

VII. REPORT OF THE PRC AUDITORS



**PricewaterhouseCoopersZhong Tian
Certified Public Accountants Co., Ltd.**

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TO THE SHAREHOLDERS OF TIANJIN CAPITAL ENVIRONMENTAL PROTECTION COMPANY LIMITED

We have accepted the appointment by the shareholders of Tianjin Capital Environmental Protection Company Limited ("the Company") and audited the balance sheets of the Company and the Group (the Company and its subsidiary) as at 30th June 2002 and their profit and loss accounts, profit appropriation statements and cash flow statements for the six month period from 1st January 2002 to 30th June 2002. The Company is responsible for these accounts. Our responsibility is to express an audit opinion on the accounts. Our audit was conducted in accordance with China Certified Public Accountants' Independent Auditing Standards and consequently included such auditing procedures as were considered necessary and appropriate to the Company's and the Group's circumstances, including examination, on a test basis, of the Company's and the Group's transactions and accounting records.

In our opinion, the accounts of the Company and the Group as set out on pages 14 to 39 present fairly, in all material respects, the financial position of the Company and the Group as at 30th June 2002 and their results and cash flows for the six month period from 1st January 2002 to 30th June 2002 in accordance with China's Accounting Standards and Accounting Regulations for Business Enterprises. The accounting policies used in the preparation of the accounts for the period are consistent with those used in the preceding year.

**PricewaterhouseCoopers Zhong Tian
Certified Public Accountants Co., Ltd.**

Zhou Zhong Hui
Certified Public Accountant

Wang Xiao
Certified Public Accountant

Shanghai, the PRC
1st August 2002