

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

BALANCE SHEET

As At 30th June 2002

	Notes	Group		Company	
		30th June 2002 Rmb'000	31st December 2001 Rmb'000	30th June 2002 Rmb'000	31st December 2001 Rmb'000
ASSETS					
CURRENT ASSETS					
Cash and bank balances	3	278,166	260,468	218,843	208,770
Accounts receivable	4	80,496	132,312	80,362	132,312
Other receivables	5	1,118	548	1,104	530
Prepaid income tax	6	30,710	—	30,710	—
Prepayment to suppliers	7	187,785	215,140	167,969	215,026
Inventories	8	1,971	2,514	1,971	2,514
Prepaid expenses		640	—	621	—
		<u>580,886</u>	<u>610,982</u>	<u>501,580</u>	<u>559,152</u>
LONG-TERM INVESTMENTS					
Long-term equity investments	9	4,000	4,000	20,343	21,018
FIXED ASSETS					
Fixed assets - cost		1,758,700	1,754,719	1,753,379	1,751,406
Less: Accumulated depreciation		(467,644)	(442,717)	(467,529)	(442,717)
		<u>1,291,056</u>	<u>1,312,002</u>	<u>1,285,850</u>	<u>1,308,689</u>
Fixed assets - net book value	10				
TOTAL ASSETS		<u><u>1,875,942</u></u>	<u><u>1,926,984</u></u>	<u><u>1,807,773</u></u>	<u><u>1,888,859</u></u>

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

BALANCE SHEET (Cont'd)

As At 30th June 2002

	Notes	Group		Company	
		30th June 2002 Rmb'000	31st December 2001 Rmb'000	30th June 2002 Rmb'000	31st December 2001 Rmb'000
LIABILITIES AND					
SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Accounts payable		414	209	294	199
Welfare payable		4,430	3,471	4,424	3,465
Dividend payable	11	2,723	106,400	2,723	106,400
Taxes payable	12	3,805	46,597	3,799	46,593
Other accruals		168	2,200	168	2,200
Other payables	13	149,071	157,545	119,050	157,531
Accrued expenses		4,786	4,583	4,786	4,583
		<u>165,397</u>	<u>321,005</u>	<u>135,244</u>	<u>320,971</u>
LONG-TERM LIABILITIES					
Specific payables	14	<u>36,200</u>	<u>36,200</u>	<u>—</u>	<u>—</u>
TOTAL LIABILITIES		<u>201,597</u>	<u>357,205</u>	<u>135,244</u>	<u>320,971</u>
MINORITY INTERESTS		<u>1,816</u>	<u>1,891</u>	<u>—</u>	<u>—</u>
SHAREHOLDERS' EQUITY					
Share capital	15	1,330,000	1,330,000	1,330,000	1,330,000
Capital reserve fund	16	69,289	69,289	69,289	69,289
General reserves	16	41,250	41,250	41,250	41,250
Including:					
Statutory common reserve		<u>27,500</u>	<u>27,500</u>	<u>27,500</u>	<u>27,500</u>
Statutory provident fund		<u>13,750</u>	<u>13,750</u>	<u>13,750</u>	<u>13,750</u>
Undistributed profits	17	<u>231,990</u>	<u>127,349</u>	<u>231,990</u>	<u>127,349</u>
Total shareholders' equity		<u>1,672,529</u>	<u>1,567,888</u>	<u>1,672,529</u>	<u>1,567,888</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>1,875,942</u></u>	<u><u>1,926,984</u></u>	<u><u>1,807,773</u></u>	<u><u>1,888,859</u></u>

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VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

PROFIT AND LOSS ACCOUNT

For The Six Months Ended 30th June 2002

	Notes	Group		Company	
		Six months ended 30th June		Six months ended 30th June	
		2002	2001	2002	2001
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from principal operations	18	257,968	220,480	257,968	220,480
Less: Costs for principal operations	18	(67,196)	(54,961)	(67,196)	(54,961)
Business tax and surcharges	18	(14,188)	(12,126)	(14,188)	(12,126)
Profit from principal operations		176,584	153,393	176,584	153,393
Add: Profit from other operations		352	—	8	—
Less: Administrative expenses		(20,871)	(12,449)	(19,747)	(12,449)
Financial income - net	19	976	242	945	242
Operating profit		157,041	141,186	157,790	141,186
Less: Investment loss	20	—	—	(674)	—
Add: Non-operating income		3	321	3	321
Less: Non-operating expenses		(938)	(29)	(938)	(29)
Total profit		156,106	141,478	156,181	141,478
Less: Income tax	21	(51,540)	(46,688)	(51,540)	(46,688)
Minority interests		75	—	—	—
Net profit		104,641	94,790	104,641	94,790

The accompanying notes form an integral part of these accounts.

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Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

PROFIT APPROPRIATION STATEMENT

For The Six Months Ended 30th June 2002

	Notes	Group		Company	
		Six months ended 30th June		Six months ended 30th June	
		2002	2001	2002	2001
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net profit		104,641	94,790	104,641	94,790
Add: Undistributed profits at beginning of the period		127,349	6,261	127,349	6,261
Profits available for appropriation		231,990	101,051	231,990	101,051
Less: Transfer to statutory common reserve	16(b)	—	(9,479)	—	(9,479)
Transfer to statutory provident fund	16(b)	—	(4,740)	—	(4,740)
Undistributed profits at end of the period		231,990	86,832	231,990	86,832

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

CASH FLOW STATEMENT

For The Six Months Ended 30th June 2002

Items	Group		Company	
	Six months ended 30th June 2002	2001	Six months ended 30th June 2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cash flows from operating activities				
Cash inflows:				
Cash received from rendering of services	310,603	220,297	309,918	220,297
Other cash received relating to operating activities	36,392	4,271	6,392	4,271
Sub-total of cash inflows	<u>346,995</u>	<u>224,568</u>	<u>316,310</u>	<u>224,568</u>
Cash outflows:				
Cash paid for goods and services	(28,275)	(19,253)	(27,925)	(19,253)
Cash paid to and on behalf of employees	(16,913)	(14,870)	(16,201)	(14,870)
Taxes paid	(142,059)	(47,218)	(142,032)	(47,218)
Other cash paid relating to operating activities	(14,462)	(1,213)	(14,173)	(1,213)
Sub-total of cash outflows	<u>(201,709)</u>	<u>(82,554)</u>	<u>(200,331)</u>	<u>(82,554)</u>
Net cash flows from operating activities	<u>145,286</u>	<u>142,014</u>	<u>115,979</u>	<u>142,014</u>
Cash flows from investing activities				
Cash inflows:				
Other cash received relating to investing activities	1,063	—	1,033	—
Cash outflows:				
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(24,974)	(7,845)	(3,262)	(7,845)
Net cash flows from investing activities	<u>(23,911)</u>	<u>(7,845)</u>	<u>(2,229)</u>	<u>(7,845)</u>
Cash flows from financing activities				
Cash outflows:				
Cash payments for distribution of dividends or profits	(103,677)	—	(103,677)	—
Net increase in cash	<u>17,698</u>	<u>134,169</u>	<u>10,073</u>	<u>134,169</u>

The accompanying notes form an integral part of these accounts.

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VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

CASH FLOW STATEMENT (Cont'd)

For The Six Months Ended 30th June 2002

Supplementary Information

	Group		Company	
	Six months ended 30th June		Six months ended 30th June	
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
(i) Reconciliation of net profit to net cash flows from operating activities				
Net profit	104,641	94,790	104,641	94,790
Add/(Less):				
Minority interests	(75)	—	—	—
Depreciation and amortisation of fixed assets	25,328	23,948	25,213	23,948
Losses on disposal of fixed assets	889	23	889	23
Loss on investments	—	—	674	—
Decrease in inventories	543	197	543	197
Decrease/(Increase) in operating receivables	65,892	(2,218)	66,069	(2,218)
(Decrease)/Increase in operating payables	(51,932)	25,274	(82,050)	25,274
	<u>145,286</u>	<u>142,014</u>	<u>115,979</u>	<u>142,014</u>
Net cash flows from operating activities				
(ii) Net increase in cash				
Cash at end of the period	278,166	186,008	218,843	186,008
Less: cash at beginning of the period	(260,468)	(51,839)	(208,770)	(51,839)
	<u>17,698</u>	<u>134,169</u>	<u>10,073</u>	<u>134,169</u>
Net increase in cash				

The accompanying notes form an integral part of these accounts.

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VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

NOTES TO THE ACCOUNTS

For The Six Months Ended 30th June 2002

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. On 20th December 2000, the Company carried out an exchange of business and related net assets, on a portfolio basis, with its current controlling shareholder Tianjin Municipal Investment Company Limited ("TMICL"). The business of manufacture and sale of marine chemical products previously conducted by the Company and its former subsidiaries, and the related net assets, were transferred out and all the former subsidiaries were disposed. The sewage water processing business and road and toll stations business (the "New Exchanged Business") previously conducted by TMICL, and the related net assets, were transferred in. On 8th January 2001, the name of the Company was officially changed to Tianjin Capital Environmental Protection Company Limited.

Subsequent to the exchange of business and related net assets as described above, the Company set up a subsidiary engaging in the business of water recycling during the second half of year 2001. The subsidiary is still in the set up stage. In addition, on 24th September 2001, the Company commenced additional new businesses including the sewage water processing plants construction and the Haihe Bridge project management (the "Additional New Business"). The operations of the Additional New Business are independent from that of the New Exchanged Business mentioned above.

Details of the principal activities and mode of operations conducted by the Company subsequent to the exchange of business and related net assets as described above are set out below:

(a) The New Exchanged Business conducted by the Company since 21st December 2000

Operating unit	Location	Principal activities
Dongjiao Sewage Water Processing Plant and Jizhuangzi Sewage Water Processing 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.

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 Processing Plant and Jizhuangzi Sewage Water Processing 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(b) The Additional New Business conducted by the Company since 24th September 2001

(i) Sewage Water Processing Plants Construction Business

On 24th September 2001, the Company and TSC entered into the Xianyanglu Sewage Water Processing Plant Construction-in-progress Transfer Agreement, the Jizhuangzi (Expansion) Sewage Water Processing Plant Construction-in-progress Transfer Agreement and the Beicang Sewage Water Processing Plant Construction-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.

Pursuant to the Transfer Agreements, the Company conditionally agreed to acquire from TSC the constructions-in-progress of Xianyanglu Sewage Water Processing Plant, Jizhuangzi (Expansion) Sewage Water Processing Plant and its related facilities, and Beicang Sewage Water Processing Plant (the "Sewage Plant Construction Projects"), in Tianjin. The aggregate considerations payable by the Company to TSC for the acquisition of the Sewage Plant Construction Projects amounted to Rmb137,892,000, which will be payable upon the completion of the transfers. Rmb81,473,000 of the considerations payable represented the value of the Sewage 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 was 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 certain bank loan facilities, totalling approximately Rmb1,460 million, already contracted by TSC for the Sewage Plant Construction Projects upon completion of the transfers.

In addition, the Company and TSC entered into a Sewage Water 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 processing plants, as incentives to remunerate the Company to take responsibility for the construction of the sewage water processing plants.

The aggregate 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 23.7% of the simple yearly/period 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 processing 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(b) The Additional New Business conducted by the Company since 24th September 2001 (Cont'd)

(i) Sewage Water Processing Plants Construction Business (Cont'd)

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

	Xianyanglu Sewage Water Processing Plant Construction Project	Jizhuangzi Sewage Water Processing Plant Expansion Project	Beicang Sewage Water Processing Plant Construction Project
Location	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC
Daily capacity (cubic meter) 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
Estimated construction fees (Rmb' million)	589	317	264
% of completion of construction			
— as at 31st December 2001	6.0%	14.4%	3.8%
— as at 30th June 2002	7.3%	19.6%	4.0%
Construction fees recognised by the Company (Rmb' million)			
— up to 31st December 2001	35	46	10
— up to 30th June 2002	43	62	11

The Company is actively in the process of finalising the remaining transfer procedures in respect of the acquisition of the Sewage Plant Construction Projects. The Company understands that TSC neither has the intention nor has issued a written notice to cancel the Transfer Agreements. Since 24th September 2001, the construction of the projects has never been discontinued. 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 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 could only be recorded as prepayments to suppliers for the time being, and the full amount will be transferred to the Company's construction-in-progress accounts upon completion.

(ii) Haihe Bridge Project Management Business

On 24th September 2001, the Company entered into the Haihe Bridge Project Management Agreement with the current controlling shareholder, the owner of the Haihe Bridge Construction Project. According 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 the 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2. PRINCIPAL ACCOUNTING POLICIES

The Company has prepared the accounts based on the Accounting Standards and the Accounting Regulations for Business Enterprises promulgated by the Ministry of Finance of the PRC.

The principal accounting policies adopted are as follows:

(a) Financial year

The financial year is from 1st January to 31st December of each calendar year. These accounts represent the interim accounts of year 2002 and therefore are prepared only up to the period ended 30th June.

(b) Reporting currency

The reporting currency is Renminbi ("Rmb") and amounts in the accounts are stated to the nearest thousand of Rmb.

(c) Basis of accounting

The accrual concept and, except for special explanation, the historical cost convention are adopted as basis of accounting.

(d) Cash

For the purpose of cash flow statement, cash comprises cash in hand and deposits repayable on demand.

(e) Bad debt provision

The Group adopts the provision method to account for the loss in bad debts.

Provision for bad debts is made after the evaluation of the recoverability of accounts receivable.

When there are solid evidences that accounts receivable are not recoverable, such as in the events that the entity is deregistered, goes bankrupt, has negative assets and insufficient working capital etc., the corresponding accounts receivable are recognised as bad debts and net off the corresponding amounts of provision for bad debts.

(f) Inventories

Inventories comprise raw materials, spare parts and consumables.

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

(g) Long-term investments

Long-term investments are equity investments holding for more than one year.

Cost of long-term equity investments are accounted for based on the actual amounts paid. The Company adopts the equity method to account for the invested entities in which the Company holds 20% or more of the voting share capital, or holds less than 20% of the voting share capital but has significant influence on the entities' operating decisions. The Company adopts the cost method to account for the invested entities in which the Company holds 20% or less of the voting share capital, or holds more than 20% of the voting share capital but has no significant influence on the entities' operating decisions.

Provision for permanent diminution in value of investment is made in the cases where there is a continuing diminution in the value of long-term investments or there is deterioration in the operating results of the invested company and such diminution in value is not expected to be reversible in the foreseeable future.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated amortisation/depreciation 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 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.

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 the cost less accumulated impairment losses, if any, of the assets, less estimated residual value, over their estimated useful lives on a straight line basis. The estimated useful lives are as follows:

Plant and 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.

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.

(i) Repair and maintenance expenses

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

(j) Research and development expenses

Research and development expenses are charged to the profit and loss account as incurred.

(k) Retirement benefits

The Group participates in the employee pension scheme of the Tianjin Municipal Government whereby the Group is to make an annual contribution equivalent to 20% of its annual payroll costs and the Tianjin Municipal Government undertakes to assume the retirement benefits obligations of 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Deferred taxation

Deferred taxation is accounted for at the current rate of taxation, using the liability method, 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 receivable in the foreseeable future.

(m) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(n) Foreign currency translation

Transactions in foreign currencies are translated into Rmb 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 Rmb 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.

(o) Revenue recognition

- (1) Revenue from sewage water processing services is recognised when services are rendered.
- (2) Toll fee income is recognised on a receipt basis.
- (3) Revenue from sewage water processing plants construction services is calculated based on the percentage of completion during the construction period of the respective sewage water processing plants. The percentage of completion is determined with reference to the certification of qualified independent surveyors or engineers in the PRC.
- (4) Revenue from Haihe Bridge is calculated based on the percentage of completion during the construction period of the Haihe Bridge. The percentage of completion is determined with reference to the certification of qualified independent surveyors or engineers in the PRC.
- (5) Interest income is recognised on a time proportion basis after taking into account the principal amounts outstanding and the interest rates applicable.

(p) Taxation

(1) *Income tax*

Corporate income tax is accounted for using the tax liability method under the effective tax method. The tax rate is 33% of taxable income.

(2) *Business tax*

The business tax rate is 5% of gross service income.

(3) *Other government surcharges*

Other government surcharges comprises of city construction tax and education surcharge, calculated respectively at the tax rate of 7% and 3% of the amount of business tax.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Related parties

Related parties refer to state-owned companies or other companies under the supervisory control of TMEB.

(r) Basis of preparation of consolidated accounts

The consolidated accounts are prepared in accordance with Cai Kuai Zi (1995) No. 11 "Temporary Regulations for Preparation of Consolidated Accounts" issued by the Ministry of Finance.

The consolidated accounts include the accounts of the Company and its subsidiary.

A subsidiary is an enterprise in which the Company holds directly or indirectly more than 50% of the voting share capital, has the power of decision making on the financing and operating strategies of the enterprise and accordingly is able to obtain benefits from its operating activities.

All significant intercompany transactions and balances between the Company and the subsidiary are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the shareholders' equity of the subsidiary.

3. CASH AND BANK BALANCES

	Group		Company	
	30th June 2002	31st December 2001	30th June 2002	31st December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash on hand	25	12	19	12
Cash in bank	278,141	260,456	218,824	208,758
	<hr/>	<hr/>	<hr/>	<hr/>
Total	278,166	260,468	218,843	208,770
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

4. ACCOUNTS RECEIVABLE

	Group		Company	
	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Ageing analysis of accounts receivable is as follows:				
Within one year	80,496	132,312	80,362	132,312
Less: Provision for bad debts	—	—	—	—
Net accounts receivable	<u>80,496</u>	<u>132,312</u>	<u>80,362</u>	<u>132,312</u>
Details of the accounts receivable are set out as follows:				
Amounts due from TSC				
- revenue from sewage water processing services (<i>note 1(a)</i>)	36,675	44,719	36,675	44,719
- revenue from sewage water processing plants construction services (<i>note 1(b)(i)</i>)	41,656	84,864	41,656	84,864
Haihe Bridge project management fee income (<i>note 1(b)(ii)</i>)	2,031	2,729	2,031	2,729
Others	134	—	—	—
Total	<u>80,496</u>	<u>132,312</u>	<u>80,362</u>	<u>132,312</u>

All accounts receivable were aged within one year, most of which were from related companies, therefore no bad debt provision was made.

5. OTHER RECEIVABLES

	Group		Company	
	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Ageing analysis of other receivables is as follows:				
Within 1 year	1,118	548	1,104	530
Less: Provision for bad debts	—	—	—	—
Net other receivables	<u>1,118</u>	<u>548</u>	<u>1,104</u>	<u>530</u>

6. PREPAID INCOME TAX

The enterprise income tax for the six months ended 30th June 2002 has been fully paid.

The prepaid income tax as at 30th June 2002 mainly represents the prepayment of the estimated enterprise income tax for the third quarter of year 2002.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

7. PREPAYMENT TO SUPPLIERS

	Group		Company	
	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Construction costs incurred since 24th September 2001 in relation to the sewage water processing plants construction services (<i>note 1(b)(i)</i>)	305,546	238,926	305,546	238,926
Less: Construction cost paid by TSC on behalf of the Company	(135,209)	(23,196)	(135,209)	(23,196)
Other expenses paid by TSC on behalf of the Company	(2,606)	(704)	(2,606)	(704)
Others	20,054	114	238	—
Total	<u>187,785</u>	<u>215,140</u>	<u>167,969</u>	<u>215,026</u>

8. INVENTORIES

	Group and Company			
	30th June 2002 Cost <i>Rmb'000</i>	30th June 2002 Provision <i>Rmb'000</i>	31st December 2001 Cost <i>Rmb'000</i>	31st December 2001 Provision <i>Rmb'000</i>
Raw materials	1,694	—	2,230	—
Spare parts and consumables	277	—	284	—
Total	<u>1,971</u>	<u>—</u>	<u>2,514</u>	<u>—</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

9. LONG-TERM INVESTMENTS

	Group		Company	
	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Long-term equity investments (note (a))	4,000	4,000	4,000	4,000
Investment in a subsidiary company (note (b))	—	—	16,343	17,018
Net book value	<u>4,000</u>	<u>4,000</u>	<u>20,343</u>	<u>21,018</u>

(a) Long-term equity investments

Name of invested entity	Group and Company	
	Percentage of interest in registered share capital %	Cost <i>Rmb'000</i>
Tianjin Baotong Qinjiliao Co., Ltd. (The Company has no significant influence on the entity)	20%	2,000
Tianjin Northern Human Resources Co., Ltd.	6.1%	2,000
Less: Provision for diminution in value		—
Net book value		<u>4,000</u>

(b) Investment in a subsidiary company

Name	Registered capital <i>Rmb'000</i>	Interest held		Principal activities	Place of registration and operation	Type
		Directly %	Indirectly %			
Tianjin Water Recycling Co., Ltd.	<u>20,000</u>	<u>90%</u>	<u>—</u>	Production of recycled water, equipment development and technical consulting of water recycling business	Tianjin, the PRC	Limited liability company

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

10. FIXED ASSETS AND ACCUMULATED DEPRECIATION/AMORTIZATION

	Group					
	Land use rights	Road	Buildings and structures	Plant, machinery and equipment	Motor vehicles and others	Total
	<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						
At 1st January 2002	651,085	185,418	656,897	209,456	51,863	1,754,719
Additions	13	—	300	1,893	3,065	5,271
Disposals	—	—	(838)	(23)	(429)	(1,290)
	<u>651,098</u>	<u>185,418</u>	<u>656,359</u>	<u>211,326</u>	<u>54,499</u>	<u>1,758,700</u>
Accumulated depreciation						
At 1st January 2002	27,743	29,074	244,430	115,962	25,508	442,717
Charge for the period	7,298	1,735	8,817	5,080	2,398	25,328
Disposals	—	—	(107)	(6)	(288)	(401)
	<u>35,041</u>	<u>30,809</u>	<u>253,140</u>	<u>121,036</u>	<u>27,618</u>	<u>467,644</u>
Net book value						
At 30th June 2002	<u>616,057</u>	<u>154,609</u>	<u>403,219</u>	<u>90,290</u>	<u>26,881</u>	<u>1,291,056</u>
At 31st December 2001	<u>623,342</u>	<u>156,344</u>	<u>412,467</u>	<u>93,494</u>	<u>26,355</u>	<u>1,312,002</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

10. FIXED ASSETS AND ACCUMULATED DEPRECIATION/AMORTIZATION (Cont'd)

	Company					Total Rmb'000
	Land use rights Rmb'000	Road Rmb'000	Buildings and structures Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and others Rmb'000	
Cost						
At 1st January 2002	651,085	185,418	656,897	207,836	50,170	1,751,406
Additions	13	—	300	390	2,560	3,263
Disposals	—	—	(838)	(23)	(429)	(1,290)
	<u>651,098</u>	<u>185,418</u>	<u>656,359</u>	<u>208,203</u>	<u>52,301</u>	<u>1,753,379</u>
At 30th June 2002						
Accumulated depreciation						
At 1st January 2002	27,743	29,074	244,430	115,962	25,508	442,717
Charge for the period	7,298	1,735	8,817	5,080	2,283	25,213
Disposals	—	—	(107)	(6)	(288)	(401)
	<u>35,041</u>	<u>30,809</u>	<u>253,140</u>	<u>121,036</u>	<u>27,503</u>	<u>467,529</u>
At 30th June 2002						
Net book value						
At 30th June 2002	<u>616,057</u>	<u>154,609</u>	<u>403,219</u>	<u>87,167</u>	<u>24,798</u>	<u>1,285,850</u>
At 31st December 2001	<u>623,342</u>	<u>156,344</u>	<u>412,467</u>	<u>91,874</u>	<u>24,662</u>	<u>1,308,689</u>

All of the Group's land use rights, road, buildings and structures and plants are located in the PRC.

11. DIVIDEND PAYABLE

Pursuant to the 22nd meeting of the Second Board of Directors held on 28th February 2002, the Board of Directors proposed to distribute a final dividend of Rmb0.80 for every ten shares held by shareholders, totalling Rmb106,400,000, based on the total number of shares of 1,330,000,000 as at 31st December 2001. The dividend distribution was approved at the tenth annual general meeting by the shareholders held on 16th April 2002. The balance as at 30th June 2002 represents the remaining balance of dividend not yet paid to the legal person shareholders.

12. TAXES PAYABLE

	Group		Company	
	30th June 2002 Rmb'000	31st December 2001 Rmb'000	30th June 2002 Rmb'000	31st December 2001 Rmb'000
Income tax (note 6)	—	26,594	—	26,594
Business tax and others	3,805	20,003	3,799	19,999
	<u>3,805</u>	<u>46,597</u>	<u>3,799</u>	<u>46,593</u>
Total	<u>3,805</u>	<u>46,597</u>	<u>3,799</u>	<u>46,593</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

13. OTHER PAYABLES

	Group		Company	
	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Payable to current controlling shareholder	55,168	17,696	25,168	17,696
Construction costs payable	90,337	135,730	90,337	135,730
Others	3,566	4,119	3,545	4,105
Total	<u>149,071</u>	<u>157,545</u>	<u>119,050</u>	<u>157,531</u>

Other payables to current controlling shareholder are unsecured, interest free, among which Rmb30,000,000 has been repaid after the period end on 24th July 2002, and the remaining balance of Rmb25,168,000 has no specific repayment terms. Construction costs payable represent the construction costs incurred in relation to the construction of the sewage water processing plants by the Company during the period 24th September 2001 to 30th June 2002 (note (b)(i)) but remained outstanding. Construction costs payable included amounts of Rmb84,606,000 (2001: Rmb99,396,000) payable to related companies.

14. SPECIFIC PAYABLES

Specific payables include amounts 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 of Central Budget for the Sewage Water Recycling Projects in 2001". The specific payables are granted for the construction of Jizhuangzi sewage water recycling project. The remaining balance is obtained by the subsidiary from Tianjin Municipal Government. The payables are interest free and the method and date of repayment will only be determined upon the completion of construction project which is estimated to take more than one year.

15. SHARE CAPITAL

	Company	
	30th June 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Registered share capital		
990,000,000 A shares of Rmb1 each	990,000	990,000
340,000,000 H shares of Rmb1 each	340,000	340,000
Total	<u>1,330,000</u>	<u>1,330,000</u>
Issued and paid up capital		
(1) A shares of Rmb1 each		
Non-circulating shares		
State shares (839,020,000 shares)	839,020	839,020
Legal person shares (38,485,000 shares)	38,485	38,485
Circulating shares		
Social public shares (112,495,000 shares)	112,495	112,495
Sub-total	<u>990,000</u>	<u>990,000</u>
(2) H shares of Rmb1 each		
Circulating shares outside China		
Social public shares (340,000,000 shares)	340,000	340,000
Total	<u>1,330,000</u>	<u>1,330,000</u>

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

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

16. CAPITAL RESERVE FUND AND GENERAL RESERVES

	Group and Company		
	Capital reserve fund	Statutory common reserve	Statutory provident fund
	<i>(note a)</i>	<i>(note b)</i>	<i>(note b)</i>
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 31st December 2001 and 30th June 2002	<u>69,289</u>	<u>27,500</u>	<u>13,750</u>

(a) Capital reserve fund

Capital reserve fund comprises the following item:

	Group and Company	
	30th June 2002	31st December 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Share premium	<u>69,289</u>	<u>69,289</u>

Amounts in capital reserve fund can be utilised to offset prior years' losses or for issuance of bonus shares.

(b) General reserves

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% and 5% to 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 statutory provident fund, respectively. The transfers to these reserves must be made before the distribution of dividends to shareholders.

The Company's board of directors does not recommend any appropriation of the net profit for the six months ended 30th June 2002. The profit appropriation scheme will be decided after the 2002 annual accounts being audited (Six months ended 30th June 2001: the Company's board of directors decided to transfer 10% and 5% of the net profit of the Company prepared under PRC accounting regulations to the statutory common reserve of Rmb9,479,000 and to the statutory provident fund of Rmb4,740,000 respectively).

The statutory common reserve shall only be used as follows:

- (1) to make up losses;
- (2) to expand the Company's production operation; or
- (3) to increase the capital of the Company.

Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve into share capital. When converting the Company's statutory common reserve into capital, the amount of such reserve remaining unconverted must not be less than 25% of the registered capital.

The statutory provident fund shall only be used as follows:

The statutory provident fund should be used for the collective welfare of employees. This fund forms part of the shareholders' equity and is non-distributable other than in liquidation.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

17. UNDISTRIBUTED PROFITS

	Group and Company <i>Rmb'000</i>
At 1st January 2002	127,349
Add: Profit for the period	104,641
	<hr/>
At 30th June 2002	231,990
	<hr/> <hr/>

18. INCOME FROM PRINCIPAL OPERATIONS AND SEGMENT INFORMATION

(a) Income from principal operations

	Group	
	Six months ended 30th June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
<i>New Exchanged Business</i>		
Revenue from sewage water processing services	191,301	177,864
Toll fee income	39,102	42,616
	<hr/>	<hr/>
<i>Additional New Business</i>		
Revenue from sewage water processing plants construction services	25,005	—
Haihe Bridge project management fee	2,560	—
	<hr/>	<hr/>
	257,968	220,480
	<hr/> <hr/>	<hr/> <hr/>

(b) Segmental information

	New Exchanged Business		Additional New Business		
	Sewage water processing	Road and toll stations	Sewage water processing plant construction	Haihe Bridge management	Group
	Six months ended 30th June 2002				
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Income from principal operations	191,301	39,102	25,005	2,560	257,968
Costs for principal operations	(48,062)	(16,124)	(2,175)	(835)	(67,196)
Business tax and surcharges	(10,522)	(2,151)	(1,375)	(140)	(14,188)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Profit from principal operations	132,717	20,827	21,455	1,585	176,584
Less: Administrative expenses	(11,490)	(5,961)	(3,420)	—	(20,871)
Add: Financial income - net	36	940	—	—	976
Others	202	(785)	—	—	(583)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total profit	121,465	15,021	18,035	1,585	156,106
Less: Income tax	(40,108)	(4,957)	(5,952)	(523)	(51,540)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net profit before minority interests	81,357	10,064	12,083	1,062	104,566
Minority interests	75	—	—	—	75
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net profit	81,432	10,064	12,083	1,062	104,641
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

18. PRINCIPAL OPERATING INCOME AND SEGMENTAL INFORMATION (Cont'd)

(b) Segmental information (Cont'd)

	New Exchanged Business		Additional New Business		Group
	Sewage water processing	Road and toll stations	Sewage water plant construction	Haihe Bridge project management	
	Six months ended 30th June 2001				
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from principal operations	177,864	42,616	—	—	220,480
Costs for principal operations	(41,191)	(13,770)	—	—	(54,961)
Business tax and surcharges	(9,782)	(2,344)	—	—	(12,126)
Profit from principal operations	126,891	26,502	—	—	153,393
Less: Administrative expenses	(8,450)	(3,999)	—	—	(12,449)
Add: Financial income - net	6	236	—	—	242
Others	(29)	321	—	—	292
Total profit	118,418	23,060	—	—	141,478
Less: Income tax	(39,078)	(7,610)	—	—	(46,688)
Net profit before minority interests	79,340	15,450	—	—	94,790
Minority interests	—	—	—	—	—
Net profit	79,340	15,450	—	—	94,790

19. FINANCIAL INCOME - NET

	Group		Company	
	Six months ended 30th June		Six months ended 30th June	
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest income	1,064	248	1,032	248
Others	(88)	(6)	(87)	(6)
	976	242	945	242

20. INVESTMENT LOSS

	Group		Company	
	Six months ended 30th June		Six months ended 30th June	
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Based on equity accounting				
Share of loss of subsidiary	—	—	(674)	—

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

21. INCOME TAX

	Group and Company	
	Six months ended 30th June	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
New Exchanged Business	45,065	46,688
Additional New Business	6,475	—
	<hr/>	<hr/>
Total	51,540	46,688
	<hr/> <hr/>	<hr/> <hr/>

The income tax of the Company has been provided at the rate of 33% based on the taxable income for the period.

22. COMMITMENTS

(a) Capital commitments

	Group		Company	
	30th June	31st December	30th June	31st December
	2002	2001	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for (<i>note i</i>)	173,841	137,892	137,892	137,892
Authorised but not contracted for (<i>note ii</i>)	2,276,379	2,398,694	2,217,574	2,284,194
	<hr/>	<hr/>	<hr/>	<hr/>
	2,450,220	2,536,586	2,355,466	2,422,086
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(i) The Group amount represented the consideration as at 24th September 2001 in respect of the proposed acquisition of the sewage water processing plants constructions-in-progress (note 1(b)(i)) amounting to Rmb137,892,000, which will be payable upon completion of the acquisitions, and the capital commitments of Tianjin Jizhuangzi sewage water recycling project of the Company's subsidiary, Tianjin Water Recycling Company Limited, amounting to Rmb35,949,000.

(ii) The Group amount comprises the commitments of the Company in respect of the construction projects of the sewage water processing plants since 1st July 2002 to completion date, amounting to Rmb2,217,574,000 and the capital commitments of Tianjin Jizhuangzi sewage water recycling project of the Company's subsidiary, Tianjin Water Recycling Company Limited, amounting to Rmb58,805,000.

(b) Operating lease commitments

At 30th June 2002, the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises leased from the current controlling shareholder as follows:

	Group		Company	
	30th June	31st December	30th June	31st December
	2002	2001	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable within one year	1,050	450	1,050	450
Payable in the second year to fifth year	3,000	1,800	3,000	1,800
Payable after the fifth year	6,075	6,300	6,075	6,300
	<hr/>	<hr/>	<hr/>	<hr/>
	10,125	8,550	10,125	8,550
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

23. RELATED PARTIES

(a) Related parties that have controlling relationship

Name of enterprise	Relationship with the Company
Tianjin Municipal Investment Company Limited	The current controlling shareholder and the ultimate holding company
Tianjin Municipal Engineering Bureau	Supervisory controller of the New Exchanged Business and Additional New Business
Tianjin Water Recycling Co., Ltd	A subsidiary of the Company

(b) Paid up capital of related parties that has controlling relationship and their movements

Name of enterprise	As at 1st January	Additions	As at 30th June
	2002		2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Tianjin Municipal Investment Company Limited	1,724,278	—	1,724,278
Tianjin Water Recycling Co., Ltd	20,000	—	20,000

(c) Share or equity of the Company held by related parties and its movement

Name of enterprise	As at 1st January		Additions		As at 30th June	
	2002		2002		2002	
	<i>Rmb'000</i>	%	<i>Rmb'000</i>	%	<i>Rmb'000</i>	%
Tianjin Municipal Investment Company Limited	839,020	63.08	—	—	839,020	63.08

(d) Major related parties that have no controlling relationship

Name of enterprise	Relationship with the Company
Tianjin Sewage Company	State-owned company under the supervisory control of TMEB
Tianjin Urban Road & Bridge Construction Company ("TURBCC")	State-owned company under the supervisory control of TMEB
Tianjin Urban Road Construction No.1 Company Limited	State-owned company under the supervisory control of TMEB
Tianjin Urban Road Construction No.2 Company Limited	State-owned company under the supervisory control of TMEB
Tianjin Urban Road Construction No.3 Company Limited	State-owned company under the supervisory control of TMEB
Tianjin Urban Road Construction No.5 Company Limited	State-owned company under the supervisory control of TMEB
Tianjin City Construction Group Company Limited	State-owned company under the supervisory control of TMEB
Sewage Management Bureau No.2 Management Office	State-owned company under the supervisory control of TMEB
Tianjin Sewage Engineering Company	State-owned company under the supervisory control of TMEB
Tianjin Road & Bridge Management Bureau	State-owned company under the supervisory control of TMEB
Tianjin Municipal Engineering Design Research Institute	State-owned company under the supervisory control of TMEB

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

24. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions with related companies during the six months ended 30th June 2002, which were carried out in the normal course of operations of the Group.

Name of enterprises	Nature of transaction	Six months ended 30th June	
		2002 Rmb'000	2001 Rmb'000
<i>Income:</i>			
TSC	Revenue from sewage water processing services (note (a))	191,301	177,864
TSC	Revenue from construction of sewage water processing plants (note (b))	25,005	—
TMICL	Revenue from Haihe Bridge project management services (note (c))	2,560	—
<i>Expenses:</i>			
TURBCC	Road repair and maintenance (note (d))	1,536	—
TMICL	Operating lease rental in respect of office premises (note (e))	525	225
Li & Partners	Legal consulting fees (note (f))	1,348	960
<i>Others:</i>			
Related contractors	Amounts payable for sewage water processing plants construction costs (note (g))	41,157	—

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(a).
- (b) This represents revenue derived from the construction of sewage water processing plants services rendered by the Company to TSC according to Sewage Water Plants Construction Fee Agreement, details of which are set out in note 1(b)(i).
- (c) This represents revenue derived from the Haihe Bridge project management services rendered to the current controlling shareholder, details of which are set out in note 1(b)(ii).
- (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 South-eastern 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 the current controlling shareholder based on two office premises leasing agreements, signed on 10th October 2000 and 7th April 2002 respectively. According to the agreements, the Company shall lease two buildings from TMICL as its office premises for a total annual rentals of Rmb1,050,000 (2001: Rmb450,000), and such rentals 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. Li & Partners is a law firm in which a former independent director of the Company in 2001 and during the period, Mr Li Wei Bin, has a beneficial interest. Pursuant to the annual general meeting held on 16th April 2002, Mr. Li Wei Bin resigned as an independent director from the date of the general meeting.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

24. RELATED PARTY TRANSACTIONS (Cont'd)

- (g) This represents the construction costs incurred in respect of the sewage water processing plants construction-in-progress during the period from 1st January 2002 to 30th June 2002 and payable to the following related contractors:

Name of related parties	Six months ended 30th June	
	2002	2001
	Rmb'000	Rmb'000
Tianjin Urban Road Construction No.2 Co., Ltd.	22,524	—
Tianjin Urban Road Construction No.3 Co., Ltd.	5,705	—
Tianjin City Construction Group Co., Ltd.	406	—
Sewage Management Bureau No.2 Management Office	600	—
Sewage Management Bureau No.4 Management Office	1,000	—
Tianjin Sewage Engineering Company	7,666	—
Tianjin Sewage Engineering No.2 Company	750	—
Tianjin Road & Bridge Management Bureau No.1 Management Office	651	—
Tianjin Road & Bridge Management Bureau No.3 Management Office	355	—
Tianjin Municipal Engineering Design Research Institute	1,500	—
	<hr/>	<hr/>
Total	41,157	—
	<hr/> <hr/>	<hr/> <hr/>

- (h) The road and toll stations business had fifteen toll stations as at 30th June 2002. According to a land leasing agreement, the land on which twelve of the fifteen toll stations are located is granted by TMEB for perpetual use of the road and toll stations business free of charge.

25. DIRECTORS' REMUNERATION

The Company and its subsidiaries have paid an aggregate remuneration (including salaries, housing allowance and other allowance) of Rmb970,367 to the Company's directors and paid retirement benefits of Rmb10,800 for the Company's directors, totalling Rmb981,167 for the six months ended 30 June 2002 (six months ended 30th June 2001: Rmb693,517). The total amount includes director fees of Rmb365,087 (six months ended 30th June 2001: Rmb288,000) paid to independent non-executive directors during the period.

26. SIGNIFICANT EVENT

Pursuant to the 22nd meeting of the second Board of Directors held on 28th February 2002, the Board of Directors proposed to issue "A Share" convertible bonds of total amount not more than Rmb1,200 million at par value. The par value of each convertible bond is Rmb100 and the bonds will be mature in 5 years. The proposal was approved at the tenth annual general meeting by the shareholders held on 16th April 2002.

27. AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

The accounts were authorized for issue by the Company's board of directors on 1st August 2002.