits, and devote best efforts of providing an excellent return to the investors.

- (1) To continue to complete the Jizhuangzi Sewage Water Treatment Plant expansion project, the Xianyanglu and Beicang Sewage Water Treatment Plants.
- (2) To actively co-operate with international companies who have advanced technology of sewage water treatment in order to enhance the Company's technical skills and management capability.
- (3) To develop sewage water treatment markets in other cities, and establish operating markets in (including but not limited to) the Northwestern districts in the PRC, such as Guizhou, Xinjiang, Shaanxi, so as to achieve economies of scale.
- (4) To establish technological research and development centre, to develop environmental protection products, equipment and techniques relating to urban sewage water treatments, and to promote the development of the enterprise through technological development and application.
- (5) To proceed with the integrated certification of ISO9001, ISO14001 and OHSAS18001, so that the works of the Company will be more scientific, systematic and institutionalized.
- (6) To capitalize on the capital market for the raising of funds for the construction in progress.

## 6. REVIEW OF BOARD ACTIVITIES

### (1) The Board of Directors' meetings and resolutions during the reporting period

The Board of Directors of the Company convened seven board meetings in 2001:

1. The 15th meeting of the Second Board of Directors was convened on 9th February 2001. The following written resolutions were made pursuant to Section 96(6) of the Articles of Association of the Company:

The Company has hold the 16th meeting of the Second Board of Directors on 16th March 2001 in Hong Kong. The detailed notice for the meeting has been given to each director ten days prior to the meeting.

2. The 16th meeting of the Second Board of Directors was convened at 36/F, Asia Pacific Finance Tower, 3 Garden Road, Central, Hong Kong on 16th March 2001, and passed the resolutions as follows:
  - a. Report of the Directors of the Company for 2000;
  - b. Financial and accounting statements of the Company for 2000, which were audited by domestic and foreign accounting firms;
  - c. Annual Report 2000 and Summary of the Annual Report 2000 as announced within the PRC and overseas;
  - d. Final Financial Report for 2000 and Financial Budget for 2001 of the Company;
  - e. Proposal for the Profit Appropriation Plan of the Company for 2000;
  - f. Proposal for the Profit Appropriation Policies of the Company for 2001;
  - g. Recommendation relating to the appointment of accounting firms for the provision of audit services to the Company;
  - h. Proposal for the amendment of the Articles of Association;
  - i. Development plan of the Company for 2001;
  - j. Resolution for convening the Annual General Meeting 2000 of the Company (i.e. the Ninth shareholders' meeting of the Company).

The announcement of the resolutions of this extraordinary meeting of the Board of Director was published in Shanghai Securities, Hong Kong's Wen Wei Po and Hong Kong iMail on 19th March 2001.

## 6. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

### (1) The Board of Directors' meetings and resolutions during the reporting period *(Cont'd)*

3. The 17th meeting of the Second Board of Directors was convened on 25th April 2001. The following written resolutions were made pursuant to Section 96(6) of the Articles of Association of the Company:

The Board of Directors of the Company received a resolution from Tianjin Municipal Investment Company Limited, the controlling shareholder of the Company on 25th April 2001. It was proposed that an additional resolution, namely to consider and approve the grant of a mandate to issue and allot new Shares (H Shares) to the Board of Directors to be adopted by the Company at the Annual General Meeting 2000 (i.e. the 9th shareholders' meeting of the Company) to be convened on 8th May 2001 as a special resolution.

The Board of Directors of the Company accepted the resolution after review and proposed to the Annual General Meeting 2000 of the Company convened on 8th May 2001 as a special resolution.

The announcement of the resolutions of this extraordinary meeting of the Board of Director was published in Shanghai Securities, Hong Kong's Wen Wei Po and Hong Kong iMail on 26th April 2001.

4. The 18th meeting of the Second Board of Directors was convened on 31st July 2001, with the following resolutions passed:
- a. Report of the Board of Directors for the first half year of 2001;
  - b. Interim financial and accounting statements of the Company for 2001, which were audited by local accounting firms in accordance with the independent Statement of Auditing Standards by registered accountant of the PRC;
  - c. Interim financial and accounting statements of the Company for 2001 which were audited by foreign accounting firms in accordance with the Statement of Auditing Standards issued by the Hong Kong Society of Accountants;
  - d. Interim Report 2001 and Summary of the Interim Report 2001 as announced within the PRC and overseas;
  - e. Interim profit appropriation plan of the Company for 2001;
  - f. Proposal of the Company for the second half year of 2001;
  - g. Establishment and working procedures of the Audit Committee;
  - h. Establishment of the Audit Committee comprised of independent directors by the Board of Directors of this year.

The announcement of the resolutions of this extraordinary meeting of the Board of Director was published in Shanghai Securities, Hong Kong's Wen Wei Po and Hong Kong iMail on 1st August 2001.

## **6. REVIEW OF BOARD ACTIVITIES** *(Cont'd)*

### **(1) The Board of Directors' meetings and resolutions during the reporting period** *(Cont'd)*

5. The 19th meeting of the Second Board of Directors was convened on 24th September 2001, with the following resolutions passed:
  - a. Passed the "Agreement on the transfer of the construction-in-process of the Beicang sewage treatment plant" entered into by the drainage company of Tianjin and the Company (related Directors Ms. Ma Baiyu, Mr. Zhang Wenhui, Mr. Wang Yueqing, Mr. Zhu Min abstained from voting), and the Agreement would be put forward at the extraordinary general meeting.
  - b. Passed the "Agreement on the transfer of the construction-in-process of the Jizhuangzi sewage treatment plant (expansion)" entered into by the drainage company of Tianjin and the Company (related Directors Ms. Ma Baiyu, Mr. Zhang Wenhui, Mr. Wang Yueqing, Mr. Zhu Min abstained from voting), and the Agreement would be put forward at the extraordinary general meeting.
  - c. Passed the "Agreement on the transfer of the construction-in-process of the Xianyanglu sewage treatment plant" entered into by the drainage company of Tianjin and the Company (related Directors Ms. Ma Baiyu, Mr. Zhang Wenhui, Mr. Wang Yueqing, Mr. Zhu Min abstained from voting), and the Agreement would be put forward at the extraordinary general meeting.
  - d. Passed the "Agreement on the payment of the construction-in-process of the sewage treatment (expansion)" entered by the drainage company of Tianjin and the Company (related Directors Ms. Ma Baiyu, Mr. Zhang Wenhui, Mr. Wang Yueqing, Mr. Zhu Min abstained from voting), and the Agreement would be put forward at the extraordinary general meeting.
  - e. Passes the proposal relating to the continuation of the original construction contract after the transfer of the construction-in-process of the sewage treatment of the Company (related Directors Ms. Ma Baiyu, Mr. Zhang Wenhui, Mr. Wang Yueqing, Mr. Zhu Min abstained from voting), and the Proposal would be put forward at the extraordinary general meeting.
  - f. Passed the "Contract of the Management of the Haihe Bridge of the Southeastern Half Ring of the middle ring" entered into by Tianjin Municipal Investment Company Limited and the Company (related Directors Ms. Ma Baiyu, Mr. Zhang Wenhui, Mr. Wang Yueqing, Mr. Zhu Min abstained from voting), and the Contract would be put forward at the extraordinary general meeting.
  - g. Passed the proposal for the amendment the Articles of Association of the Company to be put forward at the extraordinary general meeting, and the Proposal would be put forward at the extraordinary general meeting.

## 6. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

### (1) The Board of Directors' meetings and resolutions during the reporting period *(Cont'd)*

- h. Passed the proposal of the details disclosed in Chinese and English announcements of the connected transactions relating to this transfer of the construction-in-process of the sewage treatment project and the Haihe Bridge Management Agreement in the specific newspapers in and outside the PRC. The Chinese and English announcements of these connected transactions had been posted in the specific newspapers in the PRC and Hong Kong on 25th September 2001 and 26th September 2001, respectively.
- i. Decided to hold the extraordinary general meeting of the Company on 12th November 2001 in Tianjin. Decisions relating to this transfer of the construction-in-process of the sewage treatment, the acceptance of the management of the Haihe Bridge projects and the amendment of the Articles of Association had been made.
- j. Passed and authorized the Directors of the Company for and on behalf of the Company to sign, execute, perfect and deliver or to authorize other persons to sign, execute, perfect and deliver all such agreements and contracts, other than others matters, and to do all such acts, matters and things as they may in their discretion consider necessary, expedient or desirable to give effect to and implement the ongoing connected transactions relating to the "Agreement on the payment of the construction-in-process of the sewage treatment (expansion)", "Construction Project Contract" and "Contract of the Management of the Haihe Bridge Project", and to waive compliance from or make and agree such variations of a non-material nature to any of the terms of any of the "Agreement on the payment of the construction-in-process of the sewage treatment (expansion)", "Construction Project Contract" and "Contract of the Management of the Haihe Bridge Project" as they may in their discretion consider to be desirable and in the interest of the Company.

The announcement of the proposed resolutions to be passed at the extraordinary meeting held on 12th November 2001 prepared by the Board of Director was published in Shanghai Securities on 25th September 2001, Hong Kong's Wen Wei Po and Hong Kong iMail on 26th September 2001.

- 6. The 20th meeting of the Second Board of Directors was convened on 19th October 2001. The following written resolutions were made pursuant to Article 6 of Section 96 of the Articles of Association of the Company:

The 4th resolution as stated in the announcement relating to the holding of the extraordinary general meeting on 12th November 2001 mentioned above is amended as follows:

Original 4th resolution: to approve, ratify and confirm the execution of the Sewage Water Plants Fee Agreement entered into between the Company and Tianjin Sewage Company on 24th September 2001 and the annual caps for this ongoing connected transactions.

## 6. REVIEW OF BOARD ACTIVITIES (Cont'd)

### (1) The Board of Directors' meetings and resolutions during the reporting period (Cont'd)

Amended 4th resolution: to approve, ratify and confirm (i) the execution of the Sewage Water Treatment Plants Construction Fee Agreement entered into between the Company and Tianjin Sewage Company on 24th September 2001 and the annual caps for this ongoing connected transaction; and (ii) the revision to the Sewage Water Processing Agreement pursuant to the Sewage Water Treatment Plants Construction Fee Agreement and the annual caps for this ongoing connected transaction.

The announcement of the resolutions of this extraordinary meeting of the Board of Director was published in Shanghai Securities News, Hong Kong's Wen Wei Po and Hong Kong iMail on 22nd October 2001.

7. The 21st meeting of the Second Board of Directors was convened on 2nd November 2001. The following written resolutions were made pursuant to Article 6 of Section 96 of the Articles of Association of the Company:
  - a. The Company and other promoters initiated the establishment of Tianjin Beifang Rencaigang Company Limited, and invested Rmb 2 million to the Tianjin Beifang Rencaigang Company Limited and has become the shareholders of that limited stock company.
  - b. The Company, Tianjin Underground Railway Corporation, Tianjin Road Construction (天津地下鐵道總公司) and Development Company Limited (天津市公路建設發展有限公司), Tianjin Binhai City Municipal Construction and Development Company Limited (天津市濱海市政建設發展有限公司) and Tianjin Xinjinding Ranching Technology Development Company Limited (天津市鑫金鼎牧業科技發展有限公司) invested to establish Tianjin Baotong Light Mass Materials Company Limited. The Company invested Rmb 2 million, representing 20% of the registered capital of that company.

### (2) The Board of Directors' execution of resolutions of the shareholders' meeting

During the period, the Board of Directors of the Company has strictly complied with the resolutions and mandates of the shareholders' meetings, the Company Law, Securities Ordinances and the Articles of Association of the Company, to duly execute all the resolutions passed at the shareholders' meetings. The Board of Directors' execution was as follows:

1. Execution of the profit appropriation of the Company for 2000

There was neither profit appropriation nor increase of share capital of the Company by transfer from Reserve Funds in 2000.

2. Execution of the resolution relating to the application for the issue of new Share to the public by the Company in 2001

During the period, the Company made an attempt to apply for the issue of new Shares (H Shares) pursuant to the resolutions and mandates of the shareholders' meetings in 2000. However, the work was not completed during the period because of the unfavourable market situation.

## **7. PROPOSAL ON PROFIT APPROPRIATION AND NOT TO INCREASE SHARE CAPITAL BY TRANSFERRING FROM CAPITAL RESERVE FUND**

The realized net profit of the Company for 2001 is Rmb 267,633,944, which had been audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. in accordance with the independent auditing standards of Certified Public Accountants in the PRC and by PricewaterhouseCoopers Certified Public Accountants of Hong Kong in accordance with the Statements of Auditing Standards issued by the Hong Kong Society of Accountants. In accordance with the Articles of Association of the Company, an appropriation of Rmb 26,763,394, representing 10% of net profit, is made to the statutory common reserve and of Rmb 13,381,697, representing 5% of net profit, to the statutory provident fund. After these appropriations and together with Rmb 6,260,113 undistributed profit brought forward from 2000, the profit distributable to shareholders for the year is Rmb 233,748,966. The Board of Directors has finalised the profit appropriation proposal for the year which is to distribute Rmb 0.80 cash dividend (tax included) for every 10 shares held by the shareholders on the basis of an aggregate of 1,330,000,000 shares at the end of 2001. Dividends to be distributed amounted to Rmb 106,400,000. There will be no transfers from Capital Reserve Funds to increase the share capital for the year. The above proposal on profit appropriation and not to transfer Capital Reserve Funds to increase the share capital shall be put forward at the shareholders' annual general meeting. The actual policy on profit appropriation for 2001 is consistent with the expected policy as stated in the Annual Report 2000.

## **8. ANY OTHER BUSINESS**

The designated newspapers for the disclosure of the information by the Company are Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail. There is no change relating to the designated newspapers for the disclosure of information.

**Ma Baiyu**

*Chairman*

Tianjin, the PRC

28th February 2002