

# Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

## 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 re-named as 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 former subsidiaries were the manufacture and sale of marine chemical products (the "Chemical Business") and the current principal activities of the Company, subsequent to the Business and Asset Exchange described in note (b) below, are the sewage water processing business and road and toll stations business (the "New Exchanged Business"). The 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 TMICL. The share transfer was effective on 2nd November 2000.
- (b) The Chemical Business and related assets formerly conducted by the Company and its former subsidiaries were transferred to TMICL in exchange, on a portfolio basis, for the New Exchanged Business and related net assets formerly conducted by TMICL (the "Business and Asset Exchange"). The transaction was approved by the Company's shareholders at an extraordinary general meeting ("EGM") of the Company held on 20th December 2000 and became effective immediately on that date.
- (c) The change of the former name of the Company to its current name 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.

Particulars of the New Exchanged Business currently conducted by the Company subsequent to the Business and Asset Exchange are set out below:

Operating unit	Location	Principal activities
Dongjiao Sewage Water Treatment Plant and 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.

## **1 PRINCIPAL ACTIVITIES AND MODE OF OPERATIONS** (Cont'd)

The sewage water processing business included in the New Exchanged Business is conducted according to a Sewage Water Processing Agreement, pursuant to which the 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 and incentive pricing adjustments for cost saving and/or when actual processing volume exceeds the minimum processing volume stipulated in the agreement.

As described in note 2 below, the Company commenced additional new businesses including the sewage water treatment plants construction and the Haihe Bridge project management on 24th September 2001. The operations of the Additional New Business are independent from that of the New Exchanged Business as described above. In addition, during the year, the Company set up a subsidiary engaging in the business of water recycling. The subsidiary is still at the set up stage.

As mentioned above, the operations of the Company during the year therefore comprise the New Exchanged Business and the Additional New Business (collectively referred thereafter as "New Business"). As a result, the accounts of the Group for the year ended 31st December 2001 reflect the results, cash flows and recognised gains and losses of the Group for the year and the state of affairs of the Group and the Company as at 31st December 2001 of the New Business. As to the comparative figures, the consolidated profit and loss account, cash flow statement and statement of recognised gains and losses of the Group for the year ended 31st December 2000 incorporated the results, cash flows and recognised gains and losses of the Chemical Business for the period from 1st January 2000 to 20th December 2000, and those of the New Exchanged Business for the period from 21st December 2000 to 31st December 2000. The balance sheet as at 31st December 2000 reflected only the state of affairs of the New Exchanged Business and presented only the Company's balance sheet since the Company has no subsidiary as at that date.

## **2 DETAILS OF THE ADDITIONAL NEW BUSINESS**

On 24th September 2001, the Company commenced the sewage water treatment plants construction business and the Haihe Bridge project management business (the "Additional New Business"), details of these businesses are set out below:

### **Sewage water treatment plants construction business**

On 24th September 2001, the Company and TSC entered into the Xianyanglu Sewage Water Treatment Plant Constructions-in-progress Transfer Agreement, the Jizhuangzi (Expansion) Sewage Water Treatment Plant Constructions-in-progress Transfer Agreement and the Beicang Sewage Water Treatment Plant Constructions-in-progress Transfer Agreement (the "Transfer Agreements"). Upon the execution of the Transfer Agreements, the Company is responsible for the construction and the funding requirements of the above projects.

## **2 DETAILS OF THE ADDITIONAL NEW BUSINESS** *(Cont'd)*

### **Sewage water treatment plants construction business** *(Cont'd)*

Pursuant to the Transfer Agreements, the Company conditionally agreed to acquire from TSC the construction-in-progress of Xianyanglu Sewage Water Treatment Plant, Jizhuangzi (Expansion) Sewage Water Treatment Plant and its related facilities, and Beicang Sewage Water Treatment Plant (the "Sewage Water Treatment Plant Construction Projects") in Tianjin. The aggregate considerations payable by the Company to TSC for the acquisition of the Sewage Water Treatment Plant Construction Projects amounted to Rmb137,892,000, which will be payable upon completion of the transfers. Rmb81,473,000 of the considerations payable represented the value of the Sewage Water Treatment Plant Construction Projects as at 31st July 2001, as determined by a valuation performed by a PRC independent valuer based on the replacement cost method and the status of completion of these plants. The remaining balance of Rmb56,419,000 represented reimbursement of the construction costs incurred by TSC during the period from 1st August 2001 to 24th September 2001, and is determined by an audit performed by the Company's PRC auditors. In addition, pursuant to the Transfer Agreements, the Company will assume the rights and obligations of bank loans facilities, totalling approximately Rmb1,460 million, for the Sewage Water Treatment Plant Construction Projects upon completion of the transfers.

In addition, the Company and TSC entered into a Sewage Water Treatment Plants Construction Fee Agreement ("Construction Fee Agreement") on 24th September 2001. Pursuant to the agreement, TSC will pay and the Company will charge, a fee during the construction period of the sewage water treatment plants as a reward to the Company to take responsibility for the construction of the sewage water treatment plants.

The aggregate lump sum construction fees payable to the Company for the above construction projects of the three sewage water treatment plants amount to approximately RMB1,170 million, which represents the total of 23.7% of the simple yearly average of the estimated construction costs to be incurred during the construction period from 24th September 2001 to the respective dates of completion and commissioning of operations of each of the sewage water treatment plants. Pursuant to the Construction Fee Agreement, the construction fees will be payable by TSC to the Company in advance on a monthly basis based on amounts calculated according to the percentage of completion of the respective construction projects estimated by management. The percentage of completion of each project will be adjusted on a quarterly basis according to the certifications issued by qualified independent surveyors or engineers.

**2 DETAILS OF THE ADDITIONAL NEW BUSINESS** (Cont'd)**Sewage water treatment plants construction business** (Cont'd)

The details of the above Sewage Water Treatment Plant Construction Projects are set out below:

	<b>Xianyanglu</b>	<b>Jizhuangzi</b>	<b>Beicang</b>
	<b>Sewage Water</b>	<b>Sewage Water</b>	<b>Sewage Water</b>
	<b>Treatment Plant</b>	<b>Treatment Plant</b>	<b>Treatment Plant</b>
	<b>Construction</b>	<b>Expansion</b>	<b>Construction</b>
	<b>Project</b>	<b>Project</b>	<b>Project</b>
Location	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC
Daily capacity (cubic meters) upon completion			
of construction	450,000	280,000	100,000
Estimated date of completion	End of 2004	End of 2003	End of 2005
Estimated total construction costs required (Rmb' million)	1,134	978	416
% of construction completion	6.0%	14.4%	3.8%
Estimated construction fees (Rmb' million)	589	317	264
Construction fees recognised by the Company			
up to 31st December 2001 (Rmb' million)	35	46	10

The Company is in the process of finalising the remaining transfer procedures in respect of the acquisition of the Sewage Water Treatment Plant Construction Projects. The Company understands that TSC neither has the intention nor has issued a written notice in respect of the the cancellation of the Transfer Agreements. The construction of the projects has never been discontinued since 24th September 2001. In the event that the transfers could not be completed, according to the Transfer Agreements, the Company would be entitled to receive the construction fees for services performed and to recover the construction costs incurred from TSC. For the purpose of preparation of these accounts, the Company has obtained the confirmation from TSC regarding the construction fees receivable by the Company and the construction costs incurred as at 31st December 2001. However, since the transfers have not been completed, the construction costs incurred by the Company during the period from 24th September 2001 to 31st December 2001 was recorded as prepayments to suppliers, and the full amount will be transferred to construction-in-progress of the Company's accounts upon completion.

## **2 DETAILS OF THE ADDITIONAL NEW BUSINESS** *(Cont'd)*

### **Haihe Bridge project management business**

On 24th September 2001, the Company entered into the Haihe Bridge Project Management Agreement with TMICL, the owner of the Haihe Bridge Construction Project. Pursuant to the agreement, the Company will provide project management services to TMICL for the construction of Haihe Bridge and will be entitled to a total sum of project management fee amounting to Rmb10,650,000. The construction of Haihe Bridge is expected to be completed on or before 31st December 2002.

The Company will receive the project management fee on a monthly basis according to the percentage of completion of the construction of Haihe Bridge. The percentage of completion during a year or period is determined based on the certifications issued by qualified independent surveyors or engineers. In the event that upon completion of the construction of the Haihe Bridge, the construction cost incurred is less or more than the budget, as the case may be, the Company will be entitled to certain reward or penalty, respectively.

## **3 PRINCIPAL ACCOUNTING POLICIES**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 31	Impairment of assets
SSAP32	Consolidated financial statements and accounting for investments in subsidiaries

### **3 PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

The accounts of year 2001 reflect the New Business conducted by the Group. The principal accounting policies adopted including the effect of adoption of the new standards are as follows:

**(a) Basis of consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

**(b) Subsidiaries**

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**(c) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation/amortisation and accumulated impairment losses, if any.

Amortisation of land use rights, other than those in relation to the road and toll stations business, is calculated to write-off their cost less accumulated impairment losses, if any, on a straight-line basis over the period of land use rights of 50 years.

Depreciation of the road and amortisation of land use rights in relation to the road and toll stations business are calculated to write off their cost less accumulated impairment losses, if any, on a units-of-usage basis whereby the depreciation and amortisation are provided based on the share of actual traffic volume for a particular period over the projected total traffic volume throughout the period of 30 years for which the right to operate the road is granted. It is the policy of the road and toll stations business to review regularly the projected total traffic volume throughout the operating periods of the road. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustments will be made should there be a material change in the projected total traffic volume.

### 3 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (c) Fixed assets (Cont'd)

Depreciation of leasehold buildings and structures is calculated to write-off their cost less accumulated impairment losses, if any, on a straight-line basis over the unexpired periods of the leases, the unexpired periods of the rights to operate the road and the toll stations or their expected useful lives, whichever is the shortest. The periods adopted for depreciation range from 10 to 50 years.

Other tangible fixed assets are depreciated at rates sufficient to write-off their costs less accumulated impairment losses, if any, of the assets and less estimated residual value, over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Plant, machinery and equipment	10-30 years
Motor vehicles and others	5-40 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. The expenses relating to improvements of fixed assets are capitalised and amortised over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance being attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

#### (d) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. The impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

### **3 PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

**(e) Inventories**

Inventories comprise raw materials, spare parts and consumables.

Raw materials are stated at the lower of cost and net realisable value and spare parts and consumables are stated at cost less provision for obsolescence. Cost is determined on the weighted average basis.

**(f) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(g) Revenue recognition**

Revenue from sewage water processing services is recognised when services are rendered.

Revenue from sewage water treatment plants construction services is calculated based on the percentage of completion during the construction period of the respective sewage water treatment plants. The percentage of completion is determined with reference to the certifications of qualified independent surveyors or engineers in the PRC.

Toll fee income is recognised on a receipt basis.

Haihe Bridge project management fee income is recognised based on the percentage of completion during the construction period of the Haihe Bridge. The percentage of completion is determined with reference to the certifications of qualified independent surveyors or engineers in the PRC.

Interest income is recognised on a time proportion basis after taking into account the principal amounts outstanding and the interest rates applicable.

**(h) Repair and maintenance expenses**

Repair and maintenance expenses are charged to the profit and loss account as incurred.

**(i) Retirement benefits**

The Group participates in a defined contribution pension scheme organised by the Tianjin Municipal Government whereby the Group is required to make contributions at 20% of the salaries of employees for the year. According to the scheme, the local municipal government has undertaken to assume the retirement benefits obligations of all existing and future retired employees of the Group. The Group's contributions under the scheme are charged to the profit and loss account as incurred.



### **3 PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

**(j) Deferred taxation**

Deferred taxation is accounted for at the current rate of taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(k) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

**(l) Translation of foreign currencies**

The Company maintains its books and records in Renminbi.

Transactions in foreign currencies are translated into Renminbi at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

#### 4 TURNOVER, REVENUE AND SEGMENT INFORMATION

As described in note 1 to the accounts, the Group was principally engaged in manufacture and sale of marine chemical products prior to the Business and Asset Exchange which took place on 20th December 2000. The Group is currently engaged in sewage water processing, construction of sewage water treatment plants, road and toll stations and Haihe Bridge project management operations. Revenues recognised during the year are as follows:

##### (a) Analysis of the Group's revenues

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Turnover		
<i>New Business</i>		
Revenue from sewage water processing services	394,957	11,236
Revenue from sewage water treatment plants construction services	86,007	—
Toll fee income	79,663	2,426
Haihe Bridge project management fee	2,580	—
<i>Chemical Business</i>		
Revenue from sale of goods	—	3,483,874
Income from finance management	—	2,407
	<u>563,207</u>	<u>3,499,943</u>
Other revenues		
Interest income from		
Bank deposits and loans receivable	1,208	5,826
Listed treasury bonds	—	1,712
Sales of raw materials	—	57,065
Gross rental income from investment properties	—	4,341
Dividend income from unlisted investments	—	2,486
	<u>1,208</u>	<u>71,430</u>
Total revenues	<u><u>564,415</u></u>	<u><u>3,571,373</u></u>

Pursuant to the PRC tax rules, the New Business of the Group is subject to PRC business tax levied at 5% of the operating revenue and government surcharges levied at 10% of the amount of business tax. The business tax and government surcharges related to revenue derived from the New Business of the Group during the year ended 31st December 2001 amounted to Rmb32,779,000 (2000: Rmb795,000 attributable to the New Business), and has been deducted from the operating revenue to arrive at the turnover of the Group.

**4 TURNOVER, REVENUE AND SEGMENT INFORMATION** (Cont'd)

## (b) Business segment analysis

	<i>New Business</i>				Group 2001 <i>Rmb'000</i>
	Sewage water processing 2001 <i>Rmb'000</i>	Sewage treatment plants construction 2001 <i>Rmb'000</i>	Road and toll stations 2001 <i>Rmb'000</i>	Haihe Bridge project management 2001 <i>Rmb'000</i>	
Turnover	<u>394,957</u>	<u>86,007</u>	<u>79,663</u>	<u>2,580</u>	<u>563,207</u>
Segment results	<u>286,499</u>	<u>70,257</u>	<u>40,671</u>	<u>1,918</u>	399,345
Taxation					<u>(131,820)</u>
Profit after taxation					267,525
Minority interests					<u>109</u>
Profit attributable to shareholders					<u>267,634</u>
Segment assets	1,025,661	300,594	593,999	2,730	1,922,984
Investment securities					<u>4,000</u>
Total assets					<u>1,926,984</u>
Segment liabilities	64,037	135,831	24,192	151	224,211
Taxation payable					26,594
Minority Interests					<u>1,891</u>
Total liabilities					<u>252,696</u>
Capital expenditure	6,865	—	6,265	—	<u>13,130</u>
Depreciation and amortisation	39,051	—	14,243	—	<u>53,294</u>

**4 TURNOVER, REVENUE AND SEGMENT INFORMATION** (Cont'd)

## (b) Business segment analysis (Cont'd)

	<i>Continuing business</i>			<i>Discontinued business</i>	
	<b>Sewage water processing 2000 Rmb'000</b>	<b>Road and toll stations 2000 Rmb'000</b>	<b>Total of New Business 2000 Rmb'000</b>	<b>Chemical Business 2000 Rmb'000</b>	<b>Group 2000 Rmb'000</b>
Turnover	11,236	2,426	13,662	3,486,281	3,499,943
Segment results	9,411	1,581	10,992	136,440	147,432
Recovery of certain assets at gross value			—	254,140	254,140
Finance costs			—	(223,657)	(223,657)
Share of profit of an associated company			—	4,658	4,658
Profit before taxation			10,992	171,581	182,573
Taxation			(3,627)	(855)	(4,482)
Profit attributable to shareholders			7,365	170,726	178,091
Segment assets	973,226	446,308	1,419,534	—	1,419,534
Segment liabilities	6,013	3,240	9,253	—	9,253
Taxation payable			3,627	—	3,627
Total liabilities			12,880	—	12,880
Capital expenditure	—	2,013	2,013*	445,985	447,998
Depreciation and amortisation	1,090	200	1,290	304,151	305,441

\* The capital expenditure comprises additions to fixed assets and excludes those fixed assets acquired as a result of the Business and Asset Exchange which took place in December 2000.

No geographical segment analysis is presented since all of the Group's operations are in the PRC.

## 5 OPERATING PROFIT

Operating profit is stated after charging the following:

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Depreciation and amortisation	53,294	305,441
Staff costs, including retirement benefit costs of Rmb2,206,000 (2000: Rmb39,775,000)	33,302	406,929
Repair and maintenance expenses	19,644	187,363
Operating lease rentals for land and buildings	533	3,616
Auditors' remuneration	2,800	3,000
Loss on disposal of fixed assets	188	10,635
Research and development expenses	—	4,094
Provision for doubtful debts	—	37,811
Provision for diminution in value of investment securities	—	5,795
Provision for losses on realisation of inventories	—	1,230
Outgoings in respect of investment properties	—	241
	<u>53,294</u>	<u>305,441</u>

## 6 TAXATION

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

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
PRC income tax		
<i>New Business</i>		
Company	131,820	3,627
<i>Chemical Business</i>		
Company and subsidiaries	—	156
Share of taxation attributable to an associated company	—	699
	<u>131,820</u>	<u>4,482</u>

There is no material unprovided deferred taxation of the Group for the year (2000: nil).

## 7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of Rmb268,616,000 (2000: Rmb186,041,000), which is dealt with in the accounts of the Company.

## 8 DIVIDEND

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Final, proposed of Rmb0.8 (2000: nil) per ten share	<u>106,400</u>	<u>—</u>

At a meeting held on 28th February 2002, the directors of the Company declared a final dividend of Rmb0.8 per ten share. The proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.

## 9 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of Rmb267,634,000 (2000: Rmb178,091,000) and 1,330,000,000 shares (2000: 1,330,000,000 shares) in issue during the year.

## 10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Fees	780	12
Salaries and other emoluments	1,480	293
Contribution to retirement benefit scheme	<u>20</u>	<u>58</u>
	<u>2,280</u>	<u>363</u>

Emoluments paid to independent non-executive directors amounted to Rmb780,000 during the year (2000: Rmb12,000) and have been included in the above analysis.

None of the directors of the Company individually received emoluments in excess of HK\$1,000,000 during the year.

**10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** (Cont'd)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include 3 (2000: 2) directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2000: 3) individuals during the year are as follows:

	<b>2001</b>	2000
	<i>Rmb'000</i>	<i>Rmb'000</i>
Salaries and other emoluments	<b>550</b>	130
Contribution to retirement benefit scheme	<b>13</b>	26
	<u>563</u>	<u>156</u>
	<u><u>563</u></u>	<u><u>156</u></u>

**11 FIXED ASSETS****(a) Group**

	<b>Land use rights</b>	<b>Road</b>	<b>Buildings and structures</b>	<b>Plant, machinery and equipment</b>	<b>Motor vehicles and others</b>	<b>Total</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cost						
For the Company at						
1st January 2001						
(note 11(b))	650,598	185,418	655,498	206,109	44,566	1,742,189
Additions	487	—	1,399	3,387	7,857	13,130
Disposals	—	—	—	(40)	(560)	(600)
	<u>651,085</u>	<u>185,418</u>	<u>656,897</u>	<u>209,456</u>	<u>51,863</u>	<u>1,754,719</u>
At 31st December 2001						
Accumulated depreciation and amortisation						
For the Company at						
1st January 2001						
(note 11(b))	13,354	23,096	223,221	106,042	24,122	389,835
Charge for the year	14,389	5,978	21,209	9,936	1,782	53,294
Disposals	—	—	—	(16)	(396)	(412)
	<u>27,743</u>	<u>29,074</u>	<u>244,430</u>	<u>115,962</u>	<u>25,508</u>	<u>442,717</u>
At 31st December 2001						
Net book value						
At 31st December 2001	<u><u>623,342</u></u>	<u><u>156,344</u></u>	<u><u>412,467</u></u>	<u><u>93,494</u></u>	<u><u>26,355</u></u>	<u><u>1,312,002</u></u>

Subsequent to the Business and Asset Exchange in December 2000, the Company had no subsidiaries and therefore the fixed assets as at 1st January 2001 were fixed assets of the Company.



**11 FIXED ASSETS** (Cont'd)

## (b) Company

	Land use right Rmb'000	Road Rmb'000	Buildings and structures Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and others Rmb'000	Total Rmb'000
Cost						
At 1st January 2001 (note 11(a))	650,598	185,418	655,498	206,109	44,566	1,742,189
Additions	487	—	1,399	1,767	6,164	9,817
Disposals	—	—	—	(40)	(560)	(600)
At 31st December 2001	<u>651,085</u>	<u>185,418</u>	<u>656,897</u>	<u>207,836</u>	<u>50,170</u>	<u>1,751,406</u>
Accumulated depreciation and amortisation						
At 1st January 2001 (note 11(a))	13,354	23,096	223,221	106,042	24,122	389,835
Charge for the year	14,389	5,978	21,209	9,936	1,782	53,294
Disposals	—	—	—	(16)	(396)	(412)
At 31st December 2001	<u>27,743</u>	<u>29,074</u>	<u>244,430</u>	<u>115,962</u>	<u>25,508</u>	<u>442,717</u>
Net book value						
At 31st December 2001	<u><u>623,342</u></u>	<u><u>156,344</u></u>	<u><u>412,467</u></u>	<u><u>91,874</u></u>	<u><u>24,662</u></u>	<u><u>1,308,689</u></u>
At 31st December 2000	<u><u>637,244</u></u>	<u><u>162,322</u></u>	<u><u>432,277</u></u>	<u><u>100,067</u></u>	<u><u>20,444</u></u>	<u><u>1,352,354</u></u>

All of the Group's land, road, buildings and structures are held in the PRC under medium term leases of 50 years.

**12 SUBSIDIARY**

	Company	
	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Unlisted investment in the PRC, at cost	<u>18,000</u>	<u>—</u>

Particulars of the subsidiary are as follows:

Name	Place of incorporation	Principal activities and place of operation	Registered capital	Interest held directly
Tianjin Water Recycling Co., Ltd.	The PRC	Production of recycled water, equipment development and technical consulting relating to water recycling business in the PRC	Rmb20,000,000	90%

**13 INVESTMENT SECURITIES**

	Group and Company	
	2001 <i>Rmb'000</i>	Company 2000 <i>Rmb'000</i>
Unlisted investment in the PRC, at cost	<u>4,000</u>	<u>—</u>

**14 INVENTORIES**

	Group and Company	
	2001 <i>Rmb'000</i>	Company 2000 <i>Rmb'000</i>
Raw materials	2,230	2,689
Spare parts and consumables	<u>284</u>	<u>165</u>
	<u>2,514</u>	<u>2,854</u>

**15 TRADE RECEIVABLES**

Trade receivables as at 31st December 2001 included receivables from TSC in respect of sewage water processing service fee of Rmb 44,719,000 (2000: Rmb11,890,000) and sewage water treatment plants construction fee of Rmb 84,864,000 (2000: Nil) (note 2), and receivable from TMICL in respect of Haihe Bridge project management fee of Rmb 2,729,000 (2000: Nil).

The trade receivables as at 31st December 2000 and 2001 were aged within one year.

**16 OTHER RECEIVABLES AND PREPAYMENTS**

Included in other receivables and prepayments as at 31st December 2001 was an amount of Rmb215,026,000, which represented the construction costs incurred during the period from 24th September 2001 to 31st December 2001 in relation to the sewage water treatment plants construction services (note 2), less amounts paid by TSC on behalf of the Company.

**17 OTHER PAYABLES**

Other payables include an amount due to TMICL of Rmb 17,696,000 (2000: Rmb 2,508,000), which is unsecured, interest free and has no specific repayment terms. In addition, other payables as at 31st December 2001 included an amount of construction costs payable of Rmb135,730,000 (2000: Nil) which represented the construction costs incurred by the Company in relation to the construction of the sewage water treatment plants during the period from 24th September 2001 to 31st December 2001 (note 2). The construction costs payable included amounts of Rmb99,396,000 payable to related companies.

**18 SHARE CAPITAL**

	Company	
	2001 Rmb'000	2000 Rmb'000
Registered, issued and fully paid:		
990,000,000 A shares of Rmb1 each	990,000	990,000
340,000,000 H shares of Rmb1 each	340,000	340,000
	1,330,000	1,330,000
	1,330,000	1,330,000

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

**19 RESERVES****(a) Group**

	<b>Capital reserve fund</b> (note i) <i>Rmb'000</i>	<b>General reserves</b> (note ii) <i>Rmb'000</i>	<b>Retained earnings</b> <i>Rmb'000</i>	<b>Total</b> <i>Rmb'000</i>
For the Company at 1st January 2001 (note 19(b))	69,289	1,104	6,261	76,654
Profit for the year	—	—	267,634	267,634
Transferred from profit and loss account to:				
- statutory common reserve (note ii)	—	26,764	(26,764)	—
- statutory provident fund (note ii)	—	13,382	(13,382)	—
	<u>69,289</u>	<u>41,250</u>	<u>233,749</u>	<u>344,288</u>
At 31st December 2001	<u>69,289</u>	<u>41,250</u>	<u>233,749</u>	<u>344,288</u>
Representing:				
Retained earnings at 31st December 2001			127,349	
2001 proposed final dividend			106,400	
			<u>233,749</u>	

Subsequent to the Business and Asset Exchange in December 2000, the Company had no subsidiaries and therefore the reserves as at 1st January 2001 were all attributable to the Company.

**19 RESERVES** (Cont'd)**(b) Company**

	<b>Capital reserves fund</b>	<b>General reserves</b>	<b>(Accumulated losses)/ Retained earnings</b>	<b>Total</b>
	(note i)	(note ii)		
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1st January 2000	571,828	106,468	(821,600)	(143,304)
Profit after taxation - the Chemical Business	—	—	178,676	178,676
Transfer from profit and loss account	5,383	—	(5,383)	—
Difference in book value of the assets exchanged pursuant to the Business and Asset Exchange	33,917	—	—	33,917
Set off of accumulated losses against reserves	(541,839)	(106,468)	648,307	—
At 20th December 2000	69,289	—	—	69,289
Profit after taxation - the New Business	—	—	7,365	7,365
Transfer from profit and loss account to:				
- statutory common reserve (note ii)	—	736	(736)	—
- statutory provident fund (note ii)	—	368	(368)	—
At 31st December 2000	<u>69,289</u>	<u>1,104</u>	<u>6,261</u>	<u>76,654</u>
At 1st January 2001 (note 19(a))	69,289	1,104	6,261	76,654
Profit for the year	—	—	268,616	268,616
Transferred from profit and loss account to:				
- statutory common reserve (note ii)	—	26,764	(26,764)	—
- statutory provident fund (note ii)	—	13,382	(13,382)	—
At 31st December 2001	<u>69,289</u>	<u>41,250</u>	<u>234,731</u>	<u>345,270</u>
Representing:				
Retained earnings at 31st December 2001			128,331	
2001 proposed final dividend			106,400	
			<u>234,731</u>	

## 19 RESERVES (Cont'd)

Notes:

- (i) Transactions of the following nature are recorded in the capital reserve fund:
- share premium arising from the issue of shares;
  - donations received;
  - surplus arising from the revaluation of assets; and
  - any other items required by PRC regulations to be so treated.
- (ii) 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% 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 5% to 10% of the net profit to the statutory provident fund. 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 transferred to the statutory common reserve and statutory provident fund, respectively.
- (iii) The distributable reserve available to the Company as at 31st December 2001 amounted to Rmb234,731,000 (2000: Rmb6,261,000) before the proposed final dividend for the year ended 31st December 2001.

## 20 LONG-TERM LIABILITIES

Long-term liabilities include a specific payable of Rmb36,000,000 obtained by the Company's subsidiary, Tianjin Water Recycling Co., Ltd., from TMEB in accordance with a document issued by Tianjin Development Planning Commission "Forwarded Notice from the State Development Planning Commission Regarding Investment Plan of Specific Fund Central Budget for the Sewage Water Recycling Projects in 2001". The specific payable is granted for the construction of the Jizhuangzi sewage water recycling project. The remaining balance is obtained from Tianjin Municipal Government. These specific payables are interest free and the method and date of repayment will be determined upon completion of the construction project which is estimated to take more than one year.

**21 NOTES TO THE CASH FLOW STATEMENT****(a) Reconciliation of profit before taxation to net cash inflow from operating activities**

	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Profit before taxation	399,345	182,573
Share of profit of an associated company	—	(4,658)
Loss on disposal of fixed assets	188	10,635
Provision for diminution in value of investment securities	—	5,795
Depreciation and amortisation	53,294	305,441
Interest income	(1,208)	(7,538)
Interest expense	—	223,657
Income from other investments	—	(2,486)
Recovery of certain assets at gross value	—	(254,140)
Proceeds from recovery of certain assets at gross value	—	305,249
Increase in amount due to an associated company	—	1,012
Decrease/(increase) in inventories	340	(55,096)
(Increase)/decrease in trade, other receivables and prepayments	(335,513)	106,972
Increase in loans receivable	—	(10,226)
Increase in other investments	—	(11,974)
Increase in trade and other payables	178,758	110,435
Net cash inflow from current account with the former controlling shareholder	—	150,251
Net cash inflow from operating activities	<u>295,204</u>	<u>1,055,902</u>

**(b) Analysis of changes in financing during the year**

	Minority interests		Long-term liabilities	
	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Cash inflow from financing	2,000	—	36,200	—
Share of loss of the subsidiary	(109)	—	—	—
At 31st December	<u>1,891</u>	<u>—</u>	<u>36,200</u>	<u>—</u>

**22 COMMITMENTS****(a) Capital commitments**

	Group		Company	
	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Contracted but not provided for (note i)	137,892	1,547	137,892	1,547
Authorised but not contracted for (note ii)	2,398,694	503,000	2,284,194	503,000
	<u>2,536,586</u>	<u>504,547</u>	<u>2,422,086</u>	<u>504,547</u>

Notes:

- (i) The amount represents the consideration in respect of the proposed acquisition of the construction-in-progress of the sewage water treatment plants as at 24th September 2001 (note 2), which will be payable upon completion of the acquisitions.
- (ii) This comprises the commitment of the Company in respect of the construction projects of the sewage water treatment plants from 1st January 2002 to completion amounting to approximately Rmb2,284,194,000, and the capital commitment of Tianjin Jizhuangzi sewage water recycling project of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., amounting to Rmb114,500,000.

**(b) Operating lease commitments**

At 31st December 2001, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises leased from TMICL as follows:

	Group and Company	
	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>
Within one year	450	450
In the second to fifth year inclusive	1,800	380
After the fifth year	6,300	—
	<u>8,550</u>	<u>830</u>

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



## 23 RELATED PARTY TRANSACTIONS

### *The New Business*

The following is a summary of significant transactions with related companies in 2001, which were carried out in the normal course of operations of the New Business:

Company	Nature of transaction	Year ended	Period from
		31st December 2001 Rmb'000	21st December to 31st December 2000 Rmb'000
<i>Income</i>			
TSC	Revenue from sewage water processing (note (a))	417,944	11,890
TSC	Revenue from construction of sewage water treatment plants (note (b))	91,013	—
TMICL	Revenue from Haihe Bridge project management (note (c))	2,729	—
<i>Expenses</i>			
TURBCC	Road repair and maintenance (note (d))	2,750	92
TMICL	Operating lease rental in respect of office premises (note (e))	450	13
Li & Partners	Legal consulting fees (note (f))	1,921	—
<i>Others</i>			
Related			
contractors	Prepaid sewage water treatment plants construction costs (note (g))	<u>186,940</u>	<u>—</u>

### *Notes:*

- (a) This represents revenue derived from the sewage water processing services rendered by the Company to TSC according to Sewage Water Processing Agreement, details of which are set out in note 1.
- (b) This represents revenue derived from the construction of sewage water treatment plants rendered by the Company to TSC according to Sewage Water Treatment Plants Construction Fee Agreement, details of which are set out in note 2.
- (c) This represents revenue derived from the Haihe Bridge project management services rendered to TMICL, details of which are set out in note 2.

**23 RELATED PARTY TRANSACTIONS** (Cont'd)*The New Business (Cont'd)*

- (d) According to a road repair and maintenance agreement, Tianjin Urban Road & Bridge Construction Company ("TURBCC") 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.
- (e) The operating lease rentals were paid to TMICL 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.
- (f) This represents the fees for legal services provided by Li & Partners in respect of the acquisitions of the Additional New Business of the Group and other general consultancy. Li & Partners is a law firm in which an independent director, Mr Li Wei Bin, has a beneficial interest.
- (g) This represents the construction work incurred in respect of the sewage water treatment plants during the period from 24th September 2001 to 31st December 2001 and paid to the following contractors that are under the supervisory control of TMEB:

	2001 Rmb'000
Tianjin No.1 Municipal Road Engineering Co., Ltd.	15,022
Tianjin No.2 Municipal Road Engineering Co., Ltd.	7,791
Tianjin No.3 Municipal Road Engineering Co., Ltd.	6,899
Tianjin No.5 Municipal Road Engineering Co., Ltd.	12,311
Tianjin City Construction Group Co., Ltd.	130,611
Sewage Management No.2 Management Office	800
Tianjin Sewage Engineering Company	4,506
Tianjin Road & Bridge Management Office	5,000
Tianjin Municipal Engineering Design Research Institute	4,000
	<hr/> <b>186,940</b> <hr/>

- (h) The road and toll stations business has sixteen toll stations as at 31st December 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 charge.

**23 RELATED PARTY TRANSACTIONS** (Cont'd)*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
<i>Income</i>	
Sales of finished products	390,832
Sales of raw materials and spare parts	106
Subcontracting fees received	21,552
Interest income from loans receivable	3,131
Management fee income	700
Rental fee income	2,598
	<u>          </u>
<i>Expenses</i>	
Purchases of raw materials and spare parts	697,070
Purchases of fixed assets	2,960
Subcontracting fees paid	74,641
Fees paid for other supporting services	11,621
Operating lease rental expenses for land and facilities	3,616
Staff welfare expenses	26,381
Fees paid for repair and maintenance services	600
	<u>          </u>

**24 POST BALANCE SHEET EVENT**

At a meeting held on 28th February 2002, the directors proposed to issue "A Share" convertible bonds for a total amount of not more than Rmb1,200 million. The convertible bonds have par value Rmb100 and will mature in 5 years. The proposal is subject to approval of the shareholders at the annual general meeting to be held in 2002.

Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

## **25 ULTIMATE HOLDING COMPANY**

The directors of the Company regard Tianjin Municipal Investment Company Limited as being the ultimate holding company.

## **26 APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 28th February 2002.