

V. MANAGEMENT DISCUSSION AND ANALYSIS

1. ANALYSIS ON THE MAJOR OPERATING RESULTS AND FINANCIAL CONDITIONS OF THE GROUP

An analysis on the operating results and financial condition of the Group based on figures extracted from the accounts prepared under PRC GAAP is set out below:

- (1) Changes in income from principal operations, profit from principal operations, net profit, and net increase in cash:

Item	Six months ended 30th June		Percentage increase(+)/decrease(-)
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	
Income from principal operations	257,968	220,480	+17.00%
Profit from principal operations	176,584	153,393	+15.12%
Net profit	104,641	94,790	+10.39%
Net increase in cash	17,698	134,169	-86.81%

Analysis: As a result of the transfer of the construction in progress of three sewage processing plant projects to the Company under conditional agreements in 2001, the Company obtained construction fees income. Income and profit from principal operations increased by 17% and 15.12% respectively during the reporting period. Net profit increased by 10.39%, compared with that of the previous period. This was attributable to the increase in income from principal operations. Due to the distribution of dividends during the reporting period, there was a decrease in the amount of net increase in cash.

- (2) Total assets and changes in shareholders' equity

Item	As at 30th June 2002 <i>Rmb'000</i>	As at 1st January 2002 <i>Rmb'000</i>	Percentage increase(+)/decrease(-)
	Total assets	1,875,942	
Shareholders' equity	1,672,529	1,567,888	+6.67%

Analysis: Assets decreased by 2.65% when compared with that in the beginning of the year, which was attributable to the decrease in assets of the Group. Shareholders' equity increased by 6.67%, which was attributable to the profit from the operating activities of the Group.

2. ANALYSIS BY THE MANAGEMENT ON THE SIGNIFICANT EVENTS OCCURRED OR TO BE OCCURRED DURING THE REPORTING PERIOD

During the reporting period, the Group formulated the corporate development strategies on the basis of the research findings on the sewage processing market and the environmental protection industry in the PRC. It will actively pursue sewage processing business outside Tianjin, and seek to introduce cooperation partners from the international market in order to enhance and foster the technology, management as well as core competitiveness of the Group.

During the reporting period, the Company achieved certain milestones with respect to the integration of ISO 9001, ISO 14001 and OHSAS 18001 certifications. Procedural documents are now subject to pilot run. The Company has progress scientifically, systematically and institutionally in its management.

During the reporting period, the Company applied to the China Securities Regulatory Commission for the issue of A Shares convertible bonds. The application is now being processed by the China Securities Regulatory Commission.

The improvement works of Jizhuangzi Sewage Processing Plant will commence in the second half of the year. However, the reconstruction will not bring any significant effect to the operation of Jizhuangzi Sewage Processing Plant.

V. MANAGEMENT DISCUSSION AND ANALYSIS

3. OPERATIONS OF THE GROUP

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

During the reporting period, the principal businesses of the Group were the operations and construction of sewage processing plant, as well as toll collection and maintenance of toll roads.

(2) Operating conditions of the principal businesses of the Group

During the reporting period, there was no material change in the operating condition of the Group. The Group further improved its corporate governance structure and strengthened its internal management and control at the same time. It emphasizes the research of corporate development strategies, so as to enhance the core competitiveness of the Group. The Group will leverage on the specialization in its businesses to strengthen cost control and to ensure the steady growth of the Group.

1. Business and operation of the sewage processing plants

During the reporting period, the Company's sewage processing business grew steadily. The volume of sewage processed by the two sewage processing plants operated by the Company increased by 7.1% when compared with the corresponding period last year. This was attributable to the increase in volume of sewage processed subsequent to the improvement works on water intake at Dongjiao Sewage Processing Plant.

2. Business and operation of the toll roads

During the reporting period, the toll income dropped by 8% when compared with the same period last year, which was attributable to the combination of Wei Guo Road and Yuejin Road toll stations into one resulting in suspension of toll collection for three months for construction purpose. However, as this segment does not represent a significant proportion of the principal operations of the Group, the effect on the overall income of the Group was minimal.

3. Construction of the three sewage processing plants

During the reporting period, the construction work carried out of Beicang Sewage Processing Plant, Xianyanglu Sewage Processing Plant and the expansion project of Jizhuangzi Sewage Processing Plant amounted to Rmb66,620,000. The Company received construction fee of Rmb25,005,000.

The Company is in the process of finalising the remaining transfer procedures in respect of the acquisition of the construction projects of the three sewage water processing plants. The Company understands that Tianjin Sewage Company ("TSC") neither has the intention nor has issued a written notice in respect of 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 from TSC the construction fees for services performed and to recover the construction costs incurred. 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 30th June 2002. However, since the transfers have not been completed, the construction costs incurred by the Company during the period from 24th September 2001 to 30th June 2002 was recorded as prepayments to suppliers, and the full amount will be transferred to construction-in-progress of the Company's accounts upon completion.

V. MANAGEMENT DISCUSSION AND ANALYSIS

3. OPERATIONS OF THE GROUP (Cont'd)

4. Management of Haihe Bridge

During the reporting period, the construction work carried out at Haihe Bridge amounted to Rmb120 million. The Company received a management fee at an amount of Rmb2,560,000 on the basis of the work completed.

The financial data of the businesses are summarized as follows:

	Transaction volume	Income <i>Rmb'000</i>	Percentage of total income %	Net profit <i>Rmb'000</i>	Percentage of net profit %
Sewage water processing business	101 million cubic meters	191,301	74.16	81,432	77.82
Toll roads and toll stations business	1,420,319 times of vehicle	39,102	15.16	10,064	9.62
Construction of the three sewage water processing plants	Rmb66.62 million	25,005	9.69	12,083	11.55
Management of Haihe Bridge	Rmb120 million	<u>2,560</u>	<u>0.99</u>	<u>1,062</u>	<u>1.01</u>
Total		<u>257,968</u>	<u>100.00</u>	<u>104,641</u>	<u>100.00</u>

4. OPERATIONS AND RESULTS OF THE COMPANIES IN WHICH THE COMPANY HAS CONTROLLING INTERESTS AND INVESTMENT COMPANIES

(1) Operations and results of the company in which the Company has controlling interests

As at the end of the period, the Company owns 90% equity interest in Tianjin Water Recycling Company Limited. The registered capital of the company is Rmb20 million. The facilities and equipment for the supply of recycled water of the company are still under construction. For the six months ended 30th June 2002, the company incurred a loss of Rmb750,000.

(2) Operations and results of the investment companies

1. As at the end of the period, the Company invested Rmb2 million in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. For the six months ended 30th June 2002, the company incurred a loss of Rmb2,130,000.
2. As at the end of the period, the Company invested Rmb2 million in Tianjin Baotong Light Materials Company Limited, representing 20% of its registered capital. The company is still at the set up stage and its operation has not yet been commenced.

V. MANAGEMENT DISCUSSION AND ANALYSIS

5. OPERATION AND DEVELOPMENT PLAN OF THE GROUP FOR THE SECOND HALF YEAR

During the second half of 2002, the Group will further strengthen its management and technology participation in accordance with the operation plan formulated at the beginning of the year. With the actual production and operation incurred during the first half of the year and the production environment for the second half of the year, the fulfillment of the objectives for the whole year is thus ensured.

- (1) To continue the construction for the expansion project of Jizhuangzi Sewage Processing Plant and the construction projects of Xianyanglu Sewage Processing Plant and Beicang Sewage Processing Plant, as well as the transfer of loans for these projects.
- (2) To conduct an overhaul for Jizhuangzi Sewage Processing Plant so as to integrate the expansion project of Jizhuangzi Sewage Processing Plant and to ensure that the processing capability of Jizhuangzi Sewage Processing Plant, upon the completion of its expansion project, will reach 540,000 tonnes per day.
- (3) To actively cooperate with international leading sewage processing companies so as to enhance the technical skills and management capability of the Company.
- (4) To develop sewage water processing market outside Tianjin, and to explore opportunities with respect to the construction and operation of sewage processing plants so as to achieve economies of scale.
- (5) To complete the construction of technology development centre and to develop environmental protection products, equipment and technologies relating to the processing of sewage water in municipalities, as well as the development of technologies and its application in the development of the Group.
- (6) To conduct a pilot run on the procedural documents for ISO 9001, ISO 14001 and OHSAS 18001 and to obtain approval and issue of integration certification. The management of the Company will be more scientific, systematic and institutionalized.
- (7) To implement the plan for the issue of convertible bonds when it is appropriate.