

VI. SIGNIFICANT EVENTS

1. Conditions of corporate governance

In compliance with the Companies Law, Securities Law and the requirements on laws and regulations related to the CSRC, the Company devotes a lot of efforts to improve the corporate governance structure of the Company under the system of legal person, so as to achieve standardization on the operations of the Company. Pursuant to the requirements of the “Principles of corporate governance of listed companies” as promulgated by the CSRC and the State Economic and Trade Commission on 7th January 2002, the Company formulated the Rules for governing the procedures for operating the shareholders general meeting, the Rules for governing the procedures for operating the board meeting, the Rules for governing the procedures for operating the supervisory committee, the System for disclosure of information and the working rules for the general manager.

The Company has also established the system of independent directors. There are three independent directors among the members of the board of directors, which represent one third of the total number of directors. The independent directors are specialized in law and accounting.

The Company will make continuous efforts to refine, supplement and amend the aforesaid constitution and system from time to time during the course of ordinary business in accordance with the relevant laws, regulations, constitutions and system, so as to better leverage on the function of the shareholders’ general meeting, the board of directors, the supervisory committee and the management as a whole, thereby the operations of the Company can be regulated.

2. Implementation of the profit distribution plan for 2001

The profit distribution plan for 2001 was approved in the 2001 Annual General Meeting and completed the distribution. The ex-dividend date was 6th June 2002 and the date for the payment of dividend was 12th June 2002.

3. During the reporting period, there was no litigation and arbitration that was material to the Company.

4. Progress on the acquisition of major assets during the reporting period

In accordance with the three conditional agreements approved at the extraordinary general meeting held on 12th November 2001, the Agreement on the transfer of the construction-in-progress of the Beicang Sewage Processing Plant, Agreement on the transfer of the construction-in-progress of the Jizhuangzi Sewage Processing Plant and the Agreement on the transfer of the construction-in-progress of the Xianyanglu Sewage Processing Plant, entered into between the Company and TSC on 24th September 2001, the procedures for the transfers of loans were still in process and have not become duly effective. The Company will proceed with the transfers of loans in the second half of the year.

VI. SIGNIFICANT EVENTS

5. Significant connected transactions

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

- (1) The Company entered into the Agreement on the transfer of the construction in progress of the Beicang Sewage Treatment Plant, Agreement on the transfer of the construction in progress of the Jizhuangzi Expansion Plant, the Agreement on the transfer of the construction in progress of the Xianyanglu Sewage Processing Plant and the Sewage Processing Plant Construction Agreement with TSC on 24th September 2001. Pursuant to the aforesaid agreement the volume actually transacted was Rmb66,620,000 during the reporting period. Income received in accordance with Sewage Water Processing Plant Construction Agreement was Rmb25,005,000.
- (2) Pursuant to the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring entered into between the Company and TMICL on 24th September 2001, the volume actually transacted during the period was Rmb120 million. Income received was Rmb2,560,000.
- (3) Pursuant to the Sewage Water Processing Agreement entered into between TMICL and TSC on 10th October 2000, TSC agreed to procure TMICL to process sewage water for a term of 30 years. TSC is a State-owned enterprise under the supervisory control of the Tianjin Municipal Engineering Bureau. The agreement was initially entered into between TMICL and TSC, as the sewage water processing business was owned and operated by TMICL at that time. After the completion of the asset exchange, the rights and obligations of TMICL were automatically transferred to the Company. The Company becomes a party to the agreement replacing TMICL. According to the pricing formula, the processing fee payable is structured on a cost-plus-profit approach, and is linked to, among other things, the cost of processing sewage water, a fixed return on the capital investment and incentive payments. During the reporting period, the Company processed 101 million cubic meters of sewage water and received Rmb191 million of sewage treatment fee in accordance with the Sewage Water Processing Agreement entered into with TSC.
- (4) Pursuant to the road repair and maintenance agreement and the supplementary agreement thereof entered into between TMICL and Tianjin Urban Road and Bridge Construction Company ("TURBCC") on 1st October 2000 and 24th November 2000, respectively, TURBCC will maintain and repair the Southeastern Half Ring Road for TMICL. TURBCC is a State-owned enterprise under the supervisory control of the Tianjin Municipal Engineering Bureau. The agreement was initially entered into between TMICL and TURBCC, as the Southeastern Half Ring Road was owned and operated by TMICL at that time. After the completion of the asset exchange, the rights and obligations of TMICL were automatically transferred to the Company. The Company becomes a party to the agreement replacing TMICL. Pursuant to the Road Repair and Maintenance Agreement, TURBCC will charge the Company fees based on the rates prescribed under 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 from time to time.
- (5) The Company and TMICL entered into the Lease Agreement on 10th October 2000, pursuant to which the Company would lease from TMICL upon the completion of the asset exchange a building situated at No. 18 Jinlong Apartment, Shuishang Park North Road, Nankai District, Tianjin, the PRC, with a total gross floor area of approximately 674 sq. m. as its office premises. The annual rental payable by the Company to TMICL is Rmb450,000 and such annual rental will be adjusted every three years based on the then market rentals determined by an independent valuer.
- (6) The Company and TMICL entered into the Lease Agreement on 7th April 2002, pursuant to which the Company would lease from TMICL a building a situated at No. 45 Guizhou Road, Heping District, Tianjin, the PRC as its major office premises. The premises comprise of a total gross floor area of approximately 2,528 sq.m.. In view of the Lease Agreement entered into on 10th October 2000 by the Company and TMICL referred to in the preceding item, the Company and TMICL have hereby agreed upon negotiation that the rental for this Lease Agreement shall be determined at Rmb600,000. The Company intends to propose to the shareholders for the change of its registered address to No. 45 Guizhou Road, Heping District, Tianjin, the PRC, whilst the above-mentioned Lease Agreement shall be discharged at the same time, whereupon the rental shall be re-negotiated by the Company and TMICL.

VI. SIGNIFICANT EVENTS

- (7) The Company entered into transactions with the related companies as a result of Jizhuangzi Expansion Plant and Xianyanglu Sewage Processing Plant. Such connected transactions are ongoing in nature. Please refer to note 24 headed "Connected Transactions" set out in the text of the financial statements of the interim report.

The independent directors of the Company confirmed that the above transactions were conducted in accordance with normal commercial terms.

6. During the reporting period, the Company did not hold in custody, hire or lease any asset, and there is no company that hold in custody, hire or lease any asset of the Company.
7. During the reporting period, the Company did not enter into any guarantee.
8. During the reporting period, the Company did not enter into any trust arrangement with any third party for financial management matters.
9. There were no proceeds raised during the reporting period, nor were there any utilization of proceeds carried forward into the reporting period.
10. Other than the aforesaid three construction projects during the reporting period, there being no other investment involving funds not derived from raising of proceeds.
11. The Company will continue to engage PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. as its auditor in the PRC. The responsible certified public accountants are Zhou Zhong-hui and Wang Xiao respectively. For the six months ended 30th June 2002, the audit fees incurred were Rmb1,435,026 (including accommodation expenses of Rmb35,026).