

Directors' Report

PRINCIPAL ACTIVITIES

Prior to the asset exchange on 20th December 2000, the principal activity of the the Company and its subsidiaries (the "Group") was the manufacturing of chemical raw materials. Following the completion of asset exchange, the principal activity of the Company was changed to environmental protection and city construction. The Company is the only listed vehicle of the Tianjin Municipal Government that is engaged in environment protection and urban infrastructure construction. The net profit of the Group in 2001, as prepared in accordance with PRC GAAP and HK GAAP, were all Rmb 267,634,000. The accounts for these operations are set out in the appropriate sections of this annual report.

FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the last five years prepared under PRC GAAP is set out on pages 8 and 9 of the annual report.

A summary of the Group's results and assets and liabilities for the last five years prepared under HK GAAP is set out on page 10 of the annual report.

RESULTS AND APPROPRIATIONS

The results and profit appropriation of the Company for the year ended 31st December 2001 as prepared in accordance with PRC GAAP and HK GAAP are set out in the profit and loss account and the profit appropriation statement on pages 53 and 54, and the profit and loss account on page 89 of this annual report, respectively.

An analysis of the Group's turnover and contribution to operating profit/(loss) after finance costs by principal activities based on the accounts prepared under HK GAAP is as follows:

	Turnover		Operating profit/(loss) before taxation (including finance costs)	
	2001 Rmb'000	2000 Rmb'000	2001 Rmb'000	2000 Rmb'000
Chemical Business:				
Sale of goods	—	3,483,874	—	(86,222)
Recovery of certain assets at gross value	—	—	—	241,975
	—	3,483,874	—	155,753
Finance management	—	2,407	—	(995)
Recovery of certain assets at gross value	—	—	—	12,165
	—	2,407	—	11,170
New Business:				
Sewage water processing	394,957	11,236	286,499	9,411
Construction of sewage water treatment plants	86,007	—	70,257	—
Road and toll stations	79,663	2,426	40,671	1,581
Haihe Bridge project management	2,580	—	1,918	—
Total	<u>563,207</u>	<u>3,499,943</u>	<u>399,345</u>	<u>177,915</u>

DIVIDENDS

The directors did not declare an interim dividend (2000: nil). They recommend the payment of a final dividend of Rmb 0.8 per 10 shares for the year ended 31st December 2001 (2000: nil).

DETAILS OF SHARE CAPITAL

(1) Table of changes in share capital:

During the period under review, the Company has not issued any bonus shares, increased share capital or listed any employee shares.

	Beginning of the year (Shares)	Share placement (Shares)	Bonus issue (Shares)	Increase/(decrease) during the year Transfer of surplus to capital (Shares)	Others	Sub total	End of the year (Shares)
A. Unlisted shares							
1. Promoter shares comprising:							
State shares	839,020,000	—	—	—	—	—	839,020,000
Legal persons shares	38,485,000	—	—	—	—	—	38,485,000
Sub-total	<u>877,505,000</u>	—	—	—	—	—	<u>877,505,000</u>
B. Listed shares							
1. Domestic listed Rmb ordinary shares	112,495,000	—	—	—	—	—	112,495,000
2. Non-domestic listed foreign currency ordinary shares	340,000,000	—	—	—	—	—	340,000,000
Sub-total	<u>452,495,000</u>	—	—	—	—	—	<u>452,495,000</u>
C. Total	<u><u>1,330,000,000</u></u>	—	—	—	—	—	<u><u>1,330,000,000</u></u>

(2) Issue and listing of shares:

For the three years ended 31st December 2001, the Company has not issued any shares.

DETAILS OF SHAREHOLDERS

1. The number of shareholders of the Company as at 31st December 2001 is as follows:

Type of shareholders	Number
State shareholder	1
Legal person shareholders	108
Individual shareholders	32,275
Foreign shareholders (H share shareholders)	202
Total	<u>32,586</u>

2. As at 31st December 2001, the top ten shareholders of the Company were as follows:

Name of shareholders	Class	Number of shares held at the end of the year	Percentage to total share capital
(1) Tianjin Municipal Investment Company Limited (State shares)	Domestic	839,020,000	63.08
(2) HKSCC Nominees Limited (foreign shares)	H	334,331,000	25.14
(3) Shenyang Railway (legal person shares)	Domestic	3,500,000	0.26
(4) Nanfang Securities Company, Nanjing Branch (legal person shares)	Domestic	2,725,000	0.20
(5) China Dongfang Trust and Investment Company, Nanchang Sales Department (legal person shares)	Domestic	1,500,000	0.11
(6) Li Yong (individual shares)	Domestic	1,057,430	0.0795
(7) Feng Yinglang (individual shares)	Domestic	1,038,541	0.078
(8) Qingdao Southern District Zhen Yuan Trading Company (legal person shares)	Domestic	1,000,000	0.075
(9) Minhang Clearing (legal person shares)	Domestic	1,000,000	0.075
(10) Jianjin Direct Holding (legal person shares)	Domestic	1,000,000	0.075

Notes:

- A. Pursuant to the register of the shareholders as provided by the HKSCC Nominees Limited, H Shares were held on behalf of various clients' accounts. There was no client who was interested in more than 5% of the total issued share capital of the Company.
- B. Tianjin Municipal Investment Company Limited ("TMICL") holds 839,020,000 shares in the Company, representing 63.08% of the Company's share capital and is the Company's largest shareholder ("Controlling Shareholder"). During the reporting period, TMICL had not pledged any of the Company's shares.
- C. The top ten shareholders were not strategic investors of the Company.
- D. The top ten shareholders were not related to each other.

DETAILS OF SHAREHOLDERS (Cont'd)

3. Controlling shareholder of the Company

Name:	Tianjin Municipal Investment Company Limited
Legal representative:	Mr. Sun Zengyin
Date of incorporation:	20th January 1998
Registered Capital:	Rmb 1,724,278,000
Type:	State wholly-owned enterprise
Structure of shareholding:	The Tianjin Municipal Engineering Bureau owns 100% equity interest in the Company
Scope of operation:	The development, construction and management of city infrastructure projects and auxiliary services, development and operation of city infrastructure, import of technology and equipment for city construction works, promotion for capital investment and project development and construction management (in accordance with the State regulations for specific projects and operations) in city road infrastructure

During the reporting period, there was no change in the controlling shareholder of the Company.

4. Controlling shareholder of the Company's controlling shareholder

The Company's controlling shareholder Tianjin Municipal Investment Company Limited is a state wholly-owned enterprise under the supervisory control of the Tianjin Municipal Engineering Bureau. The Company's ultimate controlling party is the Tianjin Municipal Engineering Bureau.

Controlling party:	The Tianjin Municipal Engineering Bureau
Legal representative:	Mr. Sun Zengyin
Type:	Governmental institutions
Principal activity:	The municipal construction and management of the Tianjin Municipality

5. Other legal persons who were interested in more than 10% (10% inclusive) of the total issued share capital of the Company

During the reporting period, there was no other legal persons who was interested in more than 10% (10% inclusive) of the total issued share capital of the Company.

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION

1 Directors, Supervisors and Senior Management

Name	Gender	Age	Position	Term	Salary Rmb'000	Shareholding	
						at the beginning of the year	Shareholding at the end of the year
Ma Baiyu	F	39	Chairman, General Manager	2000.12.20 - 2003.12.19	400	0	0
An Pindong	M	33	Director, Chief Accountant	2000.12.20 - 2003.12.19	300	0	0
Gu Qifeng	M	35	Director, Chief Engineer	2000.12.20 - 2003.12.19	300	0	0
Zhu Min	M	47	Director	2000.12.20 - 2003.12.19	160	0	0
Wang Yueqing	M	57	Director	2000.12.20 - 2003.12.19	160	0	0
Zhang Wenhui	M	46	Director	2000.12.20 - 2003.12.19	160	0	0
Li Weibin	M	40	Independent Director	2000.12.20 - 2003.12.19	265	0	0
Chan Boon Teong	M	59	Independent Director	2000.12.20 - 2003.12.19	265	0	0
Guan Weili	M	58	Independent Director	1999.6.29 - 2002.6.28	250	0	0
Yu Ruihua	F	55	Chairman of the Supervisory Committee	2000.12.20 - 2003.12.19	300	0	0
Chen Baosen	M	49	Supervisor	2000.12.20 - 2003.12.19	100	0	0
Li Kaijian	M	49	Supervisor	2000.12.20 - 2003.12.19	0	0	0
Dou Zhenming	M	50	Supervisor	2000.12.20 - 2003.12.19	0	0	0
Shi Chunhua	M	37	Supervisor	2000.12.20 - 2003.12.19	0	0	0
Zhang Mingqi	M	44	Supervisor	2001.9.19- 2004.9.18	80	0	0
Lin Wenbo	M	44	Assistant General Manager	2000.12.20 - 2003.12.19	200	0	0
Luo Lianfang	M	53	Assistant General Manager	2000.12.20 - 2003.12.19	250	0	0
Liu Wenya	M	43	Assistant General Manager	2000.12.20 - 2003.12.19	200	0	0
Fu Yana	F	31	Company Secretary	2000.12.20 - 2003.12.19	172.6	0	0
Ip Pui Sum	M	42	Company Secretary	2000.12.20 - 2003.12.19	76	0	0

Notes: (1) All directors, supervisors and senior management did not hold any shares in the Company.

(2) The positions of the directors, supervisors and senior management in the Company's shareholders.

The Chairman and General Manager, Ms. Ma Baiyu is the vice-chairman of the Company's Controlling Shareholder Tianjin Municipal Investment Company Limited.

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION (Cont'd)**2. Remunerations of directors, supervisors and senior management**

During 2001, salaried directors, supervisors and senior officers of the Company received their annual remuneration pursuant to the provisions of the respective directors' and supervisors' service agreements and staff wages allocation plan of the Company.

The remunerations paid to the present directors, supervisors and senior officers of the Company including basic salaries, various kind of incentives, welfare benefits, allowances, housing subsidy and other subsidies, amounted to Rmb 3,638,600 in aggregate for the year. The remuneration paid to the three highest paid directors was Rmb 1,000,000 in aggregate. The remuneration paid to the three highest paid individuals was Rmb 1,000,000 in aggregate. Allowances paid to Mr. Li Weibin, Mr. Chan Boon Teong and Mr. Guan Weili, all of which were independent directors, were Rmb 265,000, Rmb 265,000 and Rmb 250,000 respectively.

The Company has 20 directors, supervisors and senior officers at present, 17 of which were paid remuneration by the Company. There were four individuals whose annual remuneration was Rmb 300,000 or above. There were six individuals whose annual remuneration was between Rmb 200,000 and Rmb 300,000. There were seven individuals whose annual remuneration was Rmb 200,000 or below. Mr. Hua Kaiting, Mr. Dou Zhenming, and Mr. Shi Chunhua were not paid any remuneration by the Company.

Remunerations of directors and supervisors

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Fees	780	12
Salaries and other emoluments	1,960	553
Pensions	37	111
	<u>2,777</u>	<u>676</u>

The remuneration was paid to the directors and supervisors as follow:

	Number	
	2001	2000
Rmb nil - Rmb 1,073,000 (HK\$1,000,000)	<u>15</u>	<u>25</u>

The above analysis includes the five individuals whose remunerations were the highest in the Group for the year.

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION (Cont'd)

3. Election and change of directors and supervisors

During the reporting period, Mr. Jing Shikui resigned from the Company. The Company's staff representatives meeting resolved on 19th September 2001 to approve the resignation of Mr. Jing Shikui as Supervisor and elected Mr. Zhang Mingqi as Supervisor, representing the Company's staff, for a term of three years.

4. An overview of the Company's staff

As at the end of 2001, the number of staff for the Company was 986 which did not include any staff resigned or retired. Among the Company's staff, 97 of which have professional qualifications, and accounted for 9.84% of the total number of staff. 10 of them have senior titles. 40 of them have intermediate titles. 47 of them of junior titles. The Company has senior expertise in the field of international management and investment, environmental engineering, roads and bridges construction, and engineering management. The expertise portfolio at each segment was managed reasonably.

(1) An analysis of the staff in terms of their function is as follows:

Administration	96 (9.73%)
Finance	13 (1.32%)
Technical	97 (9.84%)
Operating staff at sewage treatment plants and toll stations	780 (79.11%)

(2) An analysis of the staff in terms of their education level:

Postgraduate	5 (0.5%)
University	52 (5.3%)
Post-secondary	472 (47.9%)
Secondary or below	457 (46.3%)

5. Arrangements to purchase shares or debentures

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors, supervisors or senior management of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

6. Directors, Supervisors and Senior Management's interests in contracts

No contract of significance to which the Company was a party and in which a director, supervisor or member of senior management had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the reporting period, the Company had material connected transactions as follows:

1. Pursuant to the agreement dated 24th September 2001 entered into between the Company and Tianjin Sewage Company regarding the acquisition of the construction-in-progress of the Xianyanglu sewage treatment plant, the Company acquired the construction-in-progress as at 31st July 2001 of the Xianyanglu sewage treatment plant which mainly comprises pipelines of approximately 5.5km with a consideration of Rmb 26,388,098. The consideration was arrived at after arm's length negotiation and on normal commercial terms and is determined with reference to the independent valuations of the construction-in-progress of Xianyanglu sewage treatment plant prepared by the PRC valuer. The directors considered that the terms of the above transactions were fair and reasonable so far as the shareholders were concerned.
2. Pursuant to the agreement dated 24th September 2001 entered into between the Company and Tianjin Sewage Company regarding the acquisition of the construction-in-progress of the expansion project of the Jizhuangzi sewage treatment plant and certain part of the South-east Rural Drainage System, the Company acquired (i) the construction-in-progress as at 31st July 2001 of the expansion project of the Jizhuangzi sewage treatment plant which mainly comprises work-in-progress of ten sedimentation tanks and pipelines of approximately 4.0km; and (ii) the construction-in-progress of certain part of the South-east Rural Drainage System which mainly comprises work-in-progress of rain water pipelines of approximately 1.8 km with a consideration of Rmb 54,943,098. The consideration was arrived at after arm's length negotiation and on normal commercial terms and is determined with reference to the independent valuations of the construction-in-progress of the expansion project of the Jizhuangzi sewage treatment plant prepared by the PRC valuer. The directors considered that the terms of the above transactions were fair and reasonable as far as the shareholders were concerned.
3. Pursuant to the agreement dated 24th September 2001 entered into between the Company and Tianjin Sewage Company regarding the acquisition of the construction-in-progress of the Beicang sewage water plant, the Company acquired the construction-in-progress as at 31st July 2001 of the Beicang sewage treatment plant, which mainly comprises capitalised expense incurred for feasibility drawings and related feasibility reports with a consideration of Rmb 141,496. The consideration was arrived at after arm's length negotiation and on normal commercial terms and is determined with reference to the independent valuations of the construction-in-progress of the Beicang sewage treatment plant prepared by the PRC valuer. The directors considered that the terms of the above transactions were fair and reasonable so far as the shareholders were concerned.

CONNECTED TRANSACTIONS (Cont'd)

During the reporting period, the Company has the following ongoing connected transactions and contracts:

1. Pursuant to the Sewage Water Processing Agreement entered into on 10th October 2000, Tianjin Sewage Company agreed to appoint TMICL to process sewage water for a term of 30 years, of which the price is calculated according to the pricing formula. Tianjin Sewage Company is a state-owned enterprise established in the PRC is under the supervision of Tianjin Urban Construction Bureau. The agreement was initially entered into between TMICL and Tianjin Sewage Company, as TMICL then owned and operated the sewage water processing business. Upon the completion of the asset exchange, the rights and obligations of TMICL were automatically assigned to the Company. The Company is the successor of TMICL as a party to the agreement. Pursuant to the pricing formula, the price to be charged on the treatment of sewage water is calculated on the basis of "cost-plus-profit", which has taken into account, amongst others, cost of sewage water treatment and a fixed return on the capital investment together with a performance-related bonus.
2. Pursuant to the Road Repair and Maintenance Agreement entered into on 1st October 2000 and the supplementary agreement entered into on 24th November 2000, Tianjin Urban Road & Bridge Construction Company ("TURBCC") will provide the maintenance and repair for the Southeastern half ring road. TURBCC is a state-owned enterprise established in the PRC, and is under the supervision of Tianjin Urban Construction Bureau. The agreement was initially entered into between TMICL and TURBCC, as TMICL then owned and operated the Southeastern half ring road. Upon the completion of the asset exchange, the rights and obligations of TMICL were automatically assigned to the Company. The Company is the successor of TMICL as a party to the agreement. Pursuant to the terms of the agreement, TURBCC will charge the Company fees according to the rates as provided in [1993] No. 412 as issued by the Ministry of Construction from time to time.
3. Pursuant to the Lease Agreement entered into on 10th October 2000 by the Company and TMICL, the Company will lease from TMICL No. 18 Jinlong Apartment, Shuishang Park North Road, Nankai District, Tianjin, the PRC as its office premises upon the completion of asset exchange. The gross floor area was about 674 square metres. The rent payable by the Company to TMICL is Rmb 450,000 per annum. The rent will be adjusted in accordance with the market rate by an independent valuer once every three years.
4. Pursuant to the Sewage Water Treatment Plants Construction Fee Agreement entered into on 24th September 2001 between the Company and Tianjin Sewage Company, the Company will be entitled to receive from Tianjin Sewage Company during the period from 24th September 2001 up to the completion of the Xianyanglu Sewage treatment plant, the expansion project of the Jizhuangzi sewage treatment plant and the Beicang sewage treatment plant a lump sum fee which is calculated on the aggregate of the fees calculated at 23.7% of the simple average balances of the estimated construction cost of each of the water sewage plants as a reward to the Company to take responsibility in constructing the sewage water treatment plants. The Sewage Water Treatment Plants Construction Fee Agreement has been arrived at after arm's length negotiation and is based on normal commercial terms.

CONNECTED TRANSACTIONS (Cont'd)

5. Under the terms of the agreements entered into on 24th September 2001 between the Company and Tianjin Sewage Company regarding the acquisition of the Xianyanglu sewage treatment plant, the expansion project of the Jizhuangzi sewage treatment plant and the Beicang sewage treatment plant, the novation of all contracts' agreements previously signed by Tianjin Sewage Company in relation to the sewage water treatment plants will be transferred to the Company. Accordingly, all the contracts entered into or to be entered into in relation to the construction of the sewage water treatment plants, including the contractor contracts entered into with the parties that are related to the Urban Construction Bureau and are associates of TMICL or their associates, will be transferred to the Company. In addition, after the acquisition of the sewage water treatment plants, the Company will continue entering into contracts, from time to time, with contractors, that are related to the Urban Construction Bureau and are associates of TMICL, for the construction of the sewage water treatment plants.

The Directors confirm that in selecting and appointing the contractor, the tender system in accordance with the method of «Tianjin construction and Tender Management Method» will be used. The tender system will take into account the contractors' tender specifications, the contractors' experience and the track record and the tender amount in these contractor contracts are negotiated on an arm's length basis and are entered into on normal commercial terms and the construction costs paid by the Company to those parties that are entered into on normal commercial terms and the construction costs paid by the Company to those parties that are related to the Urban Construction Bureau and are associates of TMICL are comparable with those offered by other unconnected contractors for similar types of construction.

6. Pursuant to the Haihe Bridge Management Agreement entered into on 24th September 2001 between the Company and TMICL, the Company will provide project management services to TMICL for the construction of the Haihe Bridge in Tianjin during the period from 24th September 2001 to the completion of the construction of the Haihe Bridge. The Company will be entitled to a management fee of Rmb10,650,000. The fee is determined in accordance with (i) the guideline of "Tianjin City Urban Construction Pricing Guideline" issued by the Urban Construction Bureau, and (ii) the market comparables of similar services provided. The fee will be receivable by the Company according to the percentage of completion of the Haihe Bridge during the construction period of the Haihe Bridge.

The independent directors of the Company have confirmed that the above transactions were entered into on normal commercial terms.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

FIXED ASSETS

Details of the movement in fixed assets during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 69 to 70 and pages 108 to 109 of the annual report respectively.

RESERVES

Details of movements in reserves during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 74 to 75 and pages 112 to 114 of the annual report, respectively.

EMPLOYEES' RETIREMENT BENEFIT SCHEME

Particulars of the employees' retirement benefit scheme operated by the Company are set out on pages 64 and 100 of the annual report.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of the Group's purchases and sales attributable to major suppliers and customers are as follows:

	2001	2000
	%	%
Percentage of purchases attributable to the Group's largest supplier	45	16
Percentage of purchases attributable to the Group's five largest suppliers	59	26
Percentage of sales attributable to the Group's largest customer	85	7
Percentage of sales attributable to the Group's five largest customers	86	9

None of the directors, supervisors or shareholders of the Company has interests in the share capital of the Group's suppliers or customers mentioned above. The largest customer of the Group, Tianjin Sewage Company, is under the supervisory control of the Tianjin Municipal Engineering Bureau.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association.

SALE AND PURCHASE OR REPURCHASE OF SHARES OF THE COMPANY

During the year under review, the Company and its subsidiaries did not purchase, sell or repurchase any shares of the Company.

CODE OF BEST PRACTICE

On 31st July 2001, the Company's Board of Directors approved the establishment of an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting process and internal controls pursuant to paragraph 14 of Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") (the "Code of Best Practice"). The Audit Committee comprises the independent non-executive directors, Messrs. Chan Boon Teong, Guan Weili and Li Weibin. None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the period, in compliance with the Code of Best Practice.

MAJOR LITIGATION

The Company did not engage in any litigation or arbitration of material importance during the year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd., Certified Public Accountants, the PRC and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers shall retire and offer themselves for re-appointment as the Company's PRC and international auditors respectively.

By order of the Board

Ma Baiyu

Chairman

Tianjin, the PRC

28th February 2002