

# Contents

<b>Company Information</b>	2
<b>Accounting Data and Business Statistics Highlights</b>	5
<b>Financial Summary</b>	8
<b>Chairman's Statement</b>	11
<b>Structure of Corporate Governance</b>	23
<b>Overview of Shareholders' General Meetings</b>	25
<b>Biography of Directors, Supervisors and Senior Management</b>	32
<b>Directors' Report</b>	36
<b>Report of the Supervisory Committee</b>	48
<b>Report of the PRC Auditors</b>	51
<b>Accounts Prepared in accordance with PRC Accounting System</b>	
Balance Sheets	52
Profit and Loss Accounts	54
Profit Appropriation Statements	55
Cash Flow Statements	56
Notes to the Accounts	58
<b>Report of the International Auditors</b>	92
<b>Accounts Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong</b>	
Consolidated Profit and Loss Account	93
Consolidated Balance Sheet	94
Balance Sheet	95
Consolidated Statement of Changes in Equity	96
Consolidated Cash Flow Statement	97
Notes to the Accounts	98
<b>Supplementary Information Provided by Management for Year 2002</b>	129
<b>Major Events</b>	132
<b>Documents Available for Inspection</b>	137
<b>Notice of Annual General Meeting</b>	138

# Company Information

## 1. Company name

Chinese name	天津創業環保股份有限公司 (the “Company”)
English name	Tianjin Capital Environmental Protection Company Limited
Abbreviation of the English Name	TCEPC

## 2. Legal representative

Ma Baiyu

## 3. Secretary to the Company's Board of Directors and Secretary in Hong Kong

Secretary to the Board of Directors	Fu Yana
Correspondence address	No. 45 Guizhou Road Heping District Tianjin The People's Republic of China (the “PRC”)
Postal code	300051
Telephone number	86-22-2352 3036
Facsimile number	86-22-2352 3100
E-mail address	tjcep@public.tpt.tj.cn

Company Secretary in Hong Kong	Ip Pui Sum
Correspondence address	Flat A, E, F, 16/F Yardley Commercial Building No. 3 Connaught Road West Sheung Wan Hong Kong
Telephone number	852-2803 2373
Facsimile number	852-2540 6365
E-mail address	ippuisum@pacific.net.hk

## 4. Legal advisors appointed by the Company

PRC lawyer	Beijing Jun He Law Offices
Hong Kong lawyer	Li & Partners

**5. Auditors appointed by the Company**

PRC auditors	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd.
Address	12/F, Shui On Plaza 333 Huai Hai Zhong Lu Shanghai 2000201 the PRC

International auditors	PricewaterhouseCoopers Certified Public Accountants
Address	22/F, Prince's Building Central Hong Kong

**6. Company address**

Registered address	No. 18 Jinlong Apartment Shuishang Park North Road Nankai District Tianjin, the PRC Postal code: 300074
--------------------	---

Principal office address	No. 45 Guizhou Road Heping District Tianjin, the PRC Postal code: 300051
--------------------------	---

E-mail address	tjcep@public.tpt.tj .cn
----------------	-------------------------

**7. Designated media for the  
Company's announcement**

Newspapers for the Company's announcement	Shanghai Securities, Hong Kong Wen Wei Po and The Standard
--	---

Website as required by the China Securities Regulatory Commission ("CSRC") for the Company's annual report	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
--	---

Website as required by The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") for the Company's annual report	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
---	---

Place where the Company's annual report is available for inspection	Office of the Secretary to the Board of Directors No. 45 Guizhou Road Heping District Tianjin, the PRC
--	---

**8. Information about the Company's listed shares**

Place for listing of A Shares	Shanghai Securities Exchange (“SSE”)
Short form	Tianjin Capital
Share code	600874
Place for listing of H Shares	Hong Kong Stock Exchange
Short form	Tianjin Capital
Share code	1065

**9. Other information**

(1) Place of initial business registration	No. 10 Hubei Road, Heping District, Tianjin, the PRC
Date of initial business registration	8th June 1993
Date of change in registration	26th August 1998, 8th January 2001 and 23rd July 2001
Place of change in registration	No. 18 Jinlong Apartment, Shuishang Park North Road, Nankai District, Tianjin, the PRC
(2) Number of business licence of enterprise legal person	Qi Gu Jin Zong Zi No. 009079
(3) Tax registration number	
State registration number	Guo Shui Jin Zi 120101103065501
Local registration number	Di Shui Jin Zi 120101103065501
(4) Agent for custody of the Company's non-circulating shares	China Securities Registration Company Shanghai Branch

# Accounting Data and Business Statistics Highlights

## 1. PROFIT FOR THE YEAR AND ITS ANALYSIS

- (1) In accordance with the Accounting Standards and the Accounting System for Business Enterprises of the PRC (collectively "PRC GAAP"), the Company and its subsidiary company (the "Group") have achieved total profit of Rmb 428,536,000, details of which are as follows:

	<i>Rmb</i>
Total profit	428,536,000
Net Profit	287,236,000
Net profit after extraordinary items	288,378,000
(Note: net of extraordinary items and amounts: non-operating income of Rmb 42,000 non-operating expenses of Rmb 1,184,000)	
Profit from principal operations	487,722,000
Profit from other operations	514,000
Operating profit	429,678,000
Non-operating expenses - net	(1,142,000)
Net cash flows from operating activities	359,348,000
Increase in cash and cash equivalents	277,461,000

- (2) The net profit of the Group as prepared in accordance with PRC GAAP was Rmb 287,236,000. The net profit of the Group as prepared in accordance with the Accounting Principles Generally Accepted in Hong Kong ("HK GAAP") was Rmb 287,236,000. There was no difference.

## 2. PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS FOR THREE YEARS

(1) For each of the three years ended 31st December 2002, as prepared in accordance with PRC GAAP:

Indicators	Unit	2002	2001	2000
1. Principal operating income	Rmb'000	<b>670,749</b>	595,986	3,500,738
2. Net profit	Rmb'000	<b>287,236</b>	267,634	168,604
3. Total assets	Rmb'000	<b>2,757,008</b>	1,926,984	1,419,534
4. Shareholders' equity (before minority interest)	Rmb'000	<b>1,742,074</b>	1,567,888	1,406,654
5. Earnings per share (diluted)	Rmb per share	<b>0.22</b>	0.20	0.13
6. Earnings per share after extraordinary item	Rmb per share	<b>0.22</b>	0.20	0.13
7. Net asset value per share	Rmb per share	<b>1.31</b>	1.18	1.06
8. Adjusted net asset value per share	Rmb per share	<b>1.31</b>	1.18	1.06
9. Net cash flows from operating activities per share	Rmb per share	<b>0.27</b>	0.14	0.79
10. Return on net assets (diluted)	%	<b>16.49</b>	17.07	11.99

Note: Return on net assets and earnings per share as calculated according to the "Information Disclosure for Companies Issuing Listed Securities" (No. 9) of the China Securities Regulatory Commission are as follows:

Profit for the year under review	Return on net assets		Earnings per share	
	Fully diluted %	Weighted average %	Fully diluted (Rmb)	Weighted average (Rmb)
Profit from principal operations	28.00	28.50	0.37	0.37
Operating profit	24.66	25.11	0.32	0.32
Net profit	16.49	16.78	0.22	0.22
Net profit, net of extraordinary item	16.55	16.85	0.22	0.22

## 2. PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS FOR THREE YEARS (Cont'd)

(2) For each of the three years ended 31st December 2002, as prepared in accordance with HK GAAP:

Indicators	Unit	2002	2001	2000
1. Income from principal operations	Rmb'000	<b>633,858</b>	563,207	3,499,943
2. Net profit	Rmb'000	<b>287,236</b>	267,634	178,091
3. Total assets	Rmb'000	<b>2,757,008</b>	1,926,984	1,419,534
4. Shareholders' equity	Rmb'000	<b>1,855,124</b>	1,674,288	1,406,654
5. Earnings per share	Rmb per share	<b>0.22</b>	0.20	0.13
6. Earnings per share after extraordinary item	Rmb per share	<b>0.22</b>	0.20	0.13
7. Net asset value per share	Rmb per share	<b>1.39</b>	1.26	1.06
8. Adjusted net asset value per share	Rmb per share	<b>1.39</b>	1.26	1.06
9. Net cash flows from operating activities per share	Rmb per share	<b>0.27</b>	0.14	0.79
10. Return on net assets	%	<b>15.48</b>	15.98	12.66

Note: There is no change in the number of shares throughout the year. As a result, weighted average earnings per share is equal to fully diluted earnings per share.

## 3. CHANGE IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

(Prepared in accordance with PRC GAAP)

Item	Beginning of the year Rmb'000	Increase Rmb'000	Decrease Rmb'000	End of the year Rmb'000	Reasons for the changes
Share capital	1,330,000	0	0	1,330,000	—
Capital reserve fund	69,289	0	0	69,289	—
Statutory common reserve	41,250	43,085	0	84,335	Transfer from profit for the year
Including: Statutory provident fund	13,750	14,362	0	28,112	Profit appropriation
Undistributed profits	127,349	287,236	156,135	258,450	The balance of the retained profit after profit appropriation during the year
Shareholders' equity	1,567,888	330,321	156,135	1,742,074	—

# Financial Summary

## 1. PREPARED IN ACCORDANCE WITH PRC GAAP

### Results

	Year ended 31st December				
	2002	2001	2000	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from principal operations	<b>670,749</b>	595,986	3,500,738	2,844,099	2,541,814
Profit from principal operations	<b>487,722</b>	431,558	547,639	238,524	126,893
Add/(less):					
Profit/(loss) from other operations	<b>514</b>	89	8,689	(7,514)	(5,909)
Provision for losses on realisation of inventories	—	—	(1,230)	(4,224)	(21,050)
Selling expenses	—	—	(33,720)	(33,943)	(23,731)
Administrative expenses	<b>(46,047)</b>	(33,623)	(375,197)	(326,380)	(465,812)
Reversal of provisions against certain assets	—	—	254,140	—	—
	<b>(46,047)</b>	(33,623)	(121,057)	(326,380)	(465,812)
Financial (expenses)/income - net	<b>(12,511)</b>	1,196	(218,407)	(206,358)	(205,681)
Operating profit/(loss)	<b>429,678</b>	399,220	181,914	(339,895)	(595,290)
Add: Investment income/(loss)	—	—	2,353	(12,935)	668
Subsidy income	—	—	6,630	840	905
Non-operating income	<b>42</b>	317	9,679	5,799	5,310
Less: Non-operating expenses	<b>(1,184)</b>	(192)	(28,188)	(27,303)	(26,549)
Total profit/(loss)	<b>428,536</b>	399,345	172,388	(373,494)	(614,956)
Less: Income tax	<b>(141,475)</b>	(131,820)	(3,784)	(685)	(1,902)
Minority interests	<b>175</b>	109	—	—	—
Net profit/(loss)	<b>287,236</b>	267,634	168,604	(374,179)	(616,858)
Dividends	<b>113,050</b>	106,400	—	—	—

Note:

The results for each of the five years ended 31st December 2002 have been extracted from the previous annual reports and audited consolidated profit and loss account as set out on page 54 of this annual report.



**1. PREPARED IN ACCORDANCE WITH PRC GAAP** (Cont'd)**Assets and Liabilities**

	<b>As at 31st December</b>				
	<b>2002</b>	2001	2000	1999	1998
	<b>New</b>	New	New	Chemical	Chemical
	<b>Business</b>	Business	Business	Business	Business
	<b>Rmb'000</b>	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Current assets	<b>572,363</b>	610,982	67,180	2,013,863	2,046,410
Long-term investments	<b>4,000</b>	4,000	—	151,405	167,225
Fixed assets	<b>2,180,645</b>	1,312,002	715,110	4,616,233	4,542,018
Intangible and other assets	—	—	637,244	178,959	387,641
Deferred taxes	—	—	—	3,582	1,665
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<b>2,757,008</b>	1,926,984	1,419,534	6,964,042	7,144,959
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Current liabilities	<b>446,542</b>	321,005	12,880	2,711,497	2,796,656
Long-term liabilities	<b>566,676</b>	36,200	—	3,026,093	2,750,458
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<b>1,013,218</b>	357,205	12,880	5,737,590	5,547,114
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Minority interests	<b>1,716</b>	1,891	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net assets	<b>1,742,074</b>	1,567,888	1,406,654	1,226,452	1,597,845
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 2. PREPARED IN ACCORDANCE WITH HK GAAP

### Results

	Year ended 31st December				
	2002	2001	2000	1999	1998
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	<b>633,858</b>	563,207	3,499,943	2,844,099	2,541,814
Profit/(loss) before taxation	<b>428,536</b>	399,345	182,573	(363,688)	(605,186)
Taxation	<b>(141,475)</b>	(131,820)	(4,482)	(685)	(2,871)
Profit/(loss) after taxation	<b>287,061</b>	267,525	178,091	(364,373)	(608,057)
Minority interest	<b>175</b>	109	—	—	—
Profit/(loss) attributable to shareholders	<b>287,236</b>	267,634	178,091	(364,373)	(608,057)
Dividend	<b>113,050</b>	106,400	—	—	—

#### Note:

The results for each of the five years ended 31st December 2002 have been extracted from the previous annual reports and the audited consolidated profit and loss account as set out on page 93 of this annual report.

### Assets and Liabilities

	As at 31st December				
	2002	2001	2000	1999	1998
	<b>New Business</b>	<b>New Business</b>	<b>New Business</b>	<b>Chemical Business</b>	<b>Chemical Business</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Fixed assets	<b>2,180,645</b>	1,312,002	1,352,354	4,651,312	4,576,864
Associated company	—	—	—	33,900	38,501
Investment securities	<b>4,000</b>	4,000	—	103,642	118,595
Long-term loans receivable	—	—	—	123,465	327,277
Net current assets/(liabilities)	<b>238,871</b>	396,377	54,300	(691,579)	(751,760)
	<b>2,423,516</b>	1,712,379	1,406,654	4,220,740	4,309,477
Minority interests	<b>1,716</b>	1,891	—	—	—
Long-term liabilities	<b>566,676</b>	36,200	—	3,026,094	2,750,458
Net assets	<b>1,855,124</b>	1,674,288	1,406,654	1,194,646	1,559,019

## 1. OPERATIONS OF THE GROUP

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

The principal businesses of the Group are (i) the design, management, operation, technological consultation of Dongjiao Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant in Tianjin, the PRC, and their related infrastructure facilities and auxiliary services; (ii) the design, toll collection, repair and maintenance, management, technological consultation of toll roads and auxiliary services in relation to the operation of the Southeastern Half Ring Road of the Middle Ring of Tianjin; and (iii) the development and operation of environmental protection technology and products.

Due to business expansion, the Company's scope of operations was extended. The shareholders' general meeting of the Company passed a resolution to change the scope of operations of the Company. New scope of operations includes the construction, design, management, operation, technological consultation and auxiliary services of Dongjiao Sewage Water Treatment Plant, Jizhuangzi Sewage Water Treatment Plant, Beicang Sewage Water Treatment Plant and Xianyanglu Sewage Water Treatment Plant in Tianjin and their related infrastructure facilities; the construction, design, toll collection, repair and maintenance, management, operation, technological consultation and auxiliary services of Southeastern Half Ring Road of the Middle Ring of Tianjin; the development and operation of environmental protection technology and products; the management of the Haihe Bridge Project of the Southeastern Half Ring. At present, amendments to the Articles of Association are in progress.

During the reporting period, the Company strengthened its organisational structure, improved its internal control systems, and continuously upgraded the corporate governance structure. Since the completion of the Company's restructuring in December 2000, the business of the Company has undergone substantial changes. The Company's management has adopted a series of measures focusing on the existing business which has achieved good results. In 2002, the Company was successful in integrating its management systems and obtained the certification of ISO9001: 2000, ISO14001: 1996, OHSAS18001: 1999 at the end of 2002. Being the first enterprise in the sewage water processing industry in the PRC with three international standard systems in its operations, it has demonstrated that the Company has reached international standards in respect of quality control, environmental hygiene and occupational safety.

#### a. Operations of the sewage water processing and construction of sewage water treatment plants

The income for sewage water processing is derived from the "Sewage Water Processing Agreement" entered into between the Company and Tianjin Sewage Company. In respect of the control over the operation of sewage water treatment plants, the Company has focused on efficiency enhancement and cost reduction in order to ensure that the sewage water processing operation complies with the prescribed national standards at a lower cost. The specific measures include budget control, enhancement of staff training and improvement of the technical skills of the staff, and the recruitment of professional and technical staff to strengthen the manpower resources. During the reporting period, the two sewage water treatment plants processed 209,248,645 cubic meters in total of sewage water, representing a decrease of 9,570,251 cubic meters or 4.37% as compared with 218,818,896 cubic meters of sewage water processed in last year, representing a decrease of revenue of 4.37% for the corresponding sewage water processing business. The decrease was mainly attributable to modification work on sewage water treatment plants which affected the inflow of sewage water. Nevertheless, there was no substantial effect on the profit of the reporting period. Pursuant to the "Sewage Water Processing Agreement", the Company achieved revenue of Rmb 399,664,911.

## 1. OPERATIONS OF THE GROUP *(Cont'd)*

### (1) Scope of the principal business of the Group and its operating condition *(Cont'd)*

#### a. Operations of the sewage water processing and construction of sewage water treatment plants *(Cont'd)*

On 24th September 2001, the Company entered into a conditional agreement with Tianjin Sewage Company in respect of the construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant. The transfer of the projects was completed on 30th October 2002 (For details, please refer to the announcement of the Company on 31st October 2002 published in Shanghai Securities, Hong Kong Wen Wei Po and The Standard). The income from this business has been derived based on the "Sewage Water Treatment Plant Construction Fee Agreement" entered into by Tianjin Sewage Company and the Company on 24th September 2001. During the reporting period, construction work completed amounted to Rmb 499 million. In accordance with the progress of the construction project, the Company recognised construction fees of Rmb 183,536,856.

#### b. Operations of toll business

The toll income is directly collected by the toll collectors at the toll stations. During the reporting period, the management of the Company has further strengthened its supervision over the toll stations, and further upgraded the surveillance system of the toll stations. During the reporting period, the toll business recorded an income of Rmb 82,740,000, representing a decrease of 1.85% compared with Rmb 84,300,000 of the corresponding period last year. However, the decrease has no substantial effect on the Company's profit of the reporting period.

#### c. Haihe Bridge project management

On 24th September 2001, Tianjin Municipal Investment Company Limited and the Company entered into the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring. The project work completed during the year amounted to Rmb 219 million. Accordingly, the Company received a management fee of Rmb 4,811,700, calculated by reference to the percentage of completion of the project. It is expected that the project will be completed at the beginning of 2003.

## 1. OPERATIONS OF THE GROUP *(Cont'd)*

### (1) Scope of the principal business of the Group and its operating condition *(Cont'd)*

The financial data of the various business are as follows:

Business	Principal operating income <i>Rmb'000</i>	Principal operating costs <i>Rmb'000</i>	Gross profit margin %	Percentage increment (+) reduction (-) of principal operating income as compared with the previous year %	Percentage increment (+) reduction (-) of principal operating costs as compared with the previous year %	Increment (+) reduction (-) of gross profit margin as compared with the previous year %
Sewage water processing and construction of sewage water treatment plants	583,201	112,150	75.27	+14.59	+16.17	-0.26
Haihe Bridge project management	4,812	1,076	72.13	+76.26	+62.78	+1.84
Road and toll stations	82,736	32,910	54.72	-1.85	-4.46	+1.08

### (2) Operations and results of the major companies in which the Company has controlling interests and management participation

Tianjin Water Recycling Company Limited: As at the end of the year, the Company owns 90% equity interest in Tianjin Water Recycling Company Limited. The registered capital of the company is Rmb 20 million. The scope of its major business is the production and sales of recycled water, development and construction of facilities for re-used water; manufacture, installation, commissioning and operation of equipment for recycled water; technical consultation, service training relating to recycled water; labour services and car washing. As at the end of 2002, Tianjin Water Recycling Company Limited has not yet commenced operations. As a result, no operating income was recorded for the company during 2002, but a loss was incurred in the profit and loss account of the Company.

Tianjin Beifang Rencaigang Company Limited (天津北方人才港股份有限公司): As at the end of the year, the Company invested Rmb 2 million in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. The principal activities of the company comprise senior executive insurance services; senior executive personnel services (employment agent, financial guarantee consultation service, personal creditworthiness assessment); enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. In 2002, the company was still at the set up stage. In 2002, the Company will actively explore the resources for talented personnel, establish and strengthen the personnel market in Tianjin city, and devoted its effort to attract more senior personnel, expertise and technicians for Tianjin and surrounding the Bohai district. During 2002, as the company has just started operations, the Company is incurring loss.

## 1. OPERATIONS OF THE GROUP *(Cont'd)*

### (2) Operations and results of the major companies in which the Company has controlling interests and management participation *(Cont'd)*

Tianjin Baotong Light Mass Materials Company Limited (天津市寶通輕集料有限責任公司): As at the end of the year, the Company invested Rmb 2 million in Tianjin Baotong Light Mass Materials Company Limited, representing 20% of its registered capital. The principal activities of the company are the production and sales of high resistance and light mass materials. In 2002, the company was still at the setup stage and a loss was incurred in the profit and loss account of the company. In the coming years, the Company will actively devote its efforts to the introduction of high technology into the construction of urban infrastructures.

### (3) Major suppliers and customers of the Group

Tianjin Sewage Company, being the representative of the Tianjin Municipal Government, is the Company's major customer and engages the Company to process the urban sewage of the Tianjin city on its behalf. Tianjin Sewage Company is also a party to the construction of the Company's sewage water treatment projects. Tianjin Sewage Company and the Company's controlling shareholder are both under the supervisory control of the Urban Construction Bureau of the Tianjin Municipality. This in turn constitutes a relationship with the Company. The Company provides construction and management services for Haihe Bridge project to Tianjin Urban Construction Bureau, its controlling shareholder. Such transaction also constitutes a connected transaction. Other customers of the Company are mainly vehicle owners that use the toll stations. The fees charged to such customers have been very low on an individual basis. Sales of the top five customers accounted for 87.67% of the Group's total sales.

The suppliers of the Group have been relatively fragmented. Purchases from the top five suppliers accounted for 69.44% of the Group's total purchases.

### (4) Problems and difficulties occurred during the course of operation and solutions thereof

In 2002, the sewage water treatment facilities in Dongjiao Sewage Water Treatment Plant underwent repair and maintenance works. Expansion work was carried out at the Jizhuangzi Sewage Water Treatment Plant, and upgrade was carried out at the production equipment and facilities of the plant. The operations described above had not caused interruption to the production operations as a result of the implementation of appropriate scheduling of construction. Smooth operation of the repair and maintenance of the facilities and the volume of water treatment were both achieved. Due to the operations described above, the volume of sewage water processed in 2002 dropped by 4.37% compared with that in 2001. The decrease affected the operating results of the Company to a certain extent, but carried no significant effect on the Company's operating results as a whole.

## 2. INVESTMENTS OF THE GROUP

- (1) During the year, the Company did not raise any fund. In addition, no balance of funds raised in previous years was brought forward to the reporting period.
- (2) Major investments made out of funds other than proceeds from subscription

During the year, the funds other than proceeds from subscription were mainly used in the investment projects: construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant. During the year, construction work completed amounted to Rmb 499 million. In accordance with the progress of the construction, the Company recognised sales of Rmb 183,536,856. As at 31st December 2002, the stage of completion of the three construction-in-progress were:

Expansion of Jizhuangzi Sewage Water Treatment Plant: 45.1%

Construction of Xianyanglu Sewage Water Treatment Plant: 19.7%

Construction of Beicang Sewage Water Treatment Plant: 6.1%

## 3. FINANCIAL CONDITION OF THE GROUP, OPERATING RESULT AND CASH FLOW ANALYSIS

During the reporting period, the financial condition of the Group has been further improved as compared with that of last year. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants have prepared their unqualified audit reports to the Company. The financial conditions of the Company can be analyzed in detail as follows:

- (1) As at 31st December 2002, the liability to asset ratio (Total liabilities ÷ Total assets) was 36.75%. The amount of the liabilities was reasonable and the ratio represented a reasonable, stable and healthy financial condition.
- (2) As at 31st December 2002, the total assets of the Group amounted to Rmb 2,757,008,000, representing an increase by 43.07% as compared with the total assets of Rmb 1,926,984,000 last year. The increase was mainly due to the consolidation of the Company's assets with the acquired assets after the completion of acquisition.
- (3) As at 31st December 2002, the long-term liabilities of the Group amounted to Rmb 566,676,000, representing an increase by Rmb 530,476,000 as compared with the long-term liabilities of Rmb 36,200,000 last year. The increase was mainly attributable to the loans borrowed for the new construction projects.
- (4) As at 31st December 2002, the shareholders' equity of the Group amounted to Rmb 1,742,074,000 representing an increase by 11.11% as compared with the shareholders' equity of Rmb 1,567,888,000 last year. The increase was mainly attributable to the Company's profits for the year.
- (5) Total profit of the Group for the year was Rmb 428,536,000, representing an increase by 7.31% as compared with the total profits of Rmb 399,345,000 last year. The increase was mainly attributable to the growth of profits from the principal operations of the Company in respect of construction of sewage water treatment plants.

### **3. FINANCIAL CONDITION OF THE GROUP, OPERATING RESULT AND CASH FLOW ANALYSIS** *(Cont'd)*

- (6) Net profit for the year was Rmb 287,236,000, representing an increase by 7.32% as compared with the net profit of Rmb 267,634,000 last year. The increase was mainly attributable to the increase of profit from the principal operations of the Company in respect of construction of sewage water treatment plants.
- (7) The cash flows derived from operating activities of the Company per share for the year was Rmb 0.27, representing an increase by 92.86% as compared with Rmb 0.14 of last year. The increase was mainly attributable to the increase of revenue from operations of the construction of sewage water treatment plants.

### **4. OPERATING AND DEVELOPMENT PLANS IN THE COMING YEAR**

In 2003, on the basis of performing the above tasks to the best extent, the Company will expand its operations, and actively seek to raise funds in order to facilitate the overall development of the Company. The major plans are as follows:

- 1) To continuously explore financing methods. The Company has applied to CSRC for the issue of A Shares Convertible Bonds. It will use its best endeavours to facilitate the completion of issue of convertible bonds. At the same time, the Company will actively explore other means of finance.
- 2) To continue repair and upgrade of the internal structure of the sewage water treatment plants. Efforts will be made to schedule the work appropriately, to ensure that the operation of sewage water processing will not be affected in 2003.
- 3) To devote more efforts with respect to market development so as to expand the scale of the operations of the Company. By capitalising on the opportunities arising from the promotion of sewage water processing and the related environmental business for commercial operation by the State, the Company will be well positioned to increase its share in the sewage water processing market through expansion of its scope of operations on its own advantages, as well as actively developing the business opportunities in surrounding area of Tianjin Municipality.
- 4) To strengthen its management, measures have been adopted by the Company to reduce cost and improve efficiency. In 2002, leveraging on the integrated accreditation system with respects to quality control, environmental and occupational safety, the Company will continue to improve its internal management system and establish a modernised enterprise according to international advanced management level.
- 5) To continue its project construction activities. The Company will endeavour to complete the expansion project of the Jizhuangzi Sewage Water Treatment Plant by the end of 2003.
- 6) To increase its efforts on scientific research. Emphasis will be placed by the Company on technological aspect in order to facilitate its development in operations and market expansion. The Company will continue the construction of its research and development centre. On the bases of its existing sewage water processing business, it is expected that more environmentally friendly products, facilities and technology for sewage processing purposes will be developed, so as to bring improvement on the Company through technology advancement.



## 5. REVIEW OF BOARD ACTIVITIES

### (1) The Board of Directors' meetings and resolutions during the reporting period

The Board of Directors of the Company convened seven board meetings in 2002:

1. The 22nd meeting of the Second Board of Directors was convened on 28th February 2002, and passed the resolutions as follows:
  - a. Report of the Directors of the Company for 2001;
  - b. Financial and accounting statements of the Company for 2001, which were audited by domestic and international accounting firms;
  - c. Annual Report 2001 and Summary of the Annual Report 2001 as announced within the PRC and Hong Kong;
  - d. Final Financial Report for 2001 and Financial Budget for 2002 of the Company;
  - e. Proposal for the Profit Appropriation Plan of the Company for 2001;
  - f. Proposal for the Profit Appropriation Policies of the Company for 2002;
  - g. Recommendation relating to the appointment of accounting firms for the provision of audit services to the Company;
  - h. Proposal for the amendment of the Articles of Association;
  - i. Development plan of the Company for 2002; and
  - j. Resolution for convening the Annual General Meeting 2001 of the Company (i.e. the tenth shareholders' meeting of the Company).

The announcement of the resolutions of this meeting of the Board of Director was published in Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 1st March 2002.

## 5. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

### (1) The Board of Directors' meetings and resolutions during the reporting period *(Cont'd)*

2. The 23rd meeting of the Second Board of Directors was convened on 29th April 2002, and passed the resolutions as follows:
  - a. The First Quarterly Report for 2002 to be announced in the PRC and Hong Kong;
  - b. The proposal in respect of the appointment of Mr. Zhu Yanbo as the deputy general manager of the Company;
  - c. The proposal in respect of change of the members of Audit Committee and Remuneration Committee;
  - d. The Working Rules for the General Manager of the Company ; and
  - e. The policies on information disclosure management of the Company.

The announcement of the resolutions of this meeting of the Board of Directors was published in Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 30th April 2002.

3. The 24th meeting of the Second Board of Directors was convened on 29th June 2002, and passed the resolution as follows:

The Self Inspection Report for Modern Corporation System of Listed Companies, prepared in accordance with the principles of the Notice from the China Securities Regulatory Commission and the State Economic and Trading Commission concerning The Carrying Out of Inspection on the Establishment of Modern Corporation System for Listed Companies.

4. The 25th meeting of the Second Board of Directors was convened on 1st August 2002, and passed the resolutions as follows:
  - a. The interim report and its summary for the six months ended 30th June 2002 to be announced in the PRC and Hong Kong;
  - b. The proposal on improvement work of Jizhuangzi Sewage Water Treatment Plant was considered and approved, which is expected to cost about Rmb 37 million; and

## 5. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

### (1) The Board of Directors' meetings and resolutions during the reporting period *(Cont'd)*

- c. The proposal for the Company to enter into the "Contract on Undertaking the Silt Removal Project for the dried ponds of Jizhuangzi Sewage Water Treatment Plant" with Tianjin Second Urban Road Construction Company Limited. Tianjin Second Urban Road Construction Company Limited is under the same control of the Urban Construction Bureau of the Tianjin Municipality, which is the controlling shareholder of the Company. Accordingly, entering into the contract constitutes a connected transaction of the Company. Madam Ma Baiyu, Mr. Zhang Wenhui, Mr. Wang Yueqing and Mr. Zhu Min, the Connected Directors, were abstained from voting on this resolution due to their relationship with the enterprises under the supervisory control of the Urban Construction Bureau of the Tianjin Municipality. The Directors consider that the connected transaction is on normal commercial terms and is fair and reasonable. As the maximum consideration for the contract amounted to RMB 8.71 million, this transaction constituted the discloseable and connected transaction. An announcement on connected transaction was published by the Company on 5th August 2002 following the execution of the contract.

The announcement of the resolutions of this meeting of the Board of Directors was published in Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 2nd August 2002.

5. The 26th meeting of the Second Board of Directors was convened on 21st August 2002, with the following resolutions passed:
  - a. The "Rectification Report" prepared in accordance with the "Notice for Rectification within a Limited Period" issued by the Tianjin Securities Regulatory Office of China Securities Regulatory Commission, and the directors/secretary to the Board of Directors of the Company were authorized to implement the same within a certain period of time;
  - b. The Articles of Association of the Company, as supplemented and amended;
  - c. "The Rules Governing the Procedures for Operating the Shareholders' General Meeting", as supplemented and amended;
  - d. "The Rules Governing the Procedures for Operating the Meeting of the Board of Directors", as supplemented and amended;
  - e. "The Working Rules for the General Manager of the Company" as supplemented and amended;
  - f. "The Internal Control System for the Provision of Asset Impairments";

## 5. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

### (1) The Board of Directors' meetings and resolutions during the reporting period *(Cont'd)*

- g. The resolution for the "Building Lease Agreement";
- h. The resolution to propose to the extraordinary general meeting of the Company to consider and approve the resolutions on external investment being considered and approved in the 11th meeting of the Second Board of Directors in respect of the investment of Rmb 2 million in Tianjin Beifang Rencaigang Company Limited and Rmb 2 million in Tianjin Baotong Light Mass Materials Company Limited; and
- i. The resolution for convening the extraordinary general meeting of the Company.

The announcement of the resolutions of this meeting of the Board of Directors was published in Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 22nd August 2002.

- 6. The 27th meeting of the Second Board of Directors was convened by fax on 22nd October 2002, with the following resolutions passed:

It was resolved that the Company would apply to China Everbright Bank, Tianjin Branch for a fixed assets loan of Rmb 700 million for a term of nine years. It is intended that such funding will be applied to the expansion of Tianjin Jizhuangzi Sewage Water Treatment Plant (including the sewage disposal projects in south-eastern suburb), Tianjin Xianyanglu Sewage Water Treatment Plant Construction Project and Tianjin Beicang Sewage Water Treatment Plant Construction Project. The application of such loans is subject to consideration and approval from shareholders' general meeting.

- 7. The 28th meeting of the Second Board of Directors was convened on 25th October 2002. The Third Quarterly Report of the Company was reviewed by fax. The Directors considered that, the quarterly report reflected the operating results and financial condition of the Company during the reporting period, and agreed to adopt the Third Quarterly Report.

The Third Quarterly Report was published in Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 28th October 2002.

## 5. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

### (2) The Board of Directors' execution of resolutions of the shareholders' meeting

During the reporting period, the Board of Directors of the Company has strictly complied with the resolutions and mandates of the shareholders' meetings, the Company Law, Securities Law and the Articles of Association of the Company, to duly execute all the resolutions passed at the shareholders' meetings. The performance by the Board of Directors was as follows:

1. The resolution passed in the shareholders' general meeting in 2001 concerning the issue of A Shares Convertible Bonds. The Company has applied to CSRC in June 2002 for the issue of convertible bonds. Such application is pending the approval of CSRC.
2. The profit appropriation plan of the Company for 2001 as passed in the shareholders' general meeting of the Company in 2001. The profit appropriation plan was implemented. The record date was 5th June 2002. The date that shares would be traded on ex-dividend basis was 6th June 2002. The dividend was paid on 12th June 2002.
3. The Board of Directors of the Company implemented other businesses as transacted in the shareholders' general meeting in accordance with the resolutions approved in the shareholders' general meeting.

## 6. PROPOSAL ON PROFIT APPROPRIATION AND NOT TO INCREASE SHARE CAPITAL BY TRANSFERRING FROM CAPITAL RESERVE FUND

The net profit of the Company for 2002 amounted to Rmb 287,236,000, which had been audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd., Certified Public Accountants, the PRC, in accordance with the independent auditing standards in the PRC and by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in accordance with the Statements of Auditing Standards issued by the Hong Kong Society of Accountants. In accordance with the Articles of Association of the Company, an appropriation of Rmb 28,723,000, representing 10% of net profit, is made to the statutory common reserve and of Rmb 14,362,000, representing 5% of net profit, to the statutory provident fund. The 29th meeting of the Second Board of Directors was convened on 20th February 2003 and has determined the profit appropriation proposal for the year which is to distribute Rmb 0.85 cash dividend (tax included) for every 10 shares held by the shareholders on the basis of an aggregate of 1,330,000,000 shares at the end of 2002. Dividends to be distributed amounted to Rmb 113,050,000. There will be no transfers from Capital Reserve Funds to increase the share capital for the year. The above proposal on profit appropriation and not to transfer Capital Reserve Funds to increase the share capital shall be put forward at the forthcoming shareholders' annual general meeting for consideration and approval. The actual policy on profit appropriation for 2002 is consistent with the expected policy as stated in the Annual Report 2001.

## **7. ANY OTHER BUSINESS**

The designated newspapers for the disclosure of the information by the Company are Shanghai Securities, Hong Kong Wen Wei Po, Hong Kong iMail and The Standard. There is no change relating to the designated newspapers for the disclosure of information.

**Ma Baiyu**

*Chairman*

Tianjin, the PRC

20th February 2003

# Structure of Corporate Governance

## 1. THE CONDITIONS OF CORPORATE GOVERNANCE

In strict compliance with the Company Law, Securities Law and the requirements on laws and regulations related to the Chinese Securities Regulatory Commission (“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 establish a modern enterprise system and 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 appended and amended the relevant documents. During the shareholders’ general meeting of 2001 held on 16th April 2002, “The Rules Governing the Procedures for Operating the Shareholders’ General Meeting”, “The Rules Governing the Procedures for Operating the Meeting of the Board of Directors”, “The Rules Governing the Procedures for Operating the Meeting of the Supervisory Committee”, and the Articles of Association, as supplemented and amended, were considered and approved. During the extraordinary general meeting convened on 10th October 2002, the Articles of Association, “The Rules Governing the Procedures for Operating the Shareholders’ General Meeting”, and “The Rules Governing the Procedures for Operating the Meeting of the Board of Directors”, as supplemented and amended, were considered and approved. In order to govern the Company on information disclosure, during the 23rd Meeting of the Second Board of Directors convened on 29th April 2002, “The policies on information disclosure management of the Company” were considered and approved.

The above-mentioned Articles of Association, together with various rules, fulfilled the relevant provisions of the China Securities Regulatory Commission, the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited and other relevant provisions and which also govern the acts of the Company. Meanwhile, the Company will timely amend the Articles of Association and the various rules in accordance with the actual situation and the change in relevant laws, regulations and constitution.

## 2. AN OVERVIEW ON THE PERFORMANCE OF DUTIES BY INDEPENDENT DIRECTORS

The Company established the system of independent directors in accordance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. There are three independent directors in the Board of Directors, constituting one-third of the total number of board members. Each of the independent director is familiar with the conditions of the Company’s business and operations, attends board meetings and shareholders’ general meetings in a serious and responsible manner and gives independent opinions. They have actively participated in training so as to understand the rights, duties and responsibilities of an independent director. In addition, the Company established an Audit Committee and a Remuneration Committee that are composed of independent directors. The enhancement of the Company’s system of independent directors will improve the corporate governance structure of the Company under the system of legal person, and protect the interests and benefits of minority shareholders.

### **3. SEPARATION OF POWERS BETWEEN THE COMPANY AND CONTROLLING SHAREHOLDER WITH RESPECT TO THE MATTERS INCLUDING STAFF, ASSETS, FINANCE, ORGANISATION AND BUSINESS**

- |                                  |   |
|----------------------------------|---|
| (1) Separation of staff:         | The Company is independent from the Controlling Shareholder on aspects such as labour, personnel and salaries management. It sets up an independent labour and personnel functions department. All senior management staff such as general manager, deputy general manager, financial controller, secretary to the Board of Directors receive their salaries from the Company and they have not taken up any important positions other than directors in the entities of the controlling shareholder. |
| (2) Right to assets:             | All assets relating to the production and operation of the Company are owned by the Company.  |
| (3) Financial independence:      | The Company has set up an independent financial and accounting department, and established an independent account and audit system and financial management system. It has opened separate accounts in banks.   |
| (4) Organisational independence: | The Company established an organizational structure which is absolutely independent from the controlling shareholder with a separate place of business.   |
| (5) Separation of business:      | The Company is independent from controlling shareholder in the conduct of its business, with independent capability on business and decision making.  |

### **4. THE APPRAISAL AND MOTIVATION MECHANISM FOR SENIOR MANAGEMENT**

The Audit Committee and the Remuneration Committee were established under the Board of Directors. The achievements and performance of the senior officers were appraised in accordance with the relevant indicators and standards by way of objectives management. The Company will continue to explore into the establishment of an effective mechanism, so as to fully motivate all directors, supervisors and senior management officers.



# An Overview of the Shareholders' General Meetings

The Company held four Shareholders' General Meetings in 2002, including 2001 Annual General Meeting, H Shares class meeting, Domestic Shares class meeting and 2002 Extraordinary General Meeting:

1. In respect of convening and holding of Annual General Meeting 2001 ("AGM"), the Company published the time, place, resolutions to be considered and approved and other businesses together with the notice of general meetings by way of announcements on Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 1st March 2002. The notice of general meetings had also been sent by pre-paid post to the H Share shareholders of the Company.

The Company held the Annual General Meeting 2001 at 4/F., Conference Room, Tianjin Capital Environmental Protection Company Limited, 45 Guizhou Road, Heping District, Tianjin, the PRC on 16th April 2002. There were shareholders holding 852,680,000 shares, representing 64.11% of the total number of the Company's shares, present in person or by proxy at the AGM in compliance with the relevant provisions of the Company Law and Articles of Association. The Meeting was chaired by the chairlady, Madam Ma Baiyu.

The Meeting considered and passed the following resolutions by votes:

I. As ordinary resolutions:

1. The Annual Report of the Company for the year ended 31st December 2001 was considered and approved;
2. The Report of the Director of the Company for the year ended 31st December 2001 was considered and approved;
3. The Report of the Supervisory Committee 2001 was considered and approved;
4. The Auditors' Reports as submitted by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd, Certified Public Accountants, the PRC and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, on the financial statements of the Company for 2001 were reviewed, and the financial statements of the Company, as respectively audited by the domestic and international certified public accountants were considered and approved;
5. The Financial Report of the Company for the year 2001 and Financial Budget of the year 2002 were considered and approved;
6. The proposed distribution of profits of the Company for the year ended 31st December 2001 was considered and approved;
7. The re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd., Certified Public Accountants, the PRC and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong as the auditors of the Company for the year ending 31st December 2002 was considered and approved and the chairman of the Board of Directors of the Company was authorized to determine the terms for such appointment;
8. The Rules Governing the Procedures for the Shareholders' General Meeting of the Company was considered and approved;
9. The applications of Mr. Li Weibin and Mr. Guan Weili for resignation as independent non-executive directors were accepted and Mr. Gao Zong Ze and Mr. Wang Xiang Fei were elected as the independent non-executive directors of the Company;

10. The 2002 development plan of the Company was considered and approved, the matters that the Board has implemented pursuant to the development plan were confirmed or ratified; and
  11. The proposed scheme of remuneration for the directors was considered and approved.
- II. As special resolutions:
1. The amendment of the Company's Articles of Association was considered and approved;
  2. Each term pursuant to the proposal on the issue of A Shares Convertible Bonds of the Company was considered and approved:
    - (1) The major terms in respect of the proposal on the issue of A Shares Convertible Bonds:
      - (i) The issue size of the issue of A Shares Convertible Bonds was considered and approved;
      - (ii) The issue price of the issue of A Shares Convertible Bonds was considered and approved;
      - (iii) The maturity period of the issue of A Shares Convertible Bonds was considered and approved;
      - (iv) The rate and interest of the issue of A Shares Convertible Bonds were considered and approved;
      - (v) The date of repayment of the issue of A Shares Convertible Bonds was considered and approved;
      - (vi) The conversion price and the adjustment principle of the issue of A Shares Convertible Bonds were considered and approved;
      - (vii) The conversion period of the issue of A Shares Convertible Bonds was considered and approved;
      - (viii) The re-purchase term of the issue of A Shares Convertible Bonds was considered and approved;
      - (ix) The amendment to the conversion price of the issue of A Shares Convertible Bonds was considered and approved;
      - (x) The redemption term of the issue of A Shares Convertible Bonds was considered and approved;
      - (xi) The entitlement of dividend during the conversion year of the issue of A Shares Convertible Bonds was considered and approved;
      - (xii) The arrangement for placing of the issue of A Shares Convertible Bonds to the Company's existing shareholders was considered and approved;
      - (xiii) The use of proceeds from the issue of A Shares Convertible Bonds was considered and approved;

- (2) The feasibility study in respect of the use of proceeds from the issue of A Shares Convertible Bonds was considered and approved;
  - (3) The report on the use of proceeds from the previous fund raising exercise was considered and approved;
  - (4) The Board of Directors of the Company was authorized with full power to issue the A Shares Convertible Bonds and to implement all related matters in respect thereof and the resolution of the amendment of the Aricles of the Company; and
  - (5) The validity period for the issue of A Shares Convertible Bonds was considered and approved.
3. The granting of mandate to the Board to allot and issue new shares not exceeding 20% of existing H Shares issued and outstanding (H Shares) was considered and approved.

The announcement of the resolutions of the Annual General Meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 17th April 2002.

2. In respect of convening and holding of H Shares class meeting, the Company published the time, place, resolutions to be considered and approved and other businesses together with the notice of H Shares' class meetings by way of announcements on Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 1st March 2002. The notice of H Shares' class meetings had also been sent by pre-paid post to the H Shares' shareholders of the Company.

The Company held the H Shares' class meeting at 4/F, Conference Room, Tianjin Capital Environmental Protection Company Limited, 45 Guizhou Road, Heping District, Tianjin, the PRC on 16th April 2002. There were shareholders holding 12,160,000 shares, representing 3.6% of the total number of the Company's H Shares, present in person or by proxy at the H Shares' class meeting in compliance with the relevant provisions of the Company Law and Articles of Association. The Meeting was chaired by the chairlady, Madam Ma Baiyu.

The Meeting passed the following resolutions by votes:

Each term pursuant to the proposal on the issue of A Shares Convertible Bonds of the Company was considered and approved as follows:

- (1) The major terms in respect of the proposal on the issue of A Shares Convertible Bonds:
  - (i) The issue size of the issue of A Shares Convertible Bonds was considered and approved;
  - (ii) The issue price of the issue of A Shares Convertible Bonds was considered and approved;
  - (iii) The maturity period of the issue of A Shares Convertible Bonds was considered and approved;
  - (iv) The rate and interest of the issue of A Shares Convertible Bonds were considered and approved;
  - (v) The date of repayment of the issue of A Shares Convertible Bonds was considered and approved;

- (vi) The conversion price and the adjustment principle of the issue of A Shares Convertible Bonds were considered and approved;
  - (vii) The conversion period of the issue of A Shares Convertible Bonds was considered and approved;
  - (viii) The re-purchase term of the issue of A Shares Convertible Bonds was considered and approved;
  - (ix) The amendment to the conversion price of the issue of A Shares Convertible Bonds was considered and approved;
  - (x) The redemption term of the issue of A Shares Convertible Bonds was considered and approved;
  - (xi) The entitlement of dividend during the conversion year of the issue of A Shares Convertible Bonds was considered and approved;
  - (xii) The arrangement for placing of the issue of A Shares Convertible Bonds to the Company's existing shareholders was considered and approved; and
  - (xiii) The use of proceeds of the issue of A Shares Convertible Bonds was considered and approved;
- (2) The feasibility study in respect of the use of proceeds from the issue of A Shares Convertible Bonds was considered and approved;
  - (3) The report on the use of proceeds from the previous fund raising exercise was considered and approved;
  - (4) The Board of Directors of the Company was authorized with full power to issue the A Shares Convertible Bonds and to implement all related matters in respect thereof; and
  - (5) The validity period for the issue of A Shares Convertible Bonds was considered and approved.

The resolutions of the H Shares' class meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 17th April 2002.

3. In respect of convening and holding of Domestic Shares' class meeting, the Company published the time, place, resolutions to be considered and approved and other businesses together with the notice of Domestic Shares' class meetings by way of announcements on Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 1st March 2002.

The Company held the Domestic Shares' class meeting at 4/F., Conference Room, Tianjin Capital Environmental Protection Company Limited, 45 Guizhou Road, Heping District, Tianjin, the PRC on 16th April 2002. There were shareholders holding 840,020,000 shares, representing 84.9% of the total number of the Company's Domestic shares, present in person or by proxy at the Domestic Shares' class meeting in compliance with the relevant provisions of the Company Law and Articles of Association. The Meeting was chaired by the chairlady, Madam Ma Baiyu.

The meeting considered and passed the following resolutions by votes:

Each term pursuant to the proposal on the issue of A Shares Convertible Bonds of the Company was considered and approved as follows:

- (1) The major terms in respect of the proposal on the issue of A Shares Convertible Bonds:
- (i) The issue size of the issue of A Shares Convertible Bonds was considered and approved;
  - (ii) The issue price of the issue of A Shares Convertible Bonds was considered and approved;
  - (iii) The maturity period of the issue of A Shares Convertible Bonds was considered and approved;
  - (iv) The rate and interest of the issue of A Shares Convertible Bonds were considered and approved;
  - (v) The date of repayment of the issue of A Shares Convertible Bonds was considered and approved;
  - (vi) The conversion price and the adjustment principle of the issue of A Shares Convertible Bonds were considered and approved;
  - (vii) The conversion period of the issue of A Shares Convertible Bonds was considered and approved;
  - (viii) The re-purchase term of the issue of A Shares Convertible Bonds was considered and approved;
  - (ix) The amendment to the conversion price of the issue of A Shares Convertible Bonds was considered and approved;
  - (x) The redemption term of the issue of A Shares Convertible Bonds was considered and approved;
  - (xi) The entitlement of dividend during the conversion year of the issue of A Shares Convertible Bonds was considered and approved;
  - (xii) The arrangement for placing of the issue of A Shares Convertible Bonds to the Company's existing shareholders was considered and approved; and

- (xiii) The use of proceeds of the issue of A Shares Convertible Bonds was considered and approved.
- (2) The feasibility study in respect of the use of proceeds from the issue of A Shares Convertible Bonds was considered and approved;
- (3) The report on the use of proceeds from the previous fund raising exercise was considered and approved;
- (4) The Board of Directors of the Company was authorized with full power to issue the A Shares Convertible Bonds and to implement all related matters in respect thereof and the resolution of the amendment of the Articles of the Company; and
- (5) The validity period for the issue of A Shares Convertible Bonds was considered and approved.

The announcement of the resolutions of Domestic Shares class meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 17th April 2002.

4. In respect of convening and holding of the Extraordinary General Meeting for 2002, the Company published the time, place, resolutions to be considered and approved and other businesses together with the Notice of Extraordinary General Meeting by way of announcements on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 22nd August 2002. The Notice of Extraordinary General Meeting had also been sent by pre-paid post to the H Shares' shareholders of the Company.

The Company held the Extraordinary General Meeting for 2002 at the Conference Room on the 4th Floor of Tianjin Capital Environmental Protection Company Limited at 45 Guizhou Road, Heping District, Tianjin, the PRC on 10th October 2002. The Extraordinary General Meeting was attended by members of the Company in persons or by proxies holding approximately 858,710,000 shares, representing approximately 64.56% of the Company's share capital. The procedures for convening the Extraordinary General Meeting were in compliance with the requirements of the Company Law of the PRC and the Articles of Association of the Company. The Extraordinary General Meeting was chaired by the chairlady, Madam Ma Baiyu.

The meeting considered and passed the following resolutions by votes:

- I. Ordinary resolutions passed at the Extraordinary General Meeting were as follows:
  - 1. The "Rules Governing the Procedures for Operating the Shareholders' General Meeting" as amended and supplemented was considered and approved;
  - 2. The "Rules Governing the Procedures for Operating the Meeting of the Board of Directors" as amended and supplemented was considered and approved;
  - 3. The "Rules Governing the Procedures for Operating the Meeting of the Supervisory Committee" as amended and supplemented was considered and approved;
  - 4. The applications of Mr. Li Kaijian and Mr. Dou Zhenming for the resignations as supervisors of the Company were considered and approved;
  - 5. The nomination of Mr. Wang Zhanying as the candidate for supervisor by Tianjin Municipal Investment Company Limited was considered and approved;

6. The termination of the Building Lease Agreement entered into by the Company and Tianjin Municipal Investment Company Limited on 10th October 2000 was considered and approved; and
7. The resolutions on external investment being considered and approved in the 11th meeting of the Second Board of Directors in respect of the investment of Rmb 2 million in Tianjin Beifang Rencaigang Company Limited and Rmb 2 million in Tianjin Baotong Light Mass Materials Company Limited were considered and approved.

II. Special Resolution passed at the Extraordinary General Meeting was as follows:

The Articles of Association of the Company as amended and supplemented was considered and approved.

The announcement of the results of the Extraordinary General Meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 11th October 2002.

5. Election and change of directors and supervisors:

- (1) During the 2001 Annual General Meeting which is the 10th shareholders' general meeting of the Company convened on 16th April 2002, the resolutions on the applications for resignations of Mr. Li Weibin and Mr. Guan Weili as independent directors of the Company were considered and approved. Mr. Gao Zongze and Mr. Wang Xiangfei were elected as the Company's independent directors for a term of three years, commencing from 16th April 2002;
- (2) During the 2002 Extraordinary General Meeting of the Company convened on 10th October 2002, the resolutions on the applications for resignations of Mr. Li Kaijian and Mr. Dou Zhenming as supervisors of the Company were considered and approved.

Tianjin Municipal Investment Company Limited, the Company's controlling shareholder, nominated Mr. Wang Zhanying as the candidate for supervisor. He was elected as the Company's supervisor in the Extraordinary General Meeting for a term of three years, commencing from 10th October 2002; and

- (3) Pursuant to the provisions of the Articles of Association and the Rules Governing the Procedures for Operating the Meeting of the Supervisory Committee, the Company is required to appoint one supervisor from the employee's representative. It was resolved in the employee's representative meeting of the Company that Mr. Wang Hui would be appointed as the supervisor of the Company acting on behalf of the employees for a term of three years, commencing from 16th October 2002.

## 1. BOARD OF DIRECTORS

**Ms. Ma Baiyu**, aged 40, is the Chairman and general manager of the Company. Ms. Ma graduated from Nan Kai University in the PRC in 1996 with a master degree in economics. Ms. Ma joined the Urban Construction Bureau in 1985 as an assistant supervisor and a lecturer. From 1996 to 1998, Ms. Ma worked as the chief economist in Tianjin Road Construction and Development Company Limited. From 1998 to December 2001, Ms. Ma worked as the deputy chairman and the general manager in TMICL. Ms. Ma has over ten years' experience in the urban construction industry. Ms. Ma has been the Chairman and general manager of TCEPC since December 2000.

**Mr. Zhu Min**, aged 48, is the executive director of the Company and the head of Tianjin Road & Bridge Department. Mr. Zhu has over fifteen years' experience in the road and bridge construction industry. Mr. Zhu graduated from Tianjin University in the PRC in 1999 with a master degree in business administration. Since December 1993, Mr. Zhu held a number of senior positions ranging from the head of the Equipment Division of the Tianjin Urban Construction Bureau to the head of Tianjin Road & Bridge Department. Mr. Zhu has been the director of TCEPC since December 2000.

**Mr. An Pindong**, aged 34, is the executive director, deputy general manager and the financial controller of the Company. From 1999 to December 2000, Mr. An worked as the assistant chief accountant in TMICL. Mr. An graduated from Tianjin Finance Institute in 1991 with a degree in accountancy. From 1992 to 1997, Mr. An was involved in the Hu Ning Expressway project and was responsible for the accounting and finance functions of such project. From 1997 to December 1999, Mr. An worked as a finance manager in Tianjin Jin Zheng Transportation Development Company Limited. Mr. An has been the director and financial controller of TCEPC since December 2000.

**Mr. Gu Qifeng**, aged 36, is the executive director, deputy general manager and chief engineer of the Company. Mr. Gu graduated from Tong Ji University in the PRC in 1998 with a master degree specialising in highways, city road and airport projects. Prior to the joining in TMICL, Mr. Gu held various senior positions in the Tianjin Urban Construction Bureau. Mr. Gu was responsible for the supervision of the construction of Ji Qing Expressway, Hu Ning Expressway and Dang Jin Expressway. From 1998 to December 2000, Mr. Gu worked as the chief engineer of TMICL. Mr. Gu has been the director and chief engineer of TCEPC since December 2000.

**Mr. Wang Yueqing**, aged 58, is the executive director of the Company and the chief accountant of the Tianjin Sewage Management Division. Mr. Wang has held various senior positions in the Tianjin Urban Construction Bureau since 1964, ranging from assistant supervisor, head of finance department to chief accountant of Tianjin Sewage Management Division. Mr. Wang has been the director of TCEPC since December 2000.

**Mr. Zhang Wenhui**, aged 47, is the executive director of the Company and has been the head of Tianjin Sewage Management Division. Mr. Zhang graduated from the Business School of Tianjin University in 1999 with a master degree in engineering. Mr. Zhang has held various senior positions in the Tianjin Sewage Management Division since 1980, ranging from deputy head of Tianjin Sewage Management Division — No. 4 Branch to deputy head of the Tianjin Sewage Management Division to head of Tianjin Senior Management Division. Mr. Zhang has been the director of TCEPC since December 2000.



## 1. BOARD OF DIRECTORS *(Cont'd)*

**Mr. Chan Boon Teong**, aged 60, is the chairman and one of the founders of Coastal Realty Group Ltd, the shares of which are listed on The Stock Exchange of Hong Kong Limited. He graduated from the Imperial College of the University of London, United Kingdom with a bachelor's degree in Electrical Engineering and also holds master degrees in Electrical Engineering and Operational Research from the Polytechnic University of New York City in the United States. He has over thirty years' experience in commercial, industrial and real estate business in the Southeast Asia region. He also served as a director of the Kowloon Stock Exchange. He is a director of TPV Technology Limited, the shares of which are listed in Hong Kong, and a director of United World Chinese Commercial Bank Limited, a listed company in Taiwan. Mr. Chan is a member of the National Chinese People's Political Consultative Conference and a member of the Standing Committee of the Fujian Province Chinese People's Political Consultative Conference. He is also a member of the Standing Committee of All China Federation of Returned Overseas Chinese. Mr. Chan has been the independent non-executive director of TCEPC since December 2000.

**Mr. Wang Xiangfei**, aged 51, is a director of China Everbright Holdings Company Limited. Mr. Wang was graduated from the People's University of China, with a major in finance, economics and banking, and holds a bachelor degree in Economics. Mr. Wang was an executive director and the chief executive of a listed company in Hong Kong controlled by a state-owned enterprise in the PRC. Mr. Wang has extensive business connections, and experiences in investment, business administration, finance, accounting and trading. Mr. Wang is qualified as accountant in the People's Republic of China. Mr. Wang was appointed as an independent non-executive director of the Company from April 2002.

**Mr. Gao Zongze**, aged 60, is the President of All China Lawyers Association, an arbitrator of the China Maritime Arbitration Commission, an arbitrator of China International Economic and Trade Arbitration Commission. Mr. Gao had studied in the Dalian Maritime University, China Academy of Social Sciences and the Law School of Columbia University in the United States. He had also been a part-time professor with the China University of Political Science and Law. Mr. Gao is fluent in English, German and Chinese. Mr. Gao has years of experience in legal practice. He specializes in maritime law, international trade law and securities law. Mr. Gao had been a General Counsel with the Central Office of the People's Bank of China and a legal counsel around the year to the Central Office of the Agricultural Bank of China, the Beijing Office of the Bank of China, the Central Office of the Industrial and Commercial Bank of China, China Petroleum & Chemical Corp., China National Cereals, Oils & Foodstuffs I/E Corp., China National Arts & Crafts I/E Corp., China National Metals & Minerals I/E Corp., Huaneng Power International, Inc. and other well established banks and companies. He has been involved in negotiating, drafting, amending and finalizing many major contracts on economic issues related to more than ten countries such as, among others, the United States, the United Kingdom outside the PRC. He has also represented many significant litigation and arbitration cases involving parties outside the PRC. During the recent years of his legal practice, Mr. Gao has been concentrating on the areas of overseas listing, mergers and acquisitions for PRC companies. Mr. Gao was appointed as an independent non-executive director of the Company from April 2002.

## 2. SUPERVISORY COMMITTEE

**Ms. Yu Ruihua**, aged 56, is the Chairman of the Supervisory Committee, senior engineer. Ms. Yu graduated from Tianjin University in 1970. She was the supervisor of the labour union, deputy secretary of the Party Committee and human resources manager of TMICL. Ms. Yu has more than 16 years' experience in the urban construction and environmental protection related business. She has held various positions in the Urban Construction Bureau, Tianjin Sewage Management Division and Tianjin Municipal No.2 Road Construction Company Limited. From 1984 to 1998, she worked as the deputy head of staff section, head of human resources department and supervisor of Tianjin Municipal No.2 Road Construction Company Limited. In 1999, she joined TMICL. She has been the chairman of labour union and secretary to sub-committee of the Communist Party of TMICL since 1999. She has been the Chairman of the Supervisory Committee of TCEPC since December 2000.

**Mr. Chen Baosen**, aged 50, is the supervisor of the Company and the assistant manager of the human resources department of TMICL. Mr. Chen has more than seven years' experience in the urban construction related business. From 1984 to 1993, Mr. Chen held various staff-related positions in the Urban Construction Bureau. In 1993, he joined Tianjin Municipal No.2 Road Construction Company Limited as a deputy head of the human resources department. He joined TMICL in June 2000. Mr. Chen has been the supervisor of TCEPC since December 2000.

**Mr. Shi Chunhua**, aged 38, is the supervisor of the Company and has been the deputy head of the internal audit department and finance department of Tianjin Urban Bureau. Mr. Shi graduated from Tianjin Finance Institute in July 1988 with a degree in auditing. From July 1988 to March 2001, Mr. Shi was appointed as deputy head in charge of the department of finance and auditing after he worked in that department for Urban Construction Bureau. Mr. Shi has been the supervisor of TCEPC since December 2000.

**Mr. Wang Zhanying**, aged 47, is the supervisor of the Company and has been the deputy chief accountant and the head of the finance department of Tianjin Municipal Corporation. He was a graduated research student in Business Administration from the School of Economics of Nankai University in 2000. After graduation, he had been the accountant at the finance division of Tianjin No. 4 Municipal Engineering Company, the accountant of the command division for project to divert water from Luan River to Tianjin, the accountant and head of finance department of Tianjin Municipal Corporation as well as the chief accountant of Tianjin Highway Construction and Development Company. Mr. Wang has been the supervisor of TCEPC since October 2002.

**Mr. Wang Hui**, aged 34, is the supervisor of the Company and has been the deputy manager of the operational management department of the Company, who is responsible for the operational management and the management work of the major repair projects for the sewage water treatment plants. He graduated from the Architecture College of the Tianjin University in 1991, with a major in water supplying and draining of the department of thermal energy and environmental engineering, and graduated from the post-graduate class of the environmental engineering department of Tong Ji University in 2001. From his graduation in 1991 to December 1999, Mr. Wang worked in Dongjiao Sewage Water Treatment Plant in Tianjin. He took part in the supervision and the management on construction work of Dongjiao Sewage Water Treatment Plant and the commissioning, trial and operation of the mud area. He was the deputy head of the production and operation department of Dongjiao Sewage Water Treatment Plant. Mr. Wang was the officer of the Combined Office of the Development and Construction Company of Tianjin Sewage Corporation from January 2000 to March 2001. He joined the Company in March 2001 and has been the supervisor of TCEPC since October 2002.

## 2. SUPERVISORY COMMITTEE *(Cont'd)*

**Mr. Zhang Mingqi**, aged 45, is the supervisor of the Company. He is the deputy general manager and chairman of the labour union of Dongjiao Sewage Water Treatment Plant. Mr. Zhang graduated from the Distant Learning Faculty of the college organised by the Chinese Communist Party Central Committee with major in economic management. Mr. Zhang has been working in the management office of Tianjin Sewage Company since 1980 and held various positions ranging from committee member for party affairs, deputy secretary of party sub-committee work for party affairs, deputy secretary of party, sub-committee of motor vehicle team and committee member of disciplinary committee of management office of Tianjin Sewage Company and deputy factory manager and deputy secretary of party sub-committee of Dongjiao Sewage Water Treatment Plant. Mr. Zhang has been the supervisor of TCEPC since September 2001.

## 3. SENIOR MANAGEMENT

**Mr. Luo Lianfang**, aged 54, is the deputy general manager of the Company. Mr. Luo graduated from United University in 1986. Mr. Luo has more than 20 years' experience in the urban construction business. Before joining TMICL, he held different senior positions in the Urban Construction Bureau from 1964 to 1998. He was the deputy general manager of TMICL from 1998 to December 2000. From December 2000, Mr. Luo became the deputy general manager of TCEPC.

**Mr. Lin Wenbo**, aged 45, is the deputy general manager of the Company and the head of the Dongjiao Sewage Water Treatment Plant. He worked in the Jizhuangzi Sewage Water Treatment Plant from 1983 to 1992 as the division supervisor and the deputy head. Since March 1992, Mr. Lin has been the head of the Dongjiao Sewage Water Treatment Plant. He was responsible for the construction and management of the plant. Mr. Lin is now responsible for the overall supervision of the Dongjiao Sewage Water Treatment Plant. Mr. Lin has been the deputy general manager of TCEPC since December 2000.

**Mr. Liu Wenya**, aged 44, is the deputy general manager of the Company and the head of the Jizhuangzi Sewage Water Treatment Plant. Since 1982, Mr. Liu has held various managerial positions ranging from supervisor of the technology division to deputy head of the Jizhuangzi Sewage Water Treatment Plant. He has been involved in the feasibility studies, construction, research, technology improvement and general management of the plant. He graduated from Tianjin City Construction Institute in 1995. Mr. Liu is now responsible for the overall supervision of the Jizhuangzi Sewage Water Treatment Plant. Mr. Liu has been the deputy general manager of TCEPC since 2000.

**Ms. Fu Yana**, aged 32, is the company secretary and the head of Corporate Affairs Office. Ms. Fu was graduated from Tianjin Education University with a bachelor degree in Journalism. Ms. Fu has been working at Tianjin Sewage Management Division following graduation. Ms. Fu joined TMICL in August 1998 and served as the deputy director and director of the General Office. Ms. Fu has been the company secretary of TCEPC since December 2000.

**Mr. Ip Pui Sum**, aged 43, is the company secretary. Mr. Ip graduated from the Hong Kong Polytechnic University with a Higher Diploma in Accountancy in 1982. He had worked in Price Waterhouse Hong Kong and is a certified public accountant in Hong Kong. Mr. Ip has more than 18 years of experience in accounting and company secretarial matters. Mr. Ip was awarded a master degree in business administration in 1996. Mr. Ip has been the company secretary of the Company since December 1994.

## PRINCIPAL ACTIVITIES

Prior to the asset exchange on 20th December 2000, the principal activity of the the Company and its subsidiaries (the "Group") was the manufacturing of chemical raw materials. Following the completion of asset exchange, the principal activities of the Company has been changed to environmental protection and urban infrastructure construction. The Company is the only listed vehicle of the Tianjin Municipal Government that is engaged in environment protection and urban infrastructure construction. The net profit of the Group in 2002, as prepared in accordance with PRC GAAP and HK GAAP, were all Rmb 287,236,000. The accounts for these operations are set out in the appropriate sections of this annual report.

## FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the last five years prepared under PRC GAAP is set out on pages 8 and 9 of the annual report.

A summary of the Group's results and assets and liabilities for the last five years prepared under HK GAAP is set out on page 10 of the annual report.

## RESULTS AND APPROPRIATIONS

The results and profit appropriation of the Group for the year ended 31st December 2002 as prepared in accordance with PRC GAAP and HK GAAP are set out in the profit and loss account and the profit appropriation statement on pages 54 and 55, and the consolidated profit and loss account on page 93 of this annual report, respectively.

An analysis of the Group's turnover and contribution to operating profit after finance costs by principal activities based on the accounts prepared under HK GAAP is as follows:

	Turnover		Operating profit before taxation (including finance costs)	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Sewage water processing and construction				
of sewage water treatment plants	551,126	480,964	386,480	356,756
Road and toll stations	78,185	79,663	38,585	40,671
Haihe Bridge project management	4,547	2,580	3,471	1,918
Total	<u>633,858</u>	<u>563,207</u>	<u>428,536</u>	<u>399,345</u>

## DIVIDENDS

The directors did not declare an interim dividend (2001: nil). They recommend the payment of a final dividend of Rmb 0.85 per 10 shares for the year ended 31st December 2002 (2001: Rmb 0.8 per 10 shares).

## DETAILS OF SHARE CAPITAL

### (1) Table of changes in share capital:

During the period under review, the Company has not issued any bonus shares, increased share capital or listed any employee shares. There is no change in the structure of the Company's share capital and the number of shares of the Company.

	Beginning of the year (Shares)	Share placement (Shares)	Bonus issue (Shares)	Increase/(decrease) during the year		Others (Shares)	Sub-total (Shares)	End of the year (Shares)
				Transfer of surplus to capital (Shares)	Share issue (Shares)			
A. Non-circulating shares								
1. Promoter shares								
comprising:								
State shares	839,020,000	—	—	—	—	—	—	839,020,000
Legal persons shares	38,485,000	—	—	—	—	—	—	38,485,000
Sub-total	<u>877,505,000</u>	—	—	—	—	—	—	<u>877,505,000</u>
B. Circulating shares								
1. Domestic listed Rmb								
ordinary shares	112,495,000	—	—	—	—	—	—	112,495,000
2. Non-domestic listed								
foreign currency								
ordinary shares	<u>340,000,000</u>	—	—	—	—	—	—	<u>340,000,000</u>
Sub-total	<u>452,495,000</u>	—	—	—	—	—	—	<u>452,495,000</u>
C. Total	<u><u>1,330,000,000</u></u>	—	—	—	—	—	—	<u><u>1,330,000,000</u></u>

### (2) Issue and listing of shares:

For the three years ended 31st December 2002, the Company has not issued any shares.

## DETAILS OF SHAREHOLDERS

- The total number of shareholders of the Company as at 31st December 2002 is 31,746.
- As at 31st December 2002, the top ten shareholders of the Company were as follows:

Name of shareholders	Increase(+)/ Decrease (-) during the year	Number of shares held at the end of the year	Percentage to total share capital (%)	Class (circulating/ non-circulating)	Number of shares pledged or frozen	Type of shareholders
Tianjin Municipal Investment Company Limited	0	839,020,000	63.084	Non-circulating	0	State shares
HKSCC Nominees Limited	+54,000	334,385,000	25.142	Circulating	Unknown	Foreign shares
Bohai Securities	+5,420,379	5,420,379	0.408	Circulating	Unknown	Individual shares
Shen Tie Jing Fa	0	3,500,000	0.263	Non-circulating	Unknown	Legal person shares
China Southern Securities Co., Ltd.	0	2,725,000	0.205	Non-circulating	Unknown	Legal person shares
Guangda Securities	+2,004,904	2,004,904	0.151	Circulating	Unknown	Individual shares
Galaxy Securities	0	1,500,000	0.113	Non-circulating	Unknown	Legal person shares
Yuyuan Funds	+1,231,358	1,231,358	0.093	Circulating	Unknown	Individual shares
Liaoning Shennong	0	1,000,000	0.075	Non-circulating	Unknown	Legal person shares
Guotai Tian Zheng	0	1,000,000	0.075	Non-circulating	Unknown	Legal person shares

### Notes:

- Pursuant to the register of the shareholders as provided by the HKSCC Nominees Limited, H Shares were held on behalf of various clients' accounts. There was no client who was interested in 5% or more than 5% of the total issued share capital of the Company.
- Tianjin Municipal Investment Company Limited ("TMICL") holds 839,020,000 shares in the Company, representing approximately 63.08% of the Company's share capital and is the Company's largest shareholder ("Controlling Shareholder"). During the reporting period, TMICL had not pledged or frozen any of the Company's shares.
- The top ten shareholders were not strategic investors of the Company.
- There is no relationship and no parties acting in concert between the largest shareholder and the 2nd to 10th largest shareholders. However, it is not certain whether there are any such relationships among the 2nd to 10th largest shareholders.

### **DETAILS OF SHAREHOLDERS** (Cont'd)

#### 3. Controlling shareholder of the Company

Name:	Tianjin Municipal Investment Company Limited
Legal representative:	Mr. Sun Zengyin
Date of incorporation:	20th January 1998
Registered Capital:	Rmb 1,724,278,000
Scope of operation:	The development, construction and management of city infrastructure projects and auxiliary services, development and operation of city infrastructure, import of technology and equipment for city construction works, promotion for capital investment and project development and construction management (in accordance with the State regulations for specific projects and operations) in city road infrastructure

The business of Tianjin Municipal Investment Company Limited is under supervision control of Urban Construction Bureau of the Tianjin Municipality. Urban Construction Bureau of the Tianjin Municipality is the first class bureau in charge of municipality, highway construction and management of the city. The current bureau head is Mr. Sun Zengyin. Its services include roads, highways, bridges, sewage, subway trains, construction design, sewage water processing, real estate and services industry etc.

During the reporting period, there was no change in the controlling shareholder of the Company.

#### 4. Other legal persons who were interested in more than 10% (10% inclusive) of the total issued share capital of the Company

During the reporting period, there was no other legal persons who was interested in more than 10% (10% inclusive) of the total issued share capital of the Company.

## COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION

### 1. Directors, Supervisors and Senior Management

Name	Gender	Age	Position	Term	Shareholding at the beginning of the year	Shareholding at the end of the year
Ma Baiyu	F	40	Chairman, General Manager	2000.12.20 - 2003.12.19	0	0
An Pindong	M	34	Director, Deputy General Manager and Financial Controller	2000.12.20 - 2003.12.19	0	0
Gu Qifeng	M	36	Director, Deputy General Manager and Chief Engineer	2000.12.20 - 2003.12.19	0	0
Zhang Wenhui	M	47	Director	2000.12.20 - 2003.12.19	0	0
Wang Yueqing	M	58	Director	2000.12.20 - 2003.12.19	0	0
Zhu Min	M	48	Director	2000.12.20 - 2003.12.19	0	0
Chan Boon Teong	M	60	Independent Director	2000.12.20 - 2003.12.19	0	0
Li Weibin	M	41	Independent Director	2000.12.20 - 2002.04.16	0	0
Guan Weili	M	59	Independent Director	2000.12.20 - 2002.04.16	0	0
Wang Xiangfei	M	51	Independent Director	2002.04.16 - 2005.04.15	0	0
Gao Zongze	M	60	Independent Director	2002.04.16 - 2005.04.15	0	0
Yu Ruihua	F	56	Chairman of the Supervisory Committee	2000.12.20 - 2003.12.19	0	0
Chen Baosen	M	50	Supervisor	2000.12.20 - 2003.12.19	0	0
Shi Chunhua	M	38	Supervisor	2000.12.20 - 2003.12.19	0	0
Li Kaijian	M	50	Supervisor	2000.12.20 - 2002.10.10	0	0
Dou Zhenming	M	51	Supervisor	2000.12.20 - 2002.10.10	0	0
Wang Zhanying	M	47	Supervisor	2002.10.10 - 2005.10.09	5,000	5,000
Zhang Mingqi	M	45	Supervisor	2001.09.19 - 2004.09.18	0	0
Wang Hui	M	34	Supervisor	2002.10.16 - 2005.10.15	0	0
Luo Lianfang	M	54	Deputy General Manager	2000.12.20 - 2003.12.19	0	0
Lin Wenbo	M	45	Deputy General Manager	2000.12.20 - 2003.12.19	0	0
Zhu Yanbo	M	54	Deputy General Manager	2002.04.29 - 2005.04.28	0	0
Liu Wenya	M	44	Deputy General Manager	2000.12.20 - 2003.12.19	0	0
Fu Yana	F	32	Company Secretary	2000.12.20 - 2003.12.19	0	0
Ip Pui Sum	M	43	Company Secretary	2000.12.20 - 2003.12.19	0	0

Notes: (1) The shares held by Mr. Wang Zhanying, a supervisor, in the Company have been subject to a lock-up arrangement. Other directors, supervisors and senior management did not hold any shares in the Company.

(2) The positions of the directors, supervisors and senior management in the Company's shareholders:

Ms. Ma Baiyu, the Chairman and General Manager of the Company, also holds the position as the director of the Company's controlling shareholder. Apart from that, the directors, supervisors and senior management of the Company do not hold any positions of controlling shareholder excluding the position as a director.



## COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION *(Cont'd)*

### 2. Remunerations of directors, supervisors and senior management

During 2002, salaried directors, supervisors and senior officers of the Company received their annual remuneration pursuant to the provisions of the respective directors' and supervisors' service agreements and staff wages allocation plan of the Company. The annual remuneration of independent directors is determined during shareholders' general meetings and will be paid in a lump sum by the end of the year.

The remunerations paid to the present directors, supervisors and senior officers of the Company including basic salaries, various kind of incentives, welfare benefits, allowances, housing subsidy and other subsidies, amounted to Rmb 4,615,000 in aggregate for the year. The remuneration paid to the three highest paid directors was Rmb 1,300,000 in aggregate. The remuneration paid to the three highest paid individuals was Rmb 1,300,000 in aggregate. Allowances paid to Mr. Chan Boon Teong, Mr. Wang Xiangfei and Mr. Gao Zongze, all of which were independent directors, were Rmb 265,000, Rmb 150,000 and Rmb 150,000 respectively.

The Company has 21 directors, supervisors and senior officers at present, 20 of which were paid remuneration by the Company. There were five individuals whose annual remuneration was Rmb 300,000 or above. There were five individuals whose annual remuneration was between Rmb 200,000 and Rmb 300,000. There were ten individuals whose annual remuneration was Rmb 200,000 or below. Mr. Shi Chunhua, a supervisor, has not received any remuneration from the Company as he receives remuneration from Tianjin Highway Development Company Limited, which is a connected company of the Company. Mr. Wang Zhanying receives remuneration from Urban Construction Bureau of the Tianjin Municipality, the ultimate controlling shareholder of the Company.

#### Remunerations of directors and supervisors

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Fees	715	780
Salaries and other emoluments	1,780	1,960
Pensions	22	37
	<u>2,517</u>	<u>2,777</u>

The remuneration was paid to the directors and supervisors as follow:

	Number	
	2002	2001
Rmb nil - Rmb 1,073,000 (HK\$1,000,000)	<u>21</u>	<u>15</u>

The above analysis includes the five individuals whose remunerations were the highest in the Group for the year.

## **COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION** *(Cont'd)*

### **3. Change of directors, supervisors and senior officers during the reporting period and the reasons for the change**

- (1) During the 22nd meeting of the Second Board of the Company held on 28th February 2002, the resolution to appoint Mr. Gu Qifeng and Mr. An Pindong as the deputy general managers of the Company was passed.
- (2) The 2001 Annual General Meeting, that is, the 10th shareholders' general meeting of the Company was held on 16th April 2002. As Mr. Li Weibin is the partner of the law firm in Hong Kong that provides legal services for the Company, and Mr. Guan Weili has been the independent director of the Company for six consecutive years, both of them are not considered appropriate to further assume their roles as independent directors of the Company. During this meeting, the resignations of Mr. Li Weibin and Mr. Guan Weili as the independent directors of the Company were considered and approved. Mr. Wang Xiangfei and Mr. Gao Zongze were elected as the independent directors of the Company, for a term of three years commencing from 16th April 2002, the date on which the resignation was approved in the shareholders' general meeting.
- (3) The proposal in respect of the appointment of Mr. Zhu Yanbo as the deputy general manager of the Company was passed in the 23rd meeting of the Second Board held by the Company on 29th April 2002.
- (4) The 2002 Extraordinary General Meeting of the Company was held on 10th October 2002. Since Mr. Li Kaijian and Mr. Dou Zhenming were considered not appropriate to act as Supervisors, this meeting approved their application for resignations as Supervisors. Mr. Wang Zhanying was elected as the Supervisor of the Company for a term of three years commencing from 10th October 2002.
- (5) The employees' representative meeting of the Company was held on 16th October 2002. During the meeting, Mr. Wang Hui was elected as the Supervisor of the Company on behalf of the employees for a term of three years commencing from 16th October 2002.

## COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION *(Cont'd)*

### 4. An overview of the Company's staff

As at the end of 2002, the number of staff of the Company was 922 which did not include any staff resigned or retired. Among the Company's staff, 138 of which have professional qualifications, and accounted for 14.97% of the total number of staff; 22 of them have senior titles; 66 of them have intermediate titles; 50 of them of junior titles; The Company has senior expertise in the field of international management and investment, environmental engineering, roads and bridges construction, and engineering management. The expertise portfolio at each segment was managed reasonably.

#### (1) An analysis of the staff in terms of their function is as follows:

Administration	96	(10.41%)
Finance	14	(1.52%)
Technical	124	(13.45%)
Operating staff at sewage treatment plants and toll stations	688	(74.62%)

#### (2) An analysis of the staff in terms of their education level:

Postgraduate	8	(0.87%)
University	72	(7.81%)
Post-secondary	420	(45.55%)
Secondary or below	422	(45.77%)

### 5. Arrangements to purchase shares or debentures

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors, supervisors or senior management of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### 6. Directors, Supervisors and Senior Management's interests in contracts

No contract of significance to which the Company was a party and in which a director, supervisor or member of senior management had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

## CONNECTED TRANSACTIONS

During the reporting period, the Company has the following ongoing connected transactions:

- (1) On 24th September 2001, the Company entered into the transfer agreements concerning the construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant, the expansion project of the Jizhuangzi Sewage Water Treatment Plant. Pursuant to the above agreements, during the reporting period, the construction works completed for the construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant were on schedule and amounted to Rmb 499 million. In accordance with Sewage Water Treatment Plant Construction Fee Agreement, the Company obtained an income of Rmb 183,536,000.
- (2) On 24 September 2001, Tianjin Municipal Investment Company Limited ("TMICL") and the Company entered into the agreement for project management of the construction of Haihe Bridge Project of the Southeastern Half Ring. Pursuant to the agreement, construction works completed amounted to Rmb 219 million, and the Company obtained an income of Rmb 4,812,000.
- (3) Pursuant to the Sewage Water Processing Agreement entered into between TMICL and Tianjin Sewage Company on 10th October 2000, Tianjin Sewage Company agreed to procure TMICL to process sewage water for a term of 30 years. The price is calculated in accordance with the pricing formula. Tianjin Sewage Company is a State-owned enterprise under the supervisory control of the Urban Construction Bureau of the Tianjin Municipality. The agreement was initially entered into between TMICL and Tianjin Sewage Company, 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 sewage water 210 million cubic meters. A sewage water processing fee of Rmb 399,665,000 was derived from the services provided pursuant to the Sewage Water Processing Agreement entered into with Tianjin Sewage Company.
- (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 of Tianjin. 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 for 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.

## **CONNECTED TRANSACTIONS** *(Cont'd)*

- (5) During the reporting period, the Company entered into the Silt Removal Agreement with Tianjin Second Urban Road Construction Company Limited ("TSURCC") for a consideration of Rmb 8,710,000. As TSURCC was under supervisory control of the Urban Construction Bureau of Tianjin Municipality and was the related party of the Company, the above transaction constituted a connected transaction. (Announcement setting out the details of this transaction was made on 5th August 2002 on Shanghai Securities, Hong Kong Wen Wei Po and The Standard).
- (6) During the reporting period, the Company terminated the Lease Agreement entered into with TMICL on 10th October 2000, and entered into another lease agreement, pursuant to which the Company will lease from TMICL a property situated at No. 45 Guizhou Road, Heping District, Tianjin as its office premises. The annual rental payable by the Company is Rmb 1,050,000. The rental of Rmb 1,050,000 were derived pursuant to the above Lease Agreements entered into with TMICL.
- (7) During the period between 31st December 2001 and 31st December 2002, the sewage processing infrastructure cost incurred by the Company and payable to the related parties amounted to Rmb 344,010,000.

The independent directors of the Company have confirmed that the above transactions were entered into on with normal commercial terms.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## **FIXED ASSETS**

Details of the movement in fixed assets during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 73 and 74 and pages 114 to 116 of the annual report respectively.

## **RESERVES**

Details of movements in reserves during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 81 and 82 and pages 120 to 122 of the annual report, respectively.

## **EMPLOYEES' RETIREMENT BENEFIT SCHEME**

Particulars of the employees' retirement benefit scheme operated by the Company are set out on pages 66 and 107 of the annual report.

## MAJOR SUPPLIERS AND CUSTOMERS

The percentage of the Group's purchases and sales attributable to major suppliers and customers are as follows:

	2002	2001
	%	%
Percentage of purchases attributable to the Group's largest supplier	21	45
Percentage of purchases attributable to the Group's five largest suppliers	69	59
Percentage of sales attributable to the Group's largest customer	60	85
Percentage of sales attributable to the Group's five largest customers	88	86

None of the directors, supervisors or shareholders of the Company has interests in the share capital of the Group's suppliers or customers mentioned above. The largest customer of the Group, Tianjin Sewage Company, is under the supervisory control of the Urban Construction Bureau of the Tianjin Municipality.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association.

## SALE AND PURCHASE OR REPURCHASE OF SHARES OF THE COMPANY

During the year under review, the Company and its subsidiaries did not purchase, sell or repurchase any shares of the Company.

## CODE OF BEST PRACTICE

On 31st July 2001, the Company's Board of Directors approved the establishment of an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting process and internal controls pursuant to paragraph 14 of Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code of Best Practice"). The Audit Committee comprises the independent non-executive directors, Messrs. Chan Boon Teong, Wang Xiang Fei and Gao Zong Ze. None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the period, in compliance with the Code of Best Practice.

## MAJOR LITIGATION

The Company did not engage in any litigation or arbitration of material importance during the year.

## **AUDITORS**

The accounts have been audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd., Certified Public Accountants, the PRC and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers shall retire and offer themselves for re-appointment as the Company's domestic and international auditors respectively.

By order of the Board

**Ma Baiyu**

*Chairman*

Tianjin, the PRC

20th February 2003

# Report of the Supervisory Committee

## 1. Meetings of the Supervisory Committee during the period

The Supervisory Committee held three meetings during the period, mainly covering the following:

- (1) The 18th meeting of the Second Supervisory Committee was held on 27th February 2002, wherein the following resolutions were passed:
  - a. the 2001 Supervisory Committee working report of the Company;
  - b. the Rules Governing the Procedures for Operating the Supervisory Committee;
  - c. agreed with the 2001 annual report and the report summary of the Company;
  - d. agreed with the financial and accounting statements of the Company for 2001;
  - e. agreed with the 2001 final financial report and the 2002 financial budget report of the Company;
  - f. agreed with the 2001 profit appropriation plan of the Company;
  - g. agreed with the 2002 profit appropriation policy plan of the Company;
  - h. the Board of Directors and the operating team of the Company seriously implemented the various resolutions of the shareholders' meetings and the Board in 2001, and their operations were found to be in compliance with the relevant requirements in the Company Law and the Articles of Association. None of the Directors and the senior management of the Company has been found to be in violation of the State laws and regulations, the Company's Articles of Association and detrimental to the interests of the Company in carrying out their duties; and
  - i. PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers issued their respective auditors' reports for 2001 with unqualified opinion on the financial statements, which truly reflected the actual financial situation and operating results of the Company.

The announcement of the resolutions of the meeting of the Supervisory Committee was published on Shanghai Securities, Hong Kong Wen Wei Po and Hong Kong iMail on 1st March 2002.

- (2) The 19th meeting of the Second Supervisory Committee was held on 1st August 2002, wherein the following resolutions were considered and passed:
  - a. The interim report and its summary for the six months ended 30th June 2002 to be announced in the PRC and Hong Kong were considered and approved; and



## 1. Meetings of the Supervisory Committee during the period (Cont'd)

- b. The proposal for the Company to enter into the "Contract on Undertaking the Silt Removal Project for the dried ponds of Jizhuangzi Sewage Treatment Plant" with the Tianjin Second Urban Road Construction Company Limited was considered and approved. Since the Tianjin Second Urban Road Construction Company Limited is under the same control of the Urban Construction Bureau of the Tianjin Municipality, which is the controlling shareholder of the Company, therefore, entering into the contract constitutes a connected transaction of the Company. The Supervisors considered that the connected transaction is on normal commercial terms and is fair and reasonable.

The announcement of the resolutions of the meeting of the Supervisory Committee was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 2nd August 2002.

- (3) The 20th meeting of the Second Supervisory Committee was held on 21st August 2002, wherein the following resolutions were considered and passed:

- a. The Rules Governing the Procedures for Operating the Meeting of the Supervisory Committee as supplemented and amended were considered and approved;
- b. The applications for resignations of Li Kaijian and Dou Zhenming as supervisors of the Company were approved; and
- c. Shareholders were called upon to submit their nominations of candidates for a supervisor as the shareholder representative, to be proposed at the extraordinary general meeting for election of one supervisor.

Agreed on the resolutions passed in the 26th meeting of the Second Board of the Company and the supervisors in attendance in that Board meeting considered that the procedures of that board meeting complied with the Company Law and the Articles of Association, and the resolutions passed were fair and reasonable.

The announcement of the resolutions of the meeting of the Supervisory Committee was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 22nd August 2002.

## 2. Independent opinion of the Supervisory Committee on the relevant issues of the Company in 2002

- (1) Operations of the Company in compliance with the laws:

Pursuant to the relevant laws and regulations of the State, the Supervisory Committee of the Company has carried out supervision on the Company's shareholders' meetings, the convening procedures of the Board of Directors, resolutions and the implementation of the resolutions of the shareholders' meetings by the Board of Directors, and considered that the performance of the Company's Board of Directors in 2002 was strictly in compliance with the Company Law, Securities Law, Listing Rules, Articles of Association and other laws and regulations, and that their works were serious and responsible, their operating decisions were scientific and reasonable, and the internal management and internal control systems were further upgraded and a good internal controlling mechanism was established. None of the Directors and the senior management of the Company has been found to be in violation of the laws and regulations, the Articles of Association and acts which were detrimental to the interests of the Company in carrying out their duties.

**2. Independent opinion of the Supervisory Committee on the relevant issues of the Company in 2002 (Cont'd)**

(2) Inspection of the financial situation of the Company:

The Supervisory Committee of the Company carried out serious and careful inspections on the financial system and financial situation of the Company, and considered that the 2002 financial report of the Company could truly reflect the financial situation and operating results of the Company. The auditing opinion and appraisals of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. were objective and fair.

(3) During the reporting period, the Company did not apply any proceeds from subscription.

(4) The Company entered into three transfer agreements concerning the construction-in-progress of Xianyanglu Sewage Water Treatment Plant, the expansion project of the Jizhuangzi Sewage Water Treatment Plant and Beicang Sewage Water Treatment Plant with Tianjin Sewage Company on 24th September 2001. During the reporting period, the transfer of projects was completed on 30th October 2002. Accordingly, the Company had completed the asset acquisition at this stage. The price of the asset acquisition was based on the valuation report Zhong Qi Hua Ping Gu Yu Zi (2001) No. 97 and the report issued by the domestic auditors. The transaction of asset acquisition was fair and reasonable.

(5) The connected transactions of the Company were fair and reasonable, and were not detrimental to the interests of a listed company or minority shareholders, and no insider dealing has occurred.

(6) Implementation of the resolutions of the shareholders meetings:

The members of the Supervisory Committee of the Company attended the various Board meetings and shareholders' general meetings of the Company, and the Supervisory Committee of the Company has no objection to the various reports and resolutions raised for approval by the Board of Directors to the shareholders' general meetings. The Supervisory Committee of the Company carried out supervision on the implementation of the resolutions of the shareholders' general meetings and considered that the Board of Directors of the Company could seriously implement the relevant resolutions of the shareholders' general meetings.



PwC Shen Zi (2003) No.278

## 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 31st December 2002 and their profit and loss accounts, profit appropriation statements and cash flow statements for the year then ended. 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 present fairly, in all material respects, the financial positions of the Company and the Group as at 31st December 2002 and their results and cash flows for the year then ended in accordance with China's Accounting Standards and Accounting System for Business Enterprises. The accounting policies used in the preparation of the accounts for the year 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, China  
20th February 2003

# Balance Sheets

AS AT 31ST DECEMBER 2002

(Prepared in accordance with PRC Accounting Regulations)

	Notes	Group		Company	
		31st December	31st December	31st December	31st December
		2002	2001	2002	2001
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and bank balances	3	537,929	260,468	515,507	208,770
Accounts receivable	4	28,704	132,312	28,232	132,312
Other receivables	5	1,419	548	1,078	530
Prepayments to suppliers	6	1,871	215,140	253	215,026
Inventories	7	2,440	2,514	2,440	2,514
Total current assets		572,363	610,982	547,510	559,152
<b>LONG-TERM INVESTMENTS</b>					
Long-term equity investments	8	4,000	4,000	19,439	21,018
<b>FIXED ASSETS AND CONSTRUCTION-IN-PROGRESS</b>					
Fixed assets - cost		1,757,717	1,754,719	1,755,436	1,751,406
Less: Accumulated depreciation		(493,021)	(442,717)	(492,771)	(442,717)
Fixed assets - net book value	9	1,264,696	1,312,002	1,262,665	1,308,689
Construction-in-progress	10	915,949	—	825,625	—
Total fixed assets and construction-in-progress		2,180,645	1,312,002	2,088,290	1,308,689
<b>TOTAL ASSETS</b>		<b>2,757,008</b>	<b>1,926,984</b>	<b>2,655,239</b>	<b>1,888,859</b>

The accompanying notes form an integral part of these accounts.

**Ma Baiyu**  
Company Representative

**An Pindong**  
Chief Accountant

**Shi Zhenjuan**  
Accounts Preparer

	Notes	Group		Company	
		31st December	31st December	31st December	31st December
		2002	2001	2002	2001
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Short-term loan	11	30,000	—	—	—
Accounts payable	12	1,862	209	414	199
Advances from customer	13	89,597	—	89,597	—
Welfare payable		5,753	3,471	5,733	3,465
Dividend payable	14	115,268	106,400	115,268	106,400
Taxes payable	15	21,196	46,597	21,191	46,593
Other accruals		482	2,200	465	2,200
Other payables	16	176,523	157,545	174,635	157,531
Accrued expenses		5,861	4,583	5,862	4,583
Total current liabilities		446,542	321,005	413,165	320,971
<b>LONG-TERM LIABILITIES</b>					
Long-term loan	17	500,000	—	500,000	—
Specific payables	18	66,676	36,200	—	—
Total long-term liabilities		566,676	36,200	500,000	—
<b>TOTAL LIABILITIES</b>		<b>1,013,218</b>	<b>357,205</b>	<b>913,165</b>	<b>320,971</b>
<b>MINORITY INTERESTS</b>		<b>1,716</b>	<b>1,891</b>	<b>—</b>	<b>—</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	19	1,330,000	1,330,000	1,330,000	1,330,000
Capital reserve fund	20	69,289	69,289	69,289	69,289
General reserves	20	84,335	41,250	84,335	41,250
Including:					
Statutory common reserve		56,223	27,500	56,223	27,500
Statutory provident fund		28,112	13,750	28,112	13,750
Undistributed profits	21	258,450	127,349	258,450	127,349
Total shareholders' equity		1,742,074	1,567,888	1,742,074	1,567,888
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,757,008</b>	<b>1,926,984</b>	<b>2,655,239</b>	<b>1,888,859</b>

The accompanying notes form an integral part of these accounts.

Ma Baiyu  
Company Representative

An Pindong  
Chief Accountant

Shi Zhenjuan  
Accounts Preparer

# Profit and Loss Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002  
(Prepared in accordance with PRC Accounting Regulations)

	Notes	Group		Company	
		2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
<b>Income from principal operations</b>	22	<b>670,749</b>	595,986	<b>670,749</b>	595,986
Less: Costs for principal operations	22	<b>(146,136)</b>	(131,649)	<b>(146,136)</b>	(131,649)
Business tax and surcharges	23	<b>(36,891)</b>	(32,779)	<b>(36,891)</b>	(32,779)
<b>Profit from principal operations</b>		<b>487,722</b>	431,558	<b>487,722</b>	431,558
Add: Profit from other operations		<b>514</b>	89	<b>10</b>	12
Less: Administrative expenses		<b>(46,047)</b>	(33,623)	<b>(43,705)</b>	(32,385)
Financial (expenses)/income - net	24	<b>(12,511)</b>	1,196	<b>(12,595)</b>	1,126
<b>Operating profit</b>		<b>429,678</b>	399,220	<b>431,432</b>	400,311
Less: Investment loss	25	—	—	<b>(1,579)</b>	(982)
Add: Non-operating income		<b>42</b>	317	<b>42</b>	317
Less: Non-operating expenses		<b>(1,184)</b>	(192)	<b>(1,184)</b>	(192)
<b>Total profit</b>		<b>428,536</b>	399,345	<b>428,711</b>	399,454
Less: Income tax	2(s)	<b>(141,475)</b>	(131,820)	<b>(141,475)</b>	(131,820)
Minority interests		<b>175</b>	109	—	—
<b>Net profit</b>		<b>287,236</b>	267,634	<b>287,236</b>	267,634

The accompanying notes form an integral part of these accounts.

**Ma Baiyu**  
Company Representative

**An Pindong**  
Chief Accountant

**Shi Zhenjuan**  
Accounts Preparer

# Profit Appropriation Statements

FOR THE YEAR ENDED 31ST DECEMBER 2002

(Prepared in accordance with PRC Accounting Regulations)

	Notes	Group		Company	
		2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
<b>Net profit</b>		<b>287,236</b>	267,634	<b>287,236</b>	267,634
Add: Undistributed profits at beginning of the year		<b>127,349</b>	6,261	<b>127,349</b>	6,261
<b>Profits available for appropriation</b>		<b>414,585</b>	273,895	<b>414,585</b>	273,895
Less: Transfer to statutory common reserve	20(b)	<b>(28,723)</b>	(26,764)	<b>(28,723)</b>	(26,764)
Transfer to statutory provident fund	20(b)	<b>(14,362)</b>	(13,382)	<b>(14,362)</b>	(13,382)
<b>Profit attributable to shareholders</b>		<b>371,500</b>	233,749	<b>371,500</b>	233,749
Less: Dividend payable		<b>(113,050)</b>	(106,400)	<b>(113,050)</b>	(106,400)
<b>Undistributed profits at end of the year</b>		<b>258,450</b>	127,349	<b>258,450</b>	127,349

The accompanying notes form an integral part of these accounts.

**Ma Baiyu**  
Company Representative

**An Pindong**  
Chief Accountant

**Shi Zhenjuan**  
Accounts Preparer

# Cash Flow Statements

FOR THE YEAR ENDED 31ST DECEMBER 2002  
(Prepared in accordance with PRC Accounting Regulations)

	Group 2002 <i>Rmb'000</i>	Company 2002 <i>Rmb'000</i>
<b>Cash flows from operating activities</b>		
Cash inflows:		
Cash received from rendering of services	704,399	703,428
Other cash received relating to operating activities	52	52
	<hr/>	<hr/>
Sub-total of cash inflows	704,451	703,480
Cash outflows:		
Cash paid for goods and services	(67,663)	(66,740)
Cash paid to and on behalf of employees	(37,515)	(36,304)
Taxes paid	(206,849)	(206,836)
Other cash paid relating to operating activities	(33,076)	(31,923)
	<hr/>	<hr/>
Sub-total of cash outflows	(345,103)	(341,803)
<b>Net cash flows from operating activities</b>	<hr/> <b>359,348</b>	<hr/> <b>361,677</b>
<b>Cash flows from investing activities</b>		
Cash inflows:		
Cash received from settlement of the related assets and liabilities of the sewage water processing plants construction projects ( <i>note 1(a)(ii)</i> )	354,362	354,362
Other cash received relating to investing activities	2,158	2,073
	<hr/>	<hr/>
Sub-total of cash inflows	356,520	356,435
Cash outflows:		
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(373,802)	(286,294)
	<hr/>	<hr/>
<b>Net cash flows from investing activities</b>	<hr/> <b>(17,282)</b>	<hr/> <b>70,141</b>
<b>Cash flows from financing activities</b>		
Cash inflows:		
Cash received from borrowings	30,000	—
Cash received relating to other financing activities	30,476	—
	<hr/>	<hr/>
Sub-total of cash inflows	60,476	—
Cash outflows:		
Cash payments for distribution of dividends or profits	(104,182)	(104,182)
Cash payments for interest expenses	(20,899)	(20,899)
	<hr/>	<hr/>
Sub-total of cash outflows	(125,081)	(125,081)
<b>Net cash flows from financing activities</b>	<hr/> <b>(64,605)</b>	<hr/> <b>(125,081)</b>
<b>Net increase in cash</b>	<hr/> <b>277,461</b>	<hr/> <b>306,737</b>

The accompanying notes form an integral part of these accounts.

Ma Baiyu  
Company Representative

An Pindong  
Chief Accountant

Shi Zhenjuan  
Accounts Preparer



Supplementary Information	Group 2002 <i>Rmb'000</i>	Company 2002 <i>Rmb'000</i>
<b>(i) Reconciliation of net profit to net cash flows from operating activities</b>		
Net profit	287,236	287,236
Add/(Less):		
Minority interests	(175)	—
Depreciation and amortisation of fixed assets	50,874	50,624
Loss on disposal of fixed assets	1,088	1,088
Interest expense	14,571	14,571
Loss on investments	—	1,579
Decrease in inventories	74	74
Decrease in operating receivables	100,327	101,205
Decrease in operating payables	(94,647)	(94,700)
	<hr/>	<hr/>
<b>Net cash flows from operating activities</b>	<b>359,348</b>	<b>361,677</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>(ii) Net increase in cash</b>		
Cash at end of the year	537,929	515,507
Less: Cash at beginning of the year	(260,468)	(208,770)
	<hr/>	<hr/>
<b>Net increase in cash</b>	<b>277,461</b>	<b>306,737</b>
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form an integral part of these accounts.

**Ma Baiyu**  
*Company Representative*

**An Pindong**  
*Chief Accountant*

**Shi Zhenjuan**  
*Accounts Preparer*

# Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2002  
(Prepared in accordance with PRC Accounting Regulations)

## 1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES

Tianjin Capital Environmental Protection Company Limited (“the Company”) was established on 8th June 1993 in the People’s Republic of China (the “PRC”) as a joint stock limited company. Its principal activities include sewage water processing and sewage water processing plants construction, road and toll stations, and Haihe Bridge project management. Principal business of the Company’s subsidiary is set out in note 8(a).

The following is the Company’s operation mode of principal activities:

### (a) Sewage Water Processing and Sewage Water Processing Plants Construction Business

#### (i) Sewage Water Processing Business

The sewage water processing business is conducted according to a Sewage Water Processing Agreement entered into on 10th October 2002, 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.

#### (ii) 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 construction-in-progress of Xianyanglu Sewage Water Processing Plant, Jizhuangzi (Expansion) Sewage Water Processing Plant and Beicang Sewage Water Processing Plant (the “Sewage Plant Construction Projects”). Pursuant to the Transfer Agreements, the Company will acquire from TSC the Sewage Plant Construction Projects and TSC should transfer the rights and obligations of loan facilities from three banks, totalling approximately Rmb 1,460 million already contracted by TSC for the Sewage Plant Construction Projects, to the Company upon the completion of the transfers.

## **1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES** *(Cont'd)*

### **(a) Sewage Water Processing and Sewage Water Processing Plants Construction Business** *(Cont'd)*

#### **(ii) Sewage Water Processing Plants Construction Business** *(Cont'd)*

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 a reward to remunerate the Company to take responsibility for the construction of the Sewage Plant Construction Projects. The aggregate construction fees payable to the Company for the above Sewage Plant Construction Projects amount to approximately Rmb 1,170 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 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 the 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. Pursuant to the agreement, upon the commencement of operation of the three sewage water processing plants, the rights and obligations between the Company and TSC will follow the terms as specified in the Sewage Water Processing Agreement.

**1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES** (Cont'd)**(a) Sewage Water Processing and Sewage Water Processing Plants Construction Business** (Cont'd)

## (ii) Sewage Water Processing Plants Construction Business (Cont'd)

Currently, the Company has obtained a bank loan facility of Rmb 740 million from one of the three banks, while the transfers of the remaining bank loan facilities from the other two banks amounting to approximately Rmb 720 million are still in progress. According to the opinion of the Company's lawyer and a confirmation issued by TSC consenting that the incomplete transfer of the bank loan facilities would have no material impact on the transfers of the Sewage Plant Construction Projects, the Company therefore announced the completion of the acquisition of the Sewage Plant Construction Projects on 30th October 2002. For the sake of accounting convenience of both parties, TSC and the Company decided to use 31st December 2002 as the effective date of transfer, and that all assets and liabilities related to the Sewage Plant Construction Projects set out below be settled on that date:

	<i>Rmb'000</i>
Assets:	
- Bank deposits transferred from TSC	(354,362)
- Considerations payable to TSC for the Sewage Plant Construction Projects up to 24th September 2001	(137,892)
- Other related assets	(679)
	(492,933)
Amounts payable to TSC for transfer of assets	(492,933)
Liabilities:	
Bank loan transferred from TSC	500,000
	500,000
<b>Net amount receivable from TSC upon the completion of transfer of the Sewage Plant Construction Projects</b>	<b>7,067</b>
Construction fee of the Sewage Plant Construction Projects receivable from TSC	71,401
Construction costs prepaid by TSC for the Company	(273,630)
	(202,229)
<b>Net amount payable to TSC prior to the completion of the acquisition</b>	<b>(202,229)</b>
<b>Remaining balance of the 10% of the total construction fee that TSC should have prepaid to the Company</b>	<b>89,597</b>
<b>Net amount payable to TSC by the Company</b>	<b>(105,565)</b>

**1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES** (Cont'd)**(a) Sewage Water Processing and Sewage Water Processing Plants Construction Business** (Cont'd)**(ii) Sewage Water Processing Plants Construction Business** (Cont'd)

In addition, TSC confirmed that it would actively assist the Company to complete the remaining procedures for the transfers of the other two loans from TSC to the Company. Also, TSC guaranteed that the above mentioned loans or loans of the same or similar terms would be finally transferred to the Company in order to facilitate the Company to complete the construction of the Sewage Plant Construction Projects in time.

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

	<b>Xianyanglu Sewage Water Processing Plant Construction Project</b>	<b>Jizhuangzi Sewage Water Processing Plant Expansion Project</b>	<b>Beicang Sewage Water Processing Plant Construction Project</b>
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 from 24th September 2001 to the commencement of operations of the plants (Rmb' million)	1,134	978	366
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 31st December 2002	19.7%	45.1%	6.1%
Construction fees recognised by the Company (Rmb' million)			
- up to 31st December 2001	35	46	10
- up to 31st December 2002	116	143	16

**(b) Road and Toll Stations Business**

The Company has the 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 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES** *(Cont'd)*

### **(c) Haihe Bridge Project Management Business**

On 24th September 2001, the Company entered into the Haihe Bridge Project Management Agreement with Tianjin Municipal Investment Company Limited (“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 Rmb 10,650,000. The construction of Haihe Bridge is expected to be completed in early 2003.

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 subject to certain penalty, respectively.

## **2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS**

### **(a) Basis of preparation**

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

### **(b) Financial year**

The financial year is from 1st January to 31st December of each calendar year.

### **(c) Reporting currency**

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

### **(d) Basis of accounting**

The accrual concept and, except for special explanation, the historical cost convention are adopted as basis of accounting. Assets are initially recorded at their acquired costs. Subsequently, if they are impaired, impairment provisions are taken accordingly.

## **2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS** *(Cont'd)*

### **(e) Cash**

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

### **(f) Receivables and provision for bad debts**

Receivables comprise accounts receivable and other receivables.

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 receivables. When there are solid evidences that receivables 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 receivables are recognised as bad debts and net off the corresponding amounts of provision for bad debts.

### **(g) 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.

### **(h) Long-term equity investments**

Long-term equity 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.

The Company adopts the equity method to account for its subsidiary in the accounts of the Company. 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.

## 2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS *(Cont'd)*

### (h) Long-term equity investments *(Cont'd)*

Provision for permanent diminution in value of long-term equity investment is made in the cases where there is a continuing diminution in the value of long-term equity 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.

### (i) Fixed assets and depreciation

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 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 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 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, 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.



## **2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS** *(Cont'd)*

### **(i) Fixed assets and depreciation** *(Cont'd)*

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.

### **(j) Construction-in-progress**

Construction-in-progress represents capital assets under construction or being installed and is stated at cost. Cost comprises original cost of plant and equipment, installation, construction and other direct costs which includes interest cost on specific borrowings used to finance the capital assets, prior to the date of reaching the expected usable condition. Construction-in-progress is transferred to the fixed assets account when the asset has been substantially completed and reaches the expected usable condition.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the construction-in-progress is 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.

### **(k) Borrowing costs**

Interest cost, ancillary costs, and exchange differences incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalised as costs of the assets beginning when the capital expenditures and borrowing costs have been incurred and the activities to enable the assets to reach their expected usable condition have commenced. The capitalisation of borrowing costs ceases when the construction-in-progress has reached the asset's expected usable condition. Borrowing costs incurred thereafter are recognised as expenses in the period in which they are incurred.

## **2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS** *(Cont'd)*

### **(k) Borrowing costs** *(Cont'd)*

In each capitalisation period, the amount of interest cost included in the borrowing costs to be capitalised should be determined according to the weighted average amount of accumulated expenditures incurred for the acquisition or construction of a fixed asset up to the end of the current period and the weighted average interest rate of related borrowings, not exceeding the interest cost of the specific borrowings actually incurred during the current period. Borrowing costs such as exchange differences and significant ancillary costs in connection with specific borrowings in foreign currency are capitalised based on actual amount in the period in which they are incurred.

Borrowing costs in connection with other borrowings are recognised as expenses in the period in which they are incurred.

### **(l) Repair and maintenance expenses**

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

### **(m) Research and development expenses**

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

### **(n) Retirement benefits**

The Group participates in the employee pension scheme of the Tianjin Municipal Government whereby the Group is required 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.

### **(o) 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.

## **2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS** *(Cont'd)*

### **(p) 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.

### **(q) Foreign currency translation**

Transactions denominated in foreign currencies are translated into Rmb at the exchange rates stipulated by the People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Rmb at the exchange rates stipulated by the People's Bank of China at the balance sheet date.

Except for the exchange differences attributable to specific foreign currency borrowings and arising during the period of acquisition and construction of fixed assets are capitalised, all other exchange differences arising are taken to the profit and loss account.

### **(r) Revenue recognition**

- (1) Revenue from sewage water processing services is recognised when services are rendered. 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.
- (2) Toll fee income is recognised on a receipt basis.
- (3) Revenue from 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 certification of qualified independent surveyors or engineers in the PRC.
- (4) Interest income is recognised based on the period of the principal amounts deposited and the effective interest rates.

## **2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS** *(Cont'd)*

### **(s) 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) Government surcharges**

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.

### **(t) Related parties**

Related parties refer to state-owned companies or other companies under the supervisory control of TMEB (note 27).

### **(u) Basis of preparation of consolidated accounts**

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

From the date of obtaining the effective control on a subsidiary, the Company begins to consolidate the subsidiary's revenue, cost, profit, and will cease the consolidation from the date of losing effective control. All significant intercompany transactions and balances between the Company and the subsidiaries under consolidation are eliminated in the consolidated accounts prepared. Minority interests represent the portion of the equity interests of the subsidiaries under consolidation not belong to the Group.

When there is inconsistency in accounting policies between the subsidiaries and the Company, and when the discrepancies arising from the inconsistency have a material impact on the consolidated accounts, they will be adjusted according to the Company's accounting policies.

**3 CASH AND BANK BALANCES**

	Group		Company	
	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Cash on hand	11	12	10	12
Cash in bank	537,918	260,456	515,497	208,758
Total	<u>537,929</u>	<u>260,468</u>	<u>515,507</u>	<u>208,770</u>

**4 ACCOUNTS RECEIVABLE**

	Group		Company	
	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Ageing analysis of accounts receivable is as follows:				
Within one year	28,704	132,312	28,232	132,312
Less: Provision for bad debts	—	—	—	—
Net accounts receivable	<u>28,704</u>	<u>132,312</u>	<u>28,232</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 (note 1(a)(i))	27,201	44,719	27,201	44,719
- revenue from sewage water processing plants construction services (note 1(a)(ii))	—	84,864	—	84,864
Haihe Bridge project management fee income from the Controlling Shareholder (note 1(c))	1,031	2,729	1,031	2,729
Others	472	—	—	—
Total	<u>28,704</u>	<u>132,312</u>	<u>28,232</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. Except for the Haihe Bridge project management fee income receivable from the Controlling Shareholder, there were no accounts receivable from any of the Company's shareholders which hold 5% or more of voting shares as at 31st December 2002.

**5 OTHER RECEIVABLES**

	Group		Company	
	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Ageing analysis of other receivables is as follows:				
Within 1 year	1,419	548	1,078	530
Less: Provision for bad debts	—	—	—	—
Net other receivables	<u>1,419</u>	<u>548</u>	<u>1,078</u>	<u>530</u>

As at 31st December 2002, there were no other receivables from any of the Company's shareholders which hold 5% or more of voting shares.

**6 PREPAYMENTS TO SUPPLIERS**

	Group		Company	
	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	31st December 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(a)(ii)</i> )	—	238,926	—	238,926
Less: Construction cost paid by TSC on behalf of the Company	—	(23,196)	—	(23,196)
Other expenses paid by TSC on behalf of the Company	—	(704)	—	(704)
Others	<u>1,871</u>	<u>114</u>	<u>253</u>	<u>—</u>
Total	<u>1,871</u>	<u>215,140</u>	<u>253</u>	<u>215,026</u>

The above prepayments to suppliers were aged within one year, therefore no bad debt provision was made. As at 31st December 2002, due to the completion of acquisition of the Sewage Plants Construction Projects, construction costs incurred for the Sewage Plants Construction Projects were transferred to the construction-in-progress account (*note 1(a)(ii)*).

As at 31st December 2002, there were no prepayments to any of the Company's shareholders which hold 5% or more of voting shares.

**7 INVENTORIES**

	Group and Company			
	31st December 2002		31st December 2001	
	Cost	Provision	Cost	Provision
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Raw materials	2,022	—	2,230	—
Spare parts and consumables	418	—	284	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total	2,440	—	2,514	—
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**8 LONG-TERM EQUITY INVESTMENTS**

	Group		Company	
	31st December	31st December	31st December	31st December
	2002	2001	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Investment in a subsidiary company ( <i>note (a)</i> )	—	—	15,439	17,018
Other long-term equity investments ( <i>note (b)</i> )	4,000	4,000	4,000	4,000
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value	4,000	4,000	19,439	21,018
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**8 LONG-TERM EQUITY INVESTMENTS** (Cont'd)**(a) 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.	20,000	90%	—	Production of recycled water, equipment development and technical consulting of water recycling business	Tianjin, the PRC	Limited liability company

**(b) Other long-term equity investments**

Name of invested entity	Group and Company	
	Percentage of interest in registered 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		4,000



**9 FIXED ASSETS AND ACCUMULATED DEPRECIATION/AMORTISATION**

	Group					Total <i>Rmb'000</i>
	Land use rights <i>Rmb'000</i>	Road <i>Rmb'000</i>	Buildings and structures <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and others <i>Rmb'000</i>	
Cost						
At 1st January 2002	651,085	185,418	656,897	209,456	51,863	1,754,719
Additions	13	—	—	2,564	5,202	7,779
Disposals	—	—	(1,020)	(109)	(529)	(1,658)
Transfer to construction-in-progress	—	—	—	(3,123)	—	(3,123)
	<u>651,098</u>	<u>185,418</u>	<u>655,877</u>	<u>208,788</u>	<u>56,536</u>	<u>1,757,717</u>
	Accumulated depreciation/amortisation					
At 1st January 2002	27,743	29,074	244,430	115,962	25,508	442,717
Charge for the year	14,598	5,978	15,113	10,224	4,961	50,874
Disposals	—	—	(132)	(64)	(374)	(570)
	<u>42,341</u>	<u>35,052</u>	<u>259,411</u>	<u>126,122</u>	<u>30,095</u>	<u>493,021</u>
	Net book value					
At 31st December 2002	<u>608,757</u>	<u>150,366</u>	<u>396,466</u>	<u>82,666</u>	<u>26,441</u>	<u>1,264,696</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>

**9 FIXED ASSETS AND ACCUMULATED DEPRECIATION/AMORTISATION** (Cont'd)

	Company					Total
	Land use rights	Road	Buildings and structures	Plant, machinery and equipment	Motor vehicles and others	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1st January 2002	651,085	185,418	656,897	207,836	50,170	1,751,406
Additions	13	—	—	1,061	4,614	5,688
Disposals	—	—	(1,020)	(109)	(529)	(1,658)
At 31st December 2002	<u>651,098</u>	<u>185,418</u>	<u>655,877</u>	<u>208,788</u>	<u>54,255</u>	<u>1,755,436</u>
Accumulated depreciation/amortisation						
At 1st January 2002	27,743	29,074	244,430	115,962	25,508	442,717
Charge for the year	14,598	5,978	15,113	10,224	4,711	50,624
Disposals	—	—	(132)	(64)	(374)	(570)
At 31st December 2002	<u>42,341</u>	<u>35,052</u>	<u>259,411</u>	<u>126,122</u>	<u>29,845</u>	<u>492,771</u>
Net book value						
At 31st December 2002	<u><u>608,757</u></u>	<u><u>150,366</u></u>	<u><u>396,466</u></u>	<u><u>82,666</u></u>	<u><u>24,410</u></u>	<u><u>1,262,665</u></u>
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>

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

**10 CONSTRUCTION-IN-PROGRESS**

Name of project	Budget costs	As at 1st		As at 31st	Source of funds	Incurred costs to budget costs ratio
	(acquisition consideration included) <i>Rmb'000</i>	January 2002 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	December 2002 <i>Rmb'000</i>		
Xianyanglu Sewage Water Processing Plant Construction Project	1,190,121	—	281,677	281,677	Bank loans and self-raised fund	23.67%
Jizhuangzi Sewage Water Processing Plant Expansion Project	1,054,722	—	518,147	518,147	Bank loans and self-raised fund	49.13%
Beicang Sewage Water Processing Plant Construction Project	366,270	—	25,801	25,801	Bank loans and self-raised fund	7.04%
Total construction-in- progress (Company)	<u>2,611,113</u>	<u>—</u>	<u>825,625</u>	<u>825,625</u>		
Tianjin Jizhuangzi Sewage Water Recycling Project	114,500	—	90,324	90,324	Specific loans and self-raised fund	78.89%
Total construction-in- progress (Group)	<u><u>2,725,613</u></u>	<u><u>—</u></u>	<u><u>915,949</u></u>	<u><u>915,949</u></u>		
Including: Capitalised borrowing costs (Group and Company)				6,328		

**10 CONSTRUCTION-IN-PROGRESS** (Cont'd)

The additions of the sewage water processing plants construction projects of the Company represent:

Rmb'000

(1) Costs incurred from 24th September 2001 (date of the Transfer Agreements) to 31st December 2002 (date of transfer and settlement of assets and liabilities of the construction projects) for the construction of the sewage water processing plants (previously recorded in prepayments to suppliers account, and transferred to construction-in-progress account upon completion of acquisition)	687,733
(2) Considerations for the acquisition of the Sewage Plant Construction Projects as at 24th September 2001 pursuant to the Transfer Agreements ( <i>note 1(a)(ii)</i> )	137,892
	<u>825,625</u>

**11 SHORT-TERM LOAN**

	Group		Company	
	31st December 2002 Rmb'000	31st December 2001 Rmb'000	31st December 2002 Rmb'000	31st December 2001 Rmb'000
Bank loan	<u>30,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

The above short-term loan is obtained by the Company's subsidiary from Shanghai Pudong Development Bank, guaranteed by the Company's controlling shareholder and bears interest at a rate of 5.76% per annum.

**12 ACCOUNTS PAYABLE**

As at 31st December 2002, there were no accounts payable to any of the Company's shareholders which hold 5% or more of voting shares.

### 13 ADVANCES FROM CUSTOMER

Pursuant to the Construction Fee Agreement (note 1(a)(ii)), TSC shall pay to the Company advances totalling Rmb 117,052,000, representing ten percent of the total construction fees in respect of the Sewage Plant Construction Projects. At the same time, the advances will be offset by ten percent of the construction fees charged by the Company to TSC in each period/year. At 31st December 2002, advances from customer represented the remaining balance of the advances (after offsetting ten percent of the accumulated construction fees recognised by the Company of Rmb 27,455,000 for the period from 24th September 2001 to 31st December 2002).

As at 31st December 2002, there were no advances from any of the Company's shareholders which hold 5% or more of voting shares.

### 14 DIVIDEND PAYABLE

Pursuant to the 29th meeting of the Second Board of Directors held on 20th February 2003, the Board of Directors proposed to distribute a cash dividend of Rmb 0.85 (tax included) for every ten shares held by shareholders, totalling Rmb 113,050,000, (2001: Rmb 0.80 (tax included) for every ten shares held by shareholders, totalling Rmb 106,400,000) based on the total number of shares of 1,330,000,000 as at 31st December 2002. The dividend distribution is subject to approval of the shareholders at the annual general meeting to be held in 2003. In addition, the balance of dividend payable of Rmb 2,218,000 as at 31st December 2002 represents the dividend for year 2001 not yet paid to certain legal person shareholders.

### 15 TAXES PAYABLE

	Group		Company	
	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Income tax	9,225	26,594	9,225	26,594
Business tax and others	11,971	20,003	11,966	19,999
Total	<u>21,196</u>	<u>46,597</u>	<u>21,191</u>	<u>46,593</u>

**16 OTHER PAYABLES**

	Group		Company	
	31st December 2002 Rmb'000	31st December 2001 Rmb'000	31st December 2002 Rmb'000	31st December 2001 Rmb'000
Payable to controlling shareholder (note (a))	4,737	17,696	4,737	17,696
Construction costs payable (note (b))	62,240	135,730	60,352	135,730
Payable to TSC (note (c))	105,565	—	105,565	—
Others	3,981	4,119	3,981	4,105
Total	<u>176,523</u>	<u>157,545</u>	<u>174,635</u>	<u>157,531</u>

- (a) The payable to the controlling shareholder is unsecured, interest free and has no specific repayment terms. Except for payable to the controlling shareholder, there were no other payables to any of the Company's shareholders which hold 5% or more of voting shares.
- (b) The construction costs payable represent the construction costs incurred in relation to the construction of the sewage water processing plants by the Company (note 1(a)(ii)) but remained outstanding. The construction costs payable included amounts of Rmb 22,781,000 (2001: Rmb 99,396,000) payable to related companies.
- (c) The payable to TSC represents the net amount arising after offsetting various balances at 31st December 2002 for the acquisition of the Sewage Plant Construction Projects (note 1(a)(ii)). The payable to TSC is interest free and has no specific repayment terms.

## 17 LONG-TERM LOAN

The long-term loan is obtained from the State Development Bank and transferred to the Company along with the acquisition of the Sewage Plant Construction Projects. The total facility of the loan is Rmb 740,000,000. The long-term loan is guaranteed by TMEB and secured by some of the fee collection rights of TMEB's businesses. The interest rate of the long-term loan will vary according to the interest rate of long-term loan as promulgated by the People's Bank of China. The prevailing interest rate is 5.76% per annum. The long-term loan is repayable during the period from 2004 to 2011. Detailed repayment schedule is set out as follows:

	Group		Company	
	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Payable within one year	—	—	—	—
Payable in the second year	50,000	—	50,000	—
Payable in the third year to fifth year	243,000	—	243,000	—
Payable after the fifth year	207,000	—	207,000	—
Total	<u>500,000</u>	<u>—</u>	<u>500,000</u>	<u>—</u>

In addition, in November 2002, the Company obtained the approval from China Everbright Bank Tianjin Branch to grant to the Company a long-term loan facility of Rmb 700 million, which has a period of nine years with an interest rate of 5.76% per annum. The long-term loan facility is intended to be applied to the construction of the Sewage Plant Construction Projects in the event that the Company has inadequate working capital. This borrowing scheme will be submitted to the general meeting of the Company's shareholders for approval.

## 18 SPECIFIC PAYABLES

The specific payables include amounts of Rmb 36,000,000 (2001: Rmb 36,000,000) and Rmb 30,000,000 (2001: Nil) specific funds obtained by the Company's subsidiary, Tianjin Water Recycling Co., Ltd., from TMEB in accordance with respective documents 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" and "Notice from the State Development Planning Commission Regarding Investment Plan of Specific Fund of National Budget for the Water Supply and Water Sourcing Projects (including Sewage Water Recycling Paradigm Projects) for Cities with Water Shortage in 2002". The specific payables are granted for the construction of Tianjin Jizhuangzi Sewage Water Recycling Project. The remaining balance is obtained by the subsidiary from other authorities of Tianjin Municipal Government. These specific payables are interest free in 2002, and the method and date of repayment will only be determined after the completion of the construction project which is estimated to take more than one year.

**19 SHARE CAPITAL**

	Company	
	31st December 2002 <i>Rmb'000</i>	31st December 2001 <i>Rmb'000</i>
Registered share capital		
Par value of Rmb 1 per share:		
- 990,000,000 A shares	990,000	990,000
- 340,000,000 H shares	340,000	340,000
	<u>1,330,000</u>	<u>1,330,000</u>
Total	<u><u>1,330,000</u></u>	<u><u>1,330,000</u></u>
Issued and paid up capital		
(1) A shares of par value of Rmb 1		
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
	<u>990,000</u>	<u>990,000</u>
Sub-total	990,000	990,000
(2) H shares of par value of Rmb 1		
Circulating shares outside China		
Social public shares (340,000,000 shares)	340,000	340,000
	<u>340,000</u>	<u>340,000</u>
Total	<u><u>1,330,000</u></u>	<u><u>1,330,000</u></u>

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



**20 CAPITAL RESERVE FUND AND GENERAL RESERVES**

	<b>Group and Company</b>		
	<b>Capital reserve fund</b>	<b>Statutory common reserve</b>	<b>Statutory provident fund</b>
	<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 1st January 2002	69,289	27,500	13,750
Transferred from profit appropriation			
- Transfer to statutory common reserve <i>(note (b))</i>	—	28,723	—
- Transfer to statutory provident fund <i>(note (b))</i>	—	—	14,362
	<u>69,289</u>	<u>56,223</u>	<u>28,112</u>
At 31st December 2002	<u>69,289</u>	<u>56,223</u>	<u>28,112</u>

**(a) Capital reserve fund**

Capital reserve fund comprises the following item:

	<b>Group and Company</b>	
	<b>31st December 2002</b>	<b>31st December 2001</b>
	<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 directors have proposed to transfer 10% and 5% of the net profit of the Company for 2002 prepared under PRC accounting regulations to the statutory common reserve of Rmb 28,723,000 (2001: Rmb 26,764,000) and to the statutory provident fund of Rmb 14,362,000 (2001: Rmb 13,382,000), respectively.

**20 CAPITAL RESERVE FUND AND GENERAL RESERVES** (Cont'd)**(b) General reserves** (Cont'd)

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.

**21 UNDISTRIBUTED PROFITS**

	<b>Group and Company</b>
	<i>Rmb'000</i>
At 1st January 2002	127,349
Add: Net profit for the year	287,236
Less: Transfer to statutory common reserve	(28,723)
Transfer to statutory welfare fund	(14,362)
Dividend proposed by the Board of Directors	(113,050)
	<hr/>
At 31st December 2002	<u>258,450</u>

**22 INCOME FROM PRINCIPAL OPERATIONS AND SEGMENT INFORMATION****(a) Income from principal operations**

	Group	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Revenue from sewage water processing services	399,665	417,944
Revenue from sewage water processing plants construction services	183,536	91,013
Sub-total	583,201	508,957
Toll fee income	82,736	84,299
Haihe Bridge project management fee	4,812	2,730
	<u>670,749</u>	<u>595,986</u>

**(b) Segment information**

	Sewage water processing and sewage water plant construction	Road and toll stations	Haihe Bridge project management	Group
	2002 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Income from principal operations	583,201	82,736	4,812	670,749
Costs for principal operations	(112,150)	(32,910)	(1,076)	(146,136)
Business tax and surcharges	(32,075)	(4,551)	(265)	(36,891)
Profit from principal operations	438,976	45,275	3,471	487,722
Less: Administrative expenses	(38,399)	(7,648)	—	(46,047)
Add: Financial (expenses)/income - net	(14,461)	1,950	—	(12,511)
Others	364	(992)	—	(628)
Total profit	386,480	38,585	3,471	428,536
Less: Income tax	(127,597)	(12,733)	(1,145)	(141,475)
Net profit before minority interests	258,883	25,852	2,326	287,061
Minority interests	175	—	—	175
Net profit	<u>259,058</u>	<u>25,852</u>	<u>2,326</u>	<u>287,236</u>

**22 INCOME FROM PRINCIPAL OPERATIONS AND SEGMENT INFORMATION** (Cont'd)

## (b) Segment information (Cont'd)

	processing and sewage water plant construction	Road and toll stations	Haihe Bridge project management	Group
	2001	2001	2001	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from principal operations	508,957	84,299	2,730	595,986
Costs for principal operations	(96,543)	(34,445)	(661)	(131,649)
Business tax and surcharges	(27,993)	(4,636)	(150)	(32,779)
Profit from principal operations	384,421	45,218	1,919	431,558
Less: Administrative expenses	(27,654)	(5,968)	(1)	(33,623)
Add: Financial (expenses)/income - net	93	1,103	—	1,196
Others	(104)	318	—	214
Total profit	356,756	40,671	1,918	399,345
Less: Income tax	(118,090)	(13,097)	(633)	(131,820)
Net profit before minority interests	238,666	27,574	1,285	267,525
Minority interests	109	—	—	109
Net profit	238,775	27,574	1,285	267,634

**23 BUSINESS TAX AND SURCHARGES**

	Group		Company	
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Business tax	33,537	29,799	33,537	29,799
City construction tax	2,348	2,086	2,348	2,086
Education surcharge	1,006	894	1,006	894
Total	36,891	32,779	36,891	32,779

**24 FINANCIAL (EXPENSES)/INCOME - NET**

	Group		Company	
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest expense	(20,899)	—	(20,899)	—
Less: interest capitalised	6,328	—	6,328	—
Interest expense - net	(14,571)	—	(14,571)	—
Less: Interest income	2,158	1,208	2,073	1,138
Others	(98)	(12)	(97)	(12)
	<u>(12,511)</u>	<u>1,196</u>	<u>(12,595)</u>	<u>1,126</u>

**25 INVESTMENT LOSS**

	Group		Company	
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Based on equity accounting				
Share of loss of the subsidiary	—	—	(1,579)	(982)
	<u>—</u>	<u>—</u>	<u>(1,579)</u>	<u>(982)</u>

**26 COMMITMENTS****(a) Capital commitments**

	Group		Company	
	31st December 2002	31st December 2001	31st December 2002	31st December 2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted but not provided for (note (i))	146,710	137,892	134,968	137,892
Authorised but not contracted for (note (ii))	1,662,955	2,398,694	1,650,520	2,284,194
	<u>1,809,665</u>	<u>2,536,586</u>	<u>1,785,488</u>	<u>2,422,086</u>

**26 COMMITMENTS** (Cont'd)**(a) Capital commitments** (Cont'd)

Notes:

- (i) At 31st December 2002, the Group amount comprised the capital commitments of the Company in respect of the Sewage Plant Construction Projects (note 1(a)(ii)) of the Company amounting to Rmb 134,968,000, and the capital commitments of Tianjin Jizhuangzi Sewage Water Recycling Project of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., amounting to Rmb 11,742,000.
- (ii) At 31st December 2002, the Group amount comprised the capital commitments of the Company in respect of the Sewage Plant Construction Projects from 1st January 2003 to completion amounting to Rmb 1,650,520,000, and the capital commitments of Tianjin Jizhuangzi Sewage Water Recycling Project of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., amounting to Rmb 12,435,000.

In addition, subsequent to the year end on 20th February 2003, the Company's board meeting passed a resolution to approve the acquisition of an office building in Tianjin, with an estimated total price of less than Rmb 100 million, for the Company's own use and for rental purpose.

**(b) Operating lease commitments**

At 31st December 2002, the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises leased from the controlling shareholder as follows:

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

**27 RELATED PARTIES****(a) Related parties that have controlling relationship**

Name of related party:	Tianjin Municipal Investment Company Limited	Tianjin Municipal Engineering Bureau	Tianjin Water Recycling Co., Ltd
Place of registration:	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC
Principal businesses:	Development, construction and management of municipal infrastructures	Supervisory management of the infrastructure and road construction in Tianjin	Production and sales of recycled water and equipment development
Relationship with the Company:	The controlling shareholder of the Company	Supervisory controller of the Group's businesses	A subsidiary of the Company
Type of enterprise:	Limited company	Government authority	Limited company
Legal representative:	Sun Zengyin	Sun Zengyin	Zhang Wenhui

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

Name of enterprise	As at	Additions	As at
	1st January		31st December
	2002		2002
	Rmb'000	Rmb'000	Rmb'000
Tianjin Municipal Investment Company Limited	1,724,278	—	1,724,278
Tianjin Water Recycling Co., Ltd	20,000	—	20,000
	<u>          </u>	<u>          </u>	<u>          </u>

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

Name of enterprise	As at 1st January		Additions		As at 31st December	
	2002		2002		2002	
	Rmb'000	%	Rmb'000	%	Rmb'000	%
Tianjin Municipal Investment Company Limited	839,020	63.08	—	—	839,020	63.08
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**27 RELATED PARTIES** (Cont'd)**(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
Tianjin Sewage Management Bureau	State-owned company under the supervisory control of TMEB
Tianjin Sewage Management Bureau No.2 Management Office	State-owned company under the supervisory control of TMEB
Tianjin Sewage Management Bureau No.4 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 Sewage Engineering Company No.2 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 Road & Bridge Management Bureau No.1 Road Management Office	State-owned company under the supervisory control of TMEB
Tianjin Road & Bridge Management Bureau No.3 Road Management Office	State-owned company under the supervisory control of TMEB
Tianjin Municipal Engineering Design Research Institute	State-owned company under the supervisory control of TMEB



**28 RELATED PARTY TRANSACTIONS**

The following is a summary of significant transactions with related companies during the year 2002, which were carried out in the normal course of operations of the Group.

Name of enterprises	Nature of transaction	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
<i>Income:</i>			
TSC	Revenue from sewage water processing services ( <i>note (a)</i> )	399,665	417,944
TSC	Revenue from construction of sewage water processing plants ( <i>note (b)</i> )	183,536	91,013
TMICL	Revenue from Haihe Bridge project management service ( <i>note (c)</i> )	<u>4,812</u>	<u>2,729</u>
<i>Expenses:</i>			
TURBCC	Road repair and maintenance ( <i>note (d)</i> )	2,750	2,750
TMICL	Operating lease rental in respect of office premises ( <i>note (e)</i> )	1,050	450
Li & Partners	Legal consulting fees ( <i>note (f)</i> )	1,348	1,921
Tianjin Urban Road Construction No.2 Company Limited	Silt removal fees ( <i>note (g)</i> )	<u>7,355</u>	<u>—</u>
<i>Construction of sewage water processing plants:</i>			
Related contractors	Amounts payable for sewage water processing plants construction costs ( <i>note (h)</i> )	<u>344,010</u>	<u>186,940</u>
<i>Acquisition of the Sewage Plants Construction Projects:</i>			
TSC	Completion and transfer of the Sewage Plants Construction Projects	<u>note 1(a)(ii)</u>	<u>—</u>

*Notes:*

- (a) This represents revenue derived from the sewage water processing services rendered by the Company to TSC according to the Sewage Water Processing Agreement, details of which are set out in note 1(a)(i).
- (b) This represents revenue derived from the construction services for the three sewage water processing plants rendered by the Company to TSC according to the Sewage Water Plants Construction Fee Agreement, details of which are set out in note 1(a)(ii).

**28 RELATED PARTY TRANSACTIONS** (Cont'd)

Notes: (cont'd)

- (c) This represents revenue derived from the Haihe Bridge project management services rendered to the controlling shareholder, details of which are set out in note 1(c).
- (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 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 the controlling Shareholder as its office premises for a total annual rentals of Rmb 1,050,000 (2001: Rmb 450,000), 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 year, 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 of the Company from the date of the general meeting.
- (g) This represents the silt removal fees paid to Tianjin Urban Road Construction No.2 Company Limited according to the Silt Removal Agreement in respect of Jizhuangzi Sewage Processing Plant.
- (h) This represents the construction costs incurred in respect of the sewage water processing plants for the year ended 31 December 2002 and were payable to the following related contractors:

Name of related parties	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Tianjin Urban Road Construction No.1 Co., Ltd.	1,654	15,022
Tianjin Urban Road Construction No.2 Co., Ltd.	63,125	7,791
Tianjin Urban Road Construction No.3 Co., Ltd.	8,992	6,899
Tianjin Urban Road Construction No.5 Co., Ltd.	47,827	12,311
Tianjin City Construction Group Co., Ltd.	195,820	130,611
Tianjin Sewage Management Bureau	300	—
Tianjin Sewage Management Bureau No.2 Management Office	1,300	800
Tianjin Sewage Management Bureau No.4 Management Office	1,000	—
Tianjin Sewage Engineering Company	8,767	4,506
Tianjin Sewage Engineering No.2 Company	750	—
Tianjin Road & Bridge Management Bureau	569	5,000
Tianjin Road & Bridge Management Bureau No.1 Road Management Office	651	—
Tianjin Road & Bridge Management Bureau No.3 Road Management Office	355	—
Tianjin Municipal Engineering Design Research Institute	12,900	4,000
	<hr/>	<hr/>
Total	<b>344,010</b>	<b>186,940</b>
	<hr/> <hr/>	<hr/> <hr/>

- (i) The road and toll stations business had fifteen toll stations as at 31st December 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.

## **29 DIRECTORS' REMUNERATION**

The Company and its subsidiaries have paid an aggregate remuneration (including salaries, housing allowance and other allowance) of Rmb 2,495,000 to the Company's directors and paid retirement benefits of Rmb 22,000 for the Company's directors, totalling Rmb 2,517,000 for the year ended 31st December 2002 (2001: Rmb 2,280,000). The total amount includes director fees of Rmb 715,000 (2001: Rmb 780,000) paid to independent non-executive directors during the year.

## **30 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 Rmb 1,200 million at par value. The par value of each convertible bond is Rmb 100 and the bonds will mature in 5 years. The proposal was approved at the tenth annual general meeting of shareholders held on 16th April 2002. The Company is currently actively engaging in the preparation of the issuance of "A Share" convertible bonds.

## **31 AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS**

The accounts were authorised for issue by the Company's board of directors on 20th February 2003.



羅兵咸永道會計師事務所

**TO THE SHAREHOLDERS OF  
TIANJIN CAPITAL ENVIRONMENTAL PROTECTION COMPANY LIMITED**

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

We have audited the accounts on pages 93 to 128 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion, the accounts give a true and fair view of the state of affairs of the Group and the Company as at 31st December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 20th February 2003

# Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31ST DECEMBER 2002

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

	<i>Note</i>	<b>2002</b> <i>Rmb'000</i>	<b>2001</b> <i>Rmb'000</i>
<b>TURNOVER</b>	3	<b>633,858</b>	563,207
Cost of sales		<u>(146,136)</u>	<u>(131,649)</u>
Gross profit		<b>487,722</b>	431,558
Other revenue	3	<b>2,158</b>	1,208
Administrative expenses		<b>(46,047)</b>	(33,623)
Other operating (expenses)/income, net		<u>(726)</u>	<u>202</u>
Operating profit	4	<b>443,107</b>	399,345
Finance costs	5	<u>(14,571)</u>	<u>—</u>
Profit before taxation		<b>428,536</b>	399,345
Taxation	6	<u>(141,475)</u>	<u>(131,820)</u>
Profit after taxation		<b>287,061</b>	267,525
Minority interests		<u>175</u>	<u>109</u>
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	7	<b><u>287,236</u></b>	<b><u>267,634</u></b>
<b>DIVIDEND</b>	8	<b><u>113,050</u></b>	<b><u>106,400</u></b>
<b>EARNINGS PER SHARE</b>	9	<b>Rmb</b> <b><u>0.22</u></b>	<b>Rmb</b> <b><u>0.20</u></b>

# Consolidated Balance Sheet

AS AT 31ST DECEMBER 2002

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

	Note	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
<b>FIXED ASSETS</b>	11	2,180,645	1,312,002
<b>INVESTMENT SECURITIES</b>	13	4,000	4,000
<b>CURRENT ASSETS</b>			
Inventories	14	2,440	2,514
Accounts receivable	15	28,704	132,312
Other receivables and prepayments		3,290	215,688
Bank balances and cash		537,929	260,468
		<u>572,363</u>	<u>610,982</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		1,862	209
Advances from customer	16	89,597	—
Other payables	17	202,808	187,802
Taxation payable		9,225	26,594
Short-term bank loan, unsecured	18	30,000	—
		<u>333,492</u>	<u>214,605</u>
<b>NET CURRENT ASSETS</b>		<u>238,871</u>	<u>396,377</u>
		<u>2,423,516</u>	<u>1,712,379</u>
Financed by:			
<b>SHARE CAPITAL</b>	19	1,330,000	1,330,000
<b>CAPITAL RESERVE FUND</b>	20	69,289	69,289
<b>GENERAL RESERVES</b>	20	84,335	41,250
<b>RETAINED EARNINGS</b>	20	258,450	127,349
<b>PROPOSED FINAL DIVIDEND</b>	20	113,050	106,400
		<u>1,855,124</u>	<u>1,674,288</u>
<b>SHAREHOLDERS' FUNDS</b>		1,855,124	1,674,288
<b>MINORITY INTERESTS</b>		1,716	1,891
<b>LONG-TERM LIABILITIES</b>	21	566,676	36,200
		<u>2,423,516</u>	<u>1,712,379</u>

Ma Baiyu  
Director

An Pindong  
Director

# Balance Sheet

AS AT 31 ST DECEMBER 2002

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

	<i>Note</i>	<b>2002</b> <i>Rmb'000</i>	2001 <i>Rmb'000</i>
<b>FIXED ASSETS</b>	11	<b>2,088,290</b>	1,308,689
<b>SUBSIDIARY</b>	12	<b>18,000</b>	18,000
<b>INVESTMENT SECURITIES</b>	13	<b>4,000</b>	4,000
<b>CURRENT ASSETS</b>			
Inventories	14	<b>2,440</b>	2,514
Accounts receivable	15	<b>28,232</b>	132,312
Other receivables and prepayments		<b>1,331</b>	215,556
Bank balances and cash		<b>515,507</b>	208,770
		<u><b>547,510</b></u>	<u>559,152</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		<b>414</b>	199
Advances from customer	16	<b>89,597</b>	—
Other payables	17	<b>200,879</b>	187,778
Taxation payable		<b>9,225</b>	26,594
		<u><b>300,115</b></u>	<u>214,571</u>
<b>NET CURRENT ASSETS</b>		<u><b>247,395</b></u>	<u>344,581</u>
		<u><b>2,357,685</b></u>	<u>1,675,270</u>
Financed by:			
<b>SHARE CAPITAL</b>	19	<b>1,330,000</b>	1,330,000
<b>CAPITAL RESERVE FUND</b>	20	<b>69,289</b>	69,289
<b>GENERAL RESERVES</b>	20	<b>84,335</b>	41,250
<b>RETAINED EARNINGS</b>	20	<b>261,011</b>	128,331
<b>PROPOSED FINAL DIVIDEND</b>	20	<b>113,050</b>	106,400
		<u><b>1,857,685</b></u>	<u>1,675,270</u>
<b>SHAREHOLDERS' FUNDS</b>		<u><b>1,857,685</b></u>	<u>1,675,270</u>
<b>LONG-TERM LIABILITIES</b>	21	<b>500,000</b>	—
		<u><b>2,357,685</b></u>	<u>1,675,270</u>

Ma Baiyu  
Director

An Pindong  
Director

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER 2002

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

	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Total equity as at 1st January	1,674,288	1,406,654
Profit for the year	287,236	267,634
Dividend	(106,400)	—
Total equity as at 31st December	<u>1,855,124</u>	<u>1,674,288</u>



# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER 2002

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

	<i>Note</i>	<b>2002</b>	As restated 2001
		<i>Rmb'000</i>	<i>Rmb'000</i>
<b>NET CASH INFLOW GENERATED FROM OPERATIONS</b>	22(a)	<b>518,192</b>	295,204
<b>PRC INCOME TAX PAID</b>		<b>(158,844)</b>	(108,853)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		<b>359,348</b>	186,351
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(373,802)	(13,130)
Cash received from acquisition of construction-in-progress	1(a)(ii)	354,362	—
Interest received		2,158	1,208
Purchase of investment securities		—	(4,000)
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(17,282)</b>	(15,922)
<b>NET CASH INFLOW BEFORE FINANCING</b>		<b>342,066</b>	170,429
<b>FINANCING ACTIVITIES</b>			
New loan payable		30,000	—
Increase in specific payables under long-term liabilities	22(b)	30,476	36,200
Capital injection from a minority shareholder	22(b)	—	2,000
Interest paid		(20,899)	—
Dividends paid		(104,182)	—
<b>NET CASH (OUTFLOW)/ INFLOW FROM FINANCING</b>		<b>(64,605)</b>	38,200
<b>INCREASE IN BANK BALANCES AND CASH</b>		<b>277,461</b>	208,629
<b>BANK BALANCES AND CASH AT 1ST JANUARY</b>		<b>260,468</b>	51,839
<b>BANK BALANCES AND CASH AT 31ST DECEMBER</b>		<b>537,929</b>	260,468

# Notes to the Accounts

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

## 1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES

Tianjin Capital Environmental Protection Company Limited (“the Company”) was established on 8th June 1993 in the People’s Republic of China (the “PRC”) as a joint stock limited company. Its principal activities include sewage water processing and sewage water processing plants construction, road and toll stations, and Haihe Bridge project management. Principal business of the Company’s subsidiary is set out in note 12.

The following is the Company’s operation mode of principal activities:

### (a) Sewage Water Processing and Sewage Water Processing Plants Construction Business

#### (i) Sewage Water Processing Business

The sewage water processing business is conducted according to a Sewage Water Processing Agreement entered into on 10th October 2002, 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.

#### (ii) 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 construction-in-progress of Xianyanglu Sewage Water Processing Plant, Jizhuangzi (Expansion) Sewage Water Processing Plant and Beicang Sewage Water Processing Plant (the “Sewage Plant Construction Projects”). Pursuant to the Transfer Agreements, the Company will acquire from TSC the Sewage Plant Construction Projects and TSC should transfer the rights and obligations of loan facilities from three banks, totalling approximately Rmb 1,460 million and already contracted by TSC for the Sewage Plant Construction Projects, to the Company upon the completion of the transfers.

## **1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES** *(Cont'd)*

### **(a) Sewage Water Processing and Sewage Water Processing Plants Construction Business** *(Cont'd)*

#### **(ii) Sewage Water Processing Plants Construction Business** *(Cont'd)*

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 a reward to remunerate the Company to take responsibility for the construction of the Sewage Plant Construction Projects. The aggregate construction fees payable to the Company for the above Sewage Plant Construction Projects amount to approximately Rmb 1,170 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 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 the 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. Pursuant to the agreement, upon the commencement of operation of the three sewage water processing plants, the rights and obligations between the Company and TSC will follow the terms as specified in the Sewage Water Processing Agreement.

**1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES** (Cont'd)**(a) Sewage Water Processing and Sewage Water Processing Plants Construction Business** (Cont'd)**(ii) Sewage Water Processing Plants Construction Business** (Cont'd)

Currently, the Company has obtained a bank loan facility of Rmb 740 million from one of the three banks, while the transfers of the remaining bank loan facilities from the other two banks amounting to approximately Rmb 720 million are still in progress. According to the opinion of the Company's lawyer and a confirmation issued by TSC consenting that the incomplete transfer of the bank loan facilities would have no material impact on the transfers of the Sewage Plant Construction Projects, the Company therefore announced the completion of the acquisition of the Sewage Plant Construction Projects on 30th October 2002. For the sake of accounting convenience of both parties, TSC and the Company decided to use 31st December 2002 as the effective date of transfer, and that all assets and liabilities related to the Sewage Plant Construction Projects set out below be settled on that date:

	<i>Rmb'000</i>
Assets:	
- Bank deposits transferred from TSC	(354,362)
- Considerations payable to TSC for the Sewage Plant Construction Projects up to 24th September 2001	(137,892)
- Other related assets	(679)
	<hr/>
Amounts payable to TSC for transfer of assets	(492,933)
Liabilities:	
Bank loan transferred from TSC	500,000
	<hr/>
<b>Net amount receivable from TSC upon the completion of transfer of the Sewage Plant Construction Projects</b>	<b>7,067</b>
	<hr style="border-top: 1px dashed black;"/>
Construction fee of the Sewage Plant Construction Projects receivable from TSC	71,401
Construction costs prepaid by TSC for the Company	(273,630)
	<hr/>
<b>Net amount payable to TSC prior to the completion of the acquisition</b>	<b>(202,229)</b>
	<hr style="border-top: 1px dashed black;"/>
<b>Remaining balance of the 10% of the total construction fee that TSC should have prepaid to the Company</b>	<b>89,597</b>
	<hr style="border-top: 1px dashed black;"/>
<b>Net amount payable to TSC by the Company</b>	<b>(105,565)</b>
	<hr style="border-top: 3px double black;"/>

**1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES** (Cont'd)**(a) Sewage Water Processing and Sewage Water Processing Plants Construction Business** (Cont'd)**(ii) Sewage Water Processing Plants Construction Business** (Cont'd)

In addition, TSC confirmed that it would actively assist the Company to complete the remaining procedures for the transfers of the other two loans from TSC to the Company. Also, TSC guaranteed that the above mentioned loans or loans of the same or similar terms would be finally transferred to the Company in order to facilitate the Company to complete the construction of the Sewage Plant Construction Projects in time.

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

	<b>Xianyanglu Sewage Water Processing Plant Construction Project</b>	<b>Jizhuangzi Sewage Water Processing Plant Expansion Project</b>	<b>Beicang Sewage Water Processing Plant Construction Project</b>
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 from 24th September 2001 to commencement of operations of the plants (Rmb' million)	1,134	978	366
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 31st December 2002	19.7%	45.1%	6.1%
Construction fees recognised by the Company (Rmb' million)			
- up to 31st December 2001	35	46	10
- up to 31st December 2002	116	143	16

## **1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES** *(Cont'd)*

### **(b) Road and Toll Stations Business**

The Company has the 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.

### **(c) Haihe Bridge Project Management Business**

On 24th September 2001, the Company entered into the Haihe Bridge Project Management Agreement with Tianjin Municipal Investment Company Limited ("TMICL"), 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 Rmb 10,650,000. The construction of Haihe Bridge is expected to be completed in early 2003.

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 subject to certain penalty, respectively.

## 2 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 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP33:	Discontinuing operations
SSAP34 (revised):	Employee benefits

The adoption of these new and revised SSAPs has no material effect on the Group’s results other than presentational changes in respect of the presentation of Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement. Certain comparative figures have been reclassified to conform with the current year’s presentation.

The principal accounting policies adopted in the preparation of 2002 accounts 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 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.

## 2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (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.

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

Construction-in-progress represents fixed assets under construction or installation and is stated at cost. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. Construction-in-progress is transferred to fixed assets when commissioned.

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.



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

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

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.

### **(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. This 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.

### **(e) 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.

### **(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.

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

### **(g) Revenue recognition**

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

Toll fee income is recognised on a receipt basis.

Revenue from 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 certification of qualified independent surveyors or engineers in the PRC.

Interest income is recognised on a time proportion basis, 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) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### **(j) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

### **(k) 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.

### **(l) 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.

### **(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 periods.

### **(n) 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.

### 3 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is currently engaged in sewage water processing, sewage water processing plants construction, road and toll stations and Haihe Bridge project management operations. Revenues recognised during the year are as follows:

(a) Analysis of the Group's turnover and other revenue

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Turnover		
Revenue from sewage water processing services	377,684	394,957
Revenue from sewage water processing plants construction services	173,442	86,007
	<u>551,126</u>	<u>480,964</u>
Toll fee income	78,185	79,663
Haihe Bridge project management fee	4,547	2,580
	<u>633,858</u>	<u>563,207</u>
Other revenue		
Interest income	2,158	1,208
Total revenues	<u>636,016</u>	<u>564,415</u>

Pursuant to the PRC tax rules, the 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 business of the Group during the year amounted to Rmb 36,891,000 (2001: Rmb 32,779,000), and has been deducted from the operating revenue to arrive at the turnover of the Group.

**3 TURNOVER, REVENUE AND SEGMENT INFORMATION** (Cont'd)**(b) Business segment analysis**

	Sewage water processing and sewage water processing plant construction	Road and toll stations	Haihe Bridge project management	Group
	2002	2002	2002	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	<u>551,126</u>	<u>78,185</u>	<u>4,547</u>	<u>633,858</u>
Segment results	<u>386,480</u>	<u>38,585</u>	<u>3,471</u>	428,536
Taxation				<u>(141,475)</u>
Profit after taxation				287,061
Minority interests				<u>175</u>
Profit attributable to shareholders				<u>287,236</u>
Segment assets	2,204,090	547,887	1,031	2,753,008
Investment securities				<u>4,000</u>
Total assets				<u>2,757,008</u>
Segment liabilities	858,479	30,236	10	888,725
Unallocated liabilities				<u>11,443</u>
Total liabilities				<u>900,168</u>
Capital expenditure	920,869*	2,859	—	<u>923,728</u>
Depreciation and amortisation	40,094	10,780	—	<u>50,874</u>

\* Capital expenditure comprises the transfer of construction-in-progress from TSC and additions of fixed assets

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

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

	Sewage water processing and sewage water processing plant construction	Road and toll stations	Haihe Bridge project management	Group
	2001	2001	2001	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	480,964	79,663	2,580	563,207
Segment results	356,756	40,671	1,918	399,345
Taxation				(131,820)
Profit after taxation				267,525
Minority interests				109
Profit attributable to shareholders				267,634
Segment assets	1,326,255	593,999	2,730	1,922,984
Investment securities				4,000
Total assets				1,926,984
Segment liabilities	199,868	24,192	151	224,211
Taxation payable				26,594
Total liabilities				250,805
Capital expenditure	6,865	6,265	—	13,130
Depreciation and amortisation	39,051	14,243	—	53,294

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

#### 4 OPERATING PROFIT

Operating profit is stated after charging the following:

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Depreciation and amortisation	50,874	53,294
Staff costs, including retirement benefit costs of Rmb 3,366,000 (2001: Rmb 2,206,000)	40,360	33,302
Repair and maintenance expenses	28,014	19,644
Operating lease rentals for land and buildings	1,070	533
Auditors' remuneration	4,138	2,800
Loss on disposal of fixed assets	1,088	188
	<u>1,088</u>	<u>188</u>

#### 5 FINANCE COSTS

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Interest expense	20,899	—
Less: Interest capitalised	(6,328)	—
	<u>14,571</u>	<u>—</u>

#### 6 TAXATION

No Hong Kong profits tax has been provided as the Group has no taxable profits in Hong Kong (2001: nil). PRC income tax has been charged at 33% on the assessable profits of the Group.

There is no material unprovided deferred taxation of the Group for the year (2001: nil).

#### 7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of Rmb 288,815,000 (2001: Rmb 268,616,000), which is dealt with in the accounts of the Company.

**8 DIVIDEND**

	<b>2002</b>	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Final, proposed of Rmb 0.85 (2001: Rmb 0.80) per ten shares	<u><b>113,050</b></u>	<u>106,400</u>

Pursuant to the 29th meeting of the Second Board of Directors held on 20th February 2003, the Board of Directors proposed to distribute a final dividend of Rmb 0.85 (tax included) per ten shares held by shareholders, totalling Rmb 113,050,000 (2001: Rmb 0.80 (tax included) per ten shares held by shareholders, totalling Rmb 106,400,000), based on the total number of shares of 1,330,000,000 as at 31st December 2002. 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 2003.

**9 EARNINGS PER SHARE**

The calculation of earnings per share is based on the profit attributable to shareholders of Rmb 287,236,000 (2001: Rmb 267,634,000) and 1,330,000,000 shares (2001: 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:

	<b>2002</b>	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Fees	715	780
Salaries and other emoluments	1,780	1,480
Contribution to retirement benefit scheme	22	20
	<u>2,517</u>	<u>2,280</u>

Emoluments paid to independent non-executive directors amounting to Rmb 715,000 during the year (2001: Rmb 780,000) have been included in the above balance.

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

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include 3 (2001: 3) directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 2 (2001: 2) individuals during the year are as follows:

	<b>2002</b>	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Salaries and other emoluments	715	550
Contribution to retirement benefit scheme	14	13
	<u>729</u>	<u>563</u>

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

	Land use rights <i>Rmb'000</i>	Road <i>Rmb'000</i>	Buildings and structures <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and others <i>Rmb'000</i>	Construction- in-progress <i>(note (ii))</i> <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost							
At 1st January 2002	651,085	185,418	656,897	209,456	51,863	—	1,754,719
Additions	13	—	—	2,564	5,202	915,949	923,728
Disposals	—	—	(1,020)	(109)	(529)	—	(1,658)
Transfer to construction- in-progress	—	—	—	(3,123)	—	—	(3,123)
At 31st December 2002	<u>651,098</u>	<u>185,418</u>	<u>655,877</u>	<u>208,788</u>	<u>56,536</u>	<u>915,949</u>	<u>2,673,666</u>
Accumulated depreciation/amortisation							
At 1st January 2002	27,743	29,074	244,430	115,962	25,508	—	442,717
Charge for the year	14,598	5,978	15,113	10,224	4,961	—	50,874
Disposals	—	—	(132)	(64)	(374)	—	(570)
At 31st December 2002	<u>42,341</u>	<u>35,052</u>	<u>259,411</u>	<u>126,122</u>	<u>30,095</u>	<u>—</u>	<u>493,021</u>
Net book value							
At 31st December 2002	<u><u>608,757</u></u>	<u><u>150,366</u></u>	<u><u>396,466</u></u>	<u><u>82,666</u></u>	<u><u>26,441</u></u>	<u><u>915,949</u></u>	<u><u>2,180,645</u></u>
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>—</u></u>	<u><u>1,312,002</u></u>

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

	Land use rights <i>Rmb'000</i>	Road <i>Rmb'000</i>	Buildings and structures <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and others <i>Rmb'000</i>	Construction- in-progress <i>(note (ii))</i> <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost							
At 1st January 2002	651,085	185,418	656,897	207,836	50,170	—	1,751,406
Additions	13	—	—	1,061	4,614	825,625	831,313
Disposals	—	—	(1,020)	(109)	(529)	—	(1,658)
At 31st December 2002	<u>651,098</u>	<u>185,418</u>	<u>655,877</u>	<u>208,788</u>	<u>54,255</u>	<u>825,625</u>	<u>2,581,061</u>
Accumulated depreciation/amortisation							
At 1st January 2002	27,743	29,074	244,430	115,962	25,508	—	442,717
Charge for the year	14,598	5,978	15,113	10,224	4,711	—	50,624
Disposals	—	—	(132)	(64)	(374)	—	(570)
At 31st December 2002	<u>42,341</u>	<u>35,052</u>	<u>259,411</u>	<u>126,122</u>	<u>29,845</u>	<u>—</u>	<u>492,771</u>
Net book value							
At 31st December 2002	<u><u>608,757</u></u>	<u><u>150,366</u></u>	<u><u>396,466</u></u>	<u><u>82,666</u></u>	<u><u>24,410</u></u>	<u><u>825,625</u></u>	<u><u>2,088,290</u></u>
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>—</u></u>	<u><u>1,308,689</u></u>

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

Notes:

- (i) All of the Group's land use rights, road, buildings and structures are located in the PRC under medium term lease of 50 years.
- (ii) The construction-in-progress comprises the followings:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Company				
Xianyanglu Sewage Water Processing Plant Construction Project	281,677	—	281,677	—
Jizhuangzi Sewage Water Processing Plant (Expansion) Project	518,147	—	518,147	—
Beicang Sewage Water Processing Plant Construction Project	25,801	—	25,801	—
	<u>825,625</u>	<u>—</u>	<u>825,625</u>	<u>—</u>
Subsidiary				
Tianjin Jizhuangzi Water Recycling Plant Construction Project	90,324	—	—	—
	<u>915,949</u>	<u>—</u>	<u>825,625</u>	<u>—</u>

The sewage water processing plant construction projects of the Company represent:

	<i>Rmb'000</i>
(1) Costs incurred from 24th September 2001 (date of the Transfer Agreements) to 31st December 2002 (date of transfer and settlement of assets and liabilities of the construction projects) for construction of the sewage water processing plants (previously recorded in other receivables and prepayments account, and transferred to construction-in-progress account upon completion of acquisition)	687,733
(2) Considerations for the acquisition of the Sewage Plant Construction Projects as at 24th September 2001 pursuant to the Transfer Agreements (note 1(a)(ii))	<u>137,892</u>
	<u>825,625</u>

**12 SUBSIDIARY**

	Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Unlisted equity securities in the PRC, at cost	<u>18,000</u>	<u>18,000</u>

Particulars of the subsidiary are as follows:

Name	Place of incorporation and operation and kind of legal entity	Principal activities	Particulars of registered capital	Interest held directly
Tianjin Water Recycling Co., Ltd.	The PRC, limited liability company	Production of recycled water, equipment development and technical consulting relating to water recycling business	Rmb 20,000,000	90%

**13 INVESTMENT SECURITIES**

	Group and Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Unlisted equity securities in the PRC, at cost	<u>4,000</u>	<u>4,000</u>

**14 INVENTORIES**

	Group and Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Raw materials	2,022	2,230
Spare parts and consumables	418	284
	<u>2,440</u>	<u>2,514</u>

## 15 ACCOUNTS RECEIVABLE

Details of the accounts receivable are set out as follows:

	Group		Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Amounts due from TSC				
- revenue from sewage water processing services (note 1(a)(i))	27,201	44,719	27,201	44,719
- revenue from sewage water processing plants construction services (note 1(a)(ii))	—	84,864	—	84,864
Haihe Bridge project management fee income from TMICL (note 1(c))	1,031	2,729	1,031	2,729
Others	472	—	—	—
	<u>28,704</u>	<u>132,312</u>	<u>28,232</u>	<u>132,312</u>

The accounts receivable as at 31st December 2001 and 2002 were aged within one year.

## 16 ADVANCES FROM CUSTOMER

Pursuant to the Construction Fee Agreement (note 1(a)(ii)), TSC shall pay to the Company advances totalling Rmb 117,052,000, representing ten percent of the total construction fees in respect of the Sewage Plant Construction Projects. At the same time, the advances will be offset by ten percent of the construction fees charged by the Company to TSC in each period/year. At 31st December 2002, advances from customer represented the remaining balance of the advances (after offsetting ten percent of the accumulated construction fees recognised by the Company of Rmb 27,455,000 for the period from 24th September 2001 to 31st December 2002).

**17 OTHER PAYABLES**

	Group		Company	
	2002	2001	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable to TMICL ( <i>note (a)</i> )	4,737	17,696	4,737	17,696
Construction costs payable ( <i>note (b)</i> )	62,240	135,730	60,352	135,730
Payable to TSC ( <i>note (c)</i> )	105,565	—	105,565	—
Others	30,266	34,376	30,225	34,352
	<u>202,808</u>	<u>187,802</u>	<u>200,879</u>	<u>187,778</u>

*Notes:*

- (a) The payable to TMICL is unsecured, interest free and has no specific repayment terms.
- (b) The construction costs payable represent the construction costs incurred in relation to the construction of the sewage water processing plants by the Company (note 1(a)(ii)) but remained outstanding. The construction costs payable included amounts of Rmb 22,781,000 (2001: Rmb 99,396,000) payable to related companies.
- (c) The payable to TSC represents the net amount arising after offsetting various balances at 31st December 2002 for the acquisition of the Sewage Plant Construction Projects (note 1(a)(ii)). The payable to TSC is interest free and has no specific repayment terms.

**18 SHORT-TERM BANK LOAN, UNSECURED**

The short-term bank loan is obtained by the Company's subsidiary from Shanghai Pudong Development Bank, guaranteed by TMICL and bears interest at a rate of 5.76% per annum.

**19 SHARE CAPITAL**

	Company	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered, issued and fully paid:		
990,000,000 A shares of Rmb 1 each	990,000	990,000
340,000,000 H shares of Rmb 1 each	340,000	340,000
	<u>1,330,000</u>	<u>1,330,000</u>

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

**20 RESERVES****(a) Group**

	<b>Capital reserve fund (note (i)) Rmb'000</b>	<b>General reserves (note (ii)) Rmb'000</b>	<b>Retained earnings Rmb'000</b>	<b>Total Rmb'000</b>
At 1st January 2001	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>	
At 1st January 2002	69,289	41,250	233,749	344,288
Profit for the year	—	—	287,236	287,236
Transferred from profit and loss account to:				
- statutory common reserve (note (ii))	—	28,723	(28,723)	—
- statutory provident fund (note (ii))	—	14,362	(14,362)	—
- dividend payable	—	—	(106,400)	(106,400)
	<u>69,289</u>	<u>84,335</u>	<u>371,500</u>	<u>525,124</u>
At 31st December 2002	<u>69,289</u>	<u>84,335</u>	<u>371,500</u>	<u>525,124</u>
Representing:				
Retained earnings at 31st December 2002			258,450	
2002 proposed final dividend			113,050	
			<u>371,500</u>	



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

	<b>Capital reserve fund</b> <i>(note (i))</i> <i>Rmb'000</i>	<b>General reserves</b> <i>(note (ii))</i> <i>Rmb'000</i>	<b>Retained earnings</b> <i>Rmb'000</i>	<b>Total</b> <i>Rmb'000</i>
At 1st January 2001	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 <i>(note (ii))</i>	—	26,764	(26,764)	—
- statutory provident fund <i>(note (ii))</i>	—	13,382	(13,382)	—
	<u>69,289</u>	<u>41,250</u>	<u>234,731</u>	<u>345,270</u>
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>	
At 1st January 2002	69,289	41,250	234,731	345,270
Profit for the year	—	—	288,815	288,815
Transferred from profit and loss account to:				
- statutory common reserve <i>(note (ii))</i>	—	28,723	(28,723)	—
- statutory provident fund <i>(note (ii))</i>	—	14,362	(14,362)	—
- dividend payable	—	—	(106,400)	(106,400)
	<u>69,289</u>	<u>84,335</u>	<u>374,061</u>	<u>527,685</u>
At 31st December 2002	<u>69,289</u>	<u>84,335</u>	<u>374,061</u>	<u>527,685</u>
Representing:				
Retained earnings at 31st December 2002			261,011	
2002 proposed final dividend			113,050	
			<u>374,061</u>	

**20 RESERVES** (Cont'd)

Notes:

- (i) Capital reserve fund comprises share premium arising from issuance of shares. Amounts in capital reserve fund can be utilised to offset prior years' losses or for issuance of bonus shares.
- (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% 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 directors have proposed to transfer 10% and 5% of the net profit of the Company for 2002 prepared under PRC accounting regulations to the statutory common reserve of Rmb 28,723,000 (2001: Rmb 26,764,000) and to the statutory welfare fund of Rmb 14,362,000 (2001: Rmb 13,382,000), respectively.

- (iii) The distributable reserve available to the Company as at 31st December 2002 amounted to Rmb 374,061,000 (2001: Rmb 234,731,000) before the proposed final dividend for the year ended 31st December 2002.

**21 LONG-TERM LIABILITIES**

	Group		Company	
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Bank loan (note (a))	500,000	—	500,000	—
Specific payables (note (b))	66,676	36,200	—	—
	<u>566,676</u>	<u>36,200</u>	<u>500,000</u>	<u>—</u>

**21 LONG-TERM LIABILITIES** (Cont'd)*Notes:*

- (a) The long-term bank loan is obtained from the State Development Bank and transferred to the Company along with the acquisition of the Sewage Plant Construction Projects. The total facility of the loan is Rmb 740,000,000. The long-term loan is guaranteed by TMEB and secured by some of the fee collection rights of TEMB's businesses. Interest rates of the long-term loan are determined according to the interest rates of long-term loans promulgated by the People's Bank of China. The prevailing interest rate is 5.76% per annum. The long-term loan is repayable during the period from 2004 to 2011. Detailed repayment schedule is set out as follows:

	<b>Group and Company</b>	
	<b>2002</b>	<b>2001</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable within one year	—	—
Payable in the second year	<b>50,000</b>	—
Payable in the third to fifth year	<b>243,000</b>	—
Payable after the fifth year	<b>207,000</b>	—
	<hr/>	<hr/>
	<b>500,000</b>	—
	<hr/> <hr/>	<hr/> <hr/>

In addition, in November 2002, the Company obtained the approval from China Everbright Bank Tianjin Branch to grant to the Company a long-term loan facility of Rmb 700 million, which has a period of nine years with an interest rate of 5.76% per annum. The long-term loan facility is intended to be applied to the construction of the Sewage Plant Construction Projects in the event the Company has inadequate working capital. This borrowing will be submitted to the general meeting of the Company's shareholders for approval.

- (b) The specific payables include amounts of Rmb 36,000,000 (2001: Rmb 36,000,000) and Rmb 30,000,000 (2001: Nil) special funds obtained by the Company's subsidiary, Tianjin Water Recycling Co., Ltd., from TMEB in accordance with respective documents issued by Tianjin Development Planning Commission, "Forward Notice from the State Development Planning Commission Regarding Investment Plan of Specific Fund of Central Budget for the Sewage Water Recycling Projects in 2001" and "Notice from the State Development Planning Commission Regarding Investment Plan of Specific Fund of National Budget for the Water Supply and Water Sourcing Projects (including Sewage Water Recycling Paradigm Projects) for Cities with Water Shortage in 2002". The specific payables are granted for the construction of the Tianjin Jizhuangzi Sewage Water Recycling Project. The remaining balance is obtained by the subsidiary from other authorities of Tianjin Municipal Government. These specific payables are interest free in 2002, and the method and date of repayment will only be determined after the completion of the construction project which is estimated to take more than one year.

**22 CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of profit before taxation to net cash inflow from operating activities**

	2002	As restated 2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit before taxation	428,536	399,345
Depreciation and amortisation	50,874	53,294
Loss on disposal of fixed assets	1,088	188
Interest income	(2,158)	(1,208)
Interest expense	14,571	—
	<hr/>	<hr/>
Operating profit before working capital changes	492,911	451,619
Decrease in inventories	74	340
Decrease/(increase) in accounts receivable, other receivables and prepayments	100,327	(335,513)
(Decrease)/increase in accounts payable, advances from customer and other payables	(75,120)	178,758
	<hr/>	<hr/>
Net cash inflow generated from operations	<u>518,192</u>	<u>295,204</u>

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

	Minority interests		Long-term liabilities	
	2002	2001	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1st January	1,891	—	36,200	—
Cash inflow from financing	—	2,000	30,476	36,200
Share of loss of the subsidiary by a minority shareholder	(175)	(109)	—	—
Transfer of bank loan upon completion of the acquisition of construction-in-progress projects ( <i>notes 1(a)(ii) and 21</i> )	—	—	500,000	—
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December	<u>1,716</u>	<u>1,891</u>	<u>566,676</u>	<u>36,200</u>

**23 COMMITMENTS****(a) Capital commitments**

	Group		Company	
	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> )	<b>146,710</b>	137,892	<b>134,968</b>	137,892
Authorised but not contracted for ( <i>note (ii)</i> )	<b>1,662,955</b>	2,398,694	<b>1,650,520</b>	2,284,194
	<b><u>1,809,665</u></b>	<u>2,536,586</u>	<b><u>1,785,488</u></b>	<u>2,422,086</u>

*Notes:*

- (i) As at 31st December 2002, the Company had capital commitments in respect of the Sewage Plant Construction Projects (note 1(a)(ii)) amounting to Rmb 134,968,000. The capital commitments of Tianjin Jizhuangzi Sewage Water Recycling Project of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., amounted to Rmb 11,742,000.
- (ii) As at 31st December 2002, the Company had capital commitments in respect of the Sewage Plant Construction Projects from 1st January 2003 to completion amounting to Rmb 1,650,520,000. The capital commitments of Tianjin Jizhuangzi Sewage Water Recycling Project of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., amounted to Rmb 12,435,000.

In addition, subsequent to the year end on 20th February 2003, the Company's board meeting passed a resolution to approve the acquisition of an office building in Tianjin, with an estimated total price of less than Rmb 100 million, for the Company's own use and for rental purpose.

**(b) Operating lease commitments**

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises leased from TMICL as follows:

	Group and Company	
	2002	2001
	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable within one year	<b>1,050</b>	450
Payable in the second to fifth year	<b>3,000</b>	1,800
Payable after the fifth year	<b>6,075</b>	6,300
	<b><u>10,125</u></b>	<u>8,550</u>

## 24 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions with related companies during the year 2002, which were carried out in the normal course of operations of the Group.

Name of enterprises	Nature of transaction	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
<i>Income:</i>			
TSC	Revenue from sewage water processing services ( <i>note (a)</i> )	399,665	417,944
TSC	Revenue from construction of sewage water processing plants ( <i>note (b)</i> )	183,536	91,013
TMICL	Revenue from Haihe Bridge project management service ( <i>note (c)</i> )	<u>4,812</u>	<u>2,729</u>
<i>Expenses:</i>			
TURBCC	Road repair and maintenance ( <i>note (d)</i> )	2,750	2,750
TMICL	Operating lease rental in respect of office premises ( <i>note (e)</i> )	1,050	450
Li & Partners	Legal consulting fees ( <i>note (f)</i> )	1,348	1,921
Tianjin Urban Road Construction No.2 Company Limited	Silt removal fees ( <i>note (g)</i> )	<u>7,355</u>	<u>—</u>
<i>Construction of sewage water processing plants:</i>			
Related contractors	Amounts payable for sewage water processing plants construction costs ( <i>note (h)</i> )	<u>344,010</u>	<u>186,940</u>
<i>Acquisition of the Sewage Plants Construction Projects:</i>			
TSC	Completion and transfer of the Sewage Plants Construction Projects	<u>note 1(a)(ii)</u>	<u>—</u>

### Notes:

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

**24 RELATED PARTY TRANSACTIONS** (Cont'd)

Notes: (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 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. TURBCC and TMICL are under the supervisory control of TMEB.
- (e) The operating lease rentals were paid to TMICL 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 the controlling Shareholder as its office premises for a total annual rentals of Rmb 1,050,000 (2001: Rmb 450,000), 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 year, 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 of the Company from the date of the general meeting.
- (g) This represents the silt removal fees paid to Tianjin Urban Road Construction No.2 Company Limited according to the Silt Removal Agreement in respect of Jizhuangzi Sewage Processing Plant.
- (h) This represents the construction costs incurred in respect of the sewage water processing plants for the year ended 31 December 2002 and were payable to the following related contractors:

Name of related parties	2002 Rmb'000	2001 Rmb'000
Tianjin Urban Road Construction No.1 Co., Ltd.	1,654	15,022
Tianjin Urban Road Construction No.2 Co., Ltd.	63,125	7,791
Tianjin Urban Road Construction No.3 Co., Ltd.	8,992	6,899
Tianjin Urban Road Construction No.5 Co., Ltd.	47,827	12,311
Tianjin City Construction Group Co., Ltd.	195,820	130,611
Tianjin Sewage Management Bureau	300	—
Tianjin Sewage Management Bureau No.2 Management Office	1,300	800
Tianjin Sewage Management Bureau No.4 Management Office	1,000	—
Tianjin Sewage Engineering Company	8,767	4,506
Tianjin Sewage Engineering No.2 Company	750	—
Tianjin Road & Bridge Management Bureau	569	5,000
Tianjin Road & Bridge Management Bureau No.1 Road Management Office	651	—
Tianjin Road & Bridge Management Bureau No.3 Road Management Office	355	—
Tianjin Municipal Engineering Design Research Institute	12,900	4,000
	<hr/>	<hr/>
Total	<b>344,010</b>	<b>186,940</b>
	<hr/> <hr/>	<hr/> <hr/>

- (i) The road and toll stations business had fifteen toll stations as at 31st December 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 SUBSEQUENT EVENTS**

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 Rmb 1,200 million at par value. The par value of each convertible bond is Rmb 100 and the bonds will mature in 5 years. The proposal was approved at the tenth annual general meeting of shareholders held on 16th April 2002. The Company is currently engaging in preparation for the issue of "A Share" convertible bonds.

## **26 APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 20th February 2003.



## Supplementary Information Provided by Management for Year 2002

### (1) SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTS PREPARED UNDER PRC GAAP AND HK GAAP

Differences between the accounts prepared under PRC GAAP and HK GAAP for the year ended 31st December 2002 are as follows:

	Profit distributable to		Net asset value	
	shareholders		Group	Company
	Group	Company	Group	Company
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
As reported under PRC GAAP	287,236	287,236	1,742,074	1,742,074
Reversal of equity accounting of the loss of the subsidiary	—	1,579	—	2,561
2002 proposed final dividend	—	—	113,050	113,050
As reported under HK GAAP	<u>287,236</u>	<u>288,815</u>	<u>1,855,124</u>	<u>1,857,685</u>

### (2) RETURN ON NET ASSETS AND EARNINGS PER SHARE CALCULATED ON A FULLY DILUTED BASIS AND ON A WEIGHTED AVERAGE BASIS

Items	Profit for the reporting period (Rmb' 000)	Return on net assets (%)		Earnings per share (Rmb/Share)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	487,722	28.00	28.50	0.37	0.37
Operating profit	429,678	24.66	25.11	0.32	0.32
Net profit	287,236	16.49	16.78	0.22	0.22
Net profit, net of extraordinary gains or loss	288,378	16.55	16.85	0.22	0.22

Formula of the above financial indicators:

Formula of return on net assets and earnings per share on a fully diluted basis is as follows:

Return on net assets on a fully diluted basis = Profit during the reporting period ÷ Net assets at the end of period

Earnings per share on a fully diluted basis = Profit for the reporting period ÷ Total number of shares at the end of period

Formula of return on net assets on a weighted average basis (ROE) is as follows:

$$\text{ROE} = \frac{P}{E_0 + \text{NP} \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0}$$

of which: P represents profit for the reporting period; NP represents the net profit for the reporting period; E<sub>0</sub> represents the net assets at the beginning of the period; E<sub>i</sub> represents increase in net assets from issue of new shares or convertible bonds for the reporting period; E<sub>j</sub> represents decrease of net assets as a result of repurchase or declaration of cash dividends for the reporting period; M<sub>0</sub> represents the number of months during the reporting period; M<sub>i</sub> represents the number of months between the period after occurrence of an increase in net assets and the end of reporting period; M<sub>j</sub> represents the number of months between the period after occurrence of a reduction in net assets and the end of reporting period.

Formula of earnings per share (EPS) on a weighted average basis is as follows:

$$\text{EPS} = \frac{P}{S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0}$$

of which: P represents profit for the reporting period; S<sub>0</sub> represents total number of shares at the beginning of period; S<sub>1</sub> represents the increase of shares due to transfer from common reserve to share capital or appropriation of dividends during the reporting period; S<sub>i</sub> represents the increase of shares due to issue of new shares or convertible bonds during the reporting period; S<sub>j</sub> represents reduced shares due to repurchase or share reduction during the reporting period; M<sub>0</sub> represents the number of months during the reporting period; M<sub>i</sub> represents the number of months between the period after occurrence of an increase in shares and the end of reporting period; M<sub>j</sub> represents the number of months between the period after occurrence of a reduction in shares and the end of reporting period.

**(3) THE ANALYSIS ON THE ITEMS IN THE ACCOUNTS WITH CHANGES ABOVE AND INCLUDING 30%, AND ACCOUNTING FOR AND INCLUDING 5% OF TOTAL ASSETS ON THE BALANCE SHEET DATE OR ABOVE AND INCLUDING 10% OF TOTAL PROFIT DURING THE REPORTING PERIOD**

	31st December	31st December	Difference and change		Notes
	2002	2001	in amounts and range		
	Rmb'000	Rmb'000	Amounts	%	
Cash and bank balances	537,929	260,468	277,461	107	1
Construction-in-progress	915,949	—	915,949		2
Prepayments to suppliers	1,871	215,140	(213,269)	(99)	3
Accounts receivable	28,704	132,312	(103,608)	(78)	4
Long-term loan	500,000	—	500,000		5

Notes:

1. Increase of cash and bank balances was mainly attributable to the net cash inflows from operating activities of the Company for the year. The net profit of the Company for year 2002 was Rmb 287,000,000.
2. The main reasons for the increase of construction-in-progress were:
  - (a) Acquisition of three construction-in-progress of sewage water processing plants amounted to Rmb 826,000,000 was completed during the year.
  - (b) The increase in cost the Sewage Water Recycling Project of the Company's subsidiary amounted to Rmb 90,320,000.
3. Decrease in prepayments to suppliers was mainly due to the complete transfer of three construction-in-progress of sewage water processing plants during the year. The prepayments of construction costs originally recorded in prepayments to suppliers were transferred to construction-in-progress. The prepayments of construction costs amounted to Rmb 215,000,000 as at 31st December 2001.
4. Decrease in accounts receivable was mainly because the Company and Tianjin Sewage Company settled the account of assets and liabilities regarding three construction-in-progress of sewage water processing plants on 31st December 2002. Amounts due from Tianjin Sewage Company for sewage water processing fee amounting to Rmb 86,400,000 was set off against amounts due to Tianjin Sewage Company.
5. Increase in long-term loan was mainly because the Company acquired three construction-in-progress of sewage water processing plants from Tianjin Sewage Company while a loan from the State Development Bank amounting to Rmb 500,000,000 was also transferred to the Company.

## Major Events

1. During the year 2002, there is no litigation or arbitration that is material to the Company.
2. Summary and progress of the Company's acquisitions and sale of assets, merger and combination during the reporting period:

On 24th September 2001, the Company and Tianjin Sewage Company entered into three conditional agreements, namely the transfer agreement concerning the construction-in-progress of the Beicang Sewage Water Treatment Plant, the transfer agreement concerning the construction-in-progress of Xianyanglu Sewage Water Treatment Plant and the transfer agreement concerning the expansion project of the Jizhuangzi Sewage Water Treatment Plant, which were approved in the extraordinary general meeting held on 12th November 2001 (please refer to the related announcement on 25th September 2001 published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard). The above transfers were completed on 30th October 2002.

The announcement in respect of the completion of this connected transaction was published on 31st October 2002 in Shanghai Securities, Hong Kong Wen Wei Po and The Standard.

3. Significant connected transactions

Most of the connected transactions for the Company were ongoing connected transactions.

- (1) On 24th September 2001, the Company entered into the transfer agreements concerning the construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant, the expansion project of the Jizhuangzi Sewage Water Treatment Plant. Pursuant to the above agreements, during the reporting period, the construction works completed for the construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant were on schedule and amounted to Rmb 499 million. In accordance with Sewage Water Treatment Plant Construction Fee Agreement, the Company obtained an income of Rmb 183,536,000.
- (2) On 24 September 2001, Tianjin Municipal Investment Company Limited ("TMICL") and the Company entered into the agreement for project management of the construction of Haihe Bridge Project of the Southeastern Half Ring. Pursuant to the agreement, construction works completed amounted to Rmb 219 million, and the Company obtained an income of Rmb 4,812,000.
- (3) Pursuant to the Sewage Water Processing Agreement entered into between TMICL and Tianjin Sewage Company on 10th October 2000, Tianjin Sewage Company agreed to procure TMICL to process sewage water for a term of 30 years. The price is calculated in accordance with the pricing formula. Tianjin Sewage Company is a State-owned enterprise under the supervisory control of the Tianjin Municipal Engineering Bureau. The agreement was initially entered into between TMICL and Tianjin Sewage Company, 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 sewage water 210 million cubic meters. A sewage water processing fee of Rmb 399,665,000 was derived from the services provided pursuant to the Sewage Water Processing Agreement entered into with Tianjin Sewage Company.

- (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 of Tianjin. 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 for 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) During the reporting period, the Company entered into the Silt Removal Agreement with Tianjin Second Urban Road Construction Company Limited (“TSURCC”) for a consideration of Rmb 8,710,000. As TSURCC was under supervisory control of the Urban Construction Bureau of Tianjin Municipality and was the related party of the Company, the above transaction constituted a connected transaction (Please refer to the announcement published on 5th August 2002 on Shanghai Securities, Hong Kong Wen Wei Po and the Standard for details).
- (6) During the reporting period, the Company terminated the Lease Agreement entered into with TMICL on 10th October 2000, and entered into another lease agreement, pursuant to which the Company will lease from TMICL a property situated at No. 45 Guizhou Road, Heping District, Tianjin as its office premises. The annual rental payable by the Company is Rmb 1,050,000. The rental of Rmb 1,050,000 were derived pursuant to the above Lease Agreements entered into with TMICL.
- (7) During the period between 31st December 2001 and 31st December 2002, the sewage processing infrastructure cost incurred by the Company and payable to the related parties amounted to Rmb 344,010,000.

The independent directors of the Company confirm that the above transactions are entered into in accordance with normal commercial terms.

#### 4. Significant contracts and status of implementation

During the reporting period, the Company properly complied with the terms of various business contracts and there was no significant dispute arising from these contracts.

(1) During the reporting period, the Company did not hold in custody, hire or lease any assets, and there is no company that hold in custody, hire or lease any assets of the Company.

(2) During the reporting period, the Company did not enter into any guarantees.

(3) During the reporting period, the Company did not enter into any trust arrangement with any third party for financial management matters. There is no future planning for trust arrangement relating to the financial management matters.

5. During the reporting period or remaining effective up to the reporting period, the Company or shareholders who are interested in more than 5% of the total issued share capital of the Company had not published any matters of commitments in the designated newspapers and websites.

6. During the reporting period, the Company re-appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers, Certified Public Accountants, as auditors of the Company. Up to the end of the reporting period, PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. has provided auditing services for the Company for eight consecutive years. Remunerations paid to the auditors during recent two years are as follows:

	<b>2002</b>	2001	Notes
	<i>Rmb</i>	<i>Rmb</i>	
Audit and financial services fees	<b>4,134,000</b>	4,134,000	The amount does not include other expenses such as the trip expenses mentioned below
Other fees	<b>35,900</b>	77,700	For the year ended 31st December 2002, the Company paid other fees of Rmb 35,900 to the auditors of the Company, which represent the reimbursement of accommodation and traveling expenses incurred during the course of audit works carried out by the auditors of the Company in Tianjin. The directors of the Company confirm that the payment of such fees will not impair the independence of the auditors of the Company

The audit and financial services fees include:

- (1) Fees for professional services rendered in respect of the audit and review of 2002 PRC GAAP and HK GAAP interim accounts, and the audit of the year 2002 accounts, and
- (2) Fees for financial consultancy services rendered in respect of matters relating to new business.

7. During the reporting period, the Company, the Company's board of directors, directors and senior management were not subject to any review by the China Securities Regulatory Commission, administrative penalty and criticism through written notice from the China Securities Regulatory Commission, criticism through reprimandment in public by the Shanghai Stock Exchange.

During the period from 28th June to 8th July 2002, the Tianjin Securities Regulatory Office of the China Securities Regulatory Commission ("TSRO") conducted an inspection on the Company, and considered that the measures on corporate governance, finance, operations and internal control of the Company were inadequate. TSRO issued a "Notice for Rectification within a Limited Period"(Jin Zhen Shang Shi Zhi [2002] No. 8) on 22nd July 2002.

The Company proposed certain rectification measures and timetable to address the issues identified by TSRO (please refer to the announcement published on 22nd August 2002 on Shanghai Securities, Hong Hong Wen Wei Po and The Standard for details).

Up to the end of reporting period, the above issues have been basically resolved:

- (1) In accordance with the requirement under "the Guidelines for the Articles of Association for Listed Companies" and other related rules and regulations, the Company's Articles of Association was amended and supplemented, and was approved in the 26th Meeting of the second board of Directors and the 2002 Extraordinary General Meeting of the Company. It was also filed at the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation. Approval has been obtained from the State Economic and Trade Commission and the approval from the Ministry of Foreign Trade and Economic Cooperation is still pending.
- (2) The 26th Meeting of the second board of Directors of the Company passed the "the Rules Governing the Procedures for Operating the Shareholders' General Meeting", "the Rules Governing the Procedures for Operating the Meeting of the Board of Directors", "the Rules Governing the Procedures for Operating the Meeting of the Supervisory Committee", "the Working Rules for the General Manager of the Company" and "the Internal Control System for the Provision of Asset Impairments", as amended and supplemented. "The Rules Governing the Procedures for Operating the Shareholders' General Meeting", "the Rules Governing the Procedures for Operating the Meeting of the Board of Directors", "the Rules Governing the Procedures for Operating the Meeting of the Supervisory Committee", as supplemented and amended has been considered and approved in the Extraordinary General Meeting.
- (3) The application for resignation from her office as the Vice Chairman of TMICL, the controlling shareholder of the Company, by Madam Ma Baiyu, the Chairman and General Manager of the Company, was approved on 16th December 2002, and Ma Baiyu currently only holds the office of Director in the controlling shareholder.

- (4) It was resolved in the employee's representative meeting of the Company held on 16th October 2002 that Mr. Wang Hui was appointed as the supervisor of the Company acting on behalf of the employees for a term of three years, commencing from the date of the resolution passed in the employee's representative meeting.
  - (5) Ms. Fu Yana, the Secretary of the Board, has participated in the 21st Training Programme for secretaries to the board organized by the Shanghai Stock Exchange.
  - (6) The notices, minutes of the Board meetings and the minutes of General Manager meetings were prepared, recorded and filed strictly in compliance with the requirements under the Articles of Association, "the Rules Governing the Procedures for Operating the Meeting of the Board of Directors" and "the Working Rules for the General Manager of the Company".
  - (7) The other rectification measures have been imposed and improved in actual operations.
8. During the reporting period, the Company was subject to 33% income tax rate and was not entitled to any preferential treatment on income tax.
9. Other major events
- (1) The 2001 annual general meeting of the Company, and class meeting for holders of Company's domestic shares and H Shares were held on 16th April 2002 respectively. The resolutions for the issue of A Shares Convertible bonds amounting to not more than Rmb 1.2 billion and the specific terms for the issue of A Shares Convertible bonds were approved in the meetings (please refer to the announcement published on 17th April 2002 in Shanghai Securities, Hong Hong Wen Wei Po and The Standard). As at the end of the reporting period, the relevant documents for the issue of A Shares Convertible bonds have been submitted to the related authorities for inspection. The Company is making its best endeavours to finish this task.
  - (2) During the reporting period, the Company achieved the integration of management system, certification and accreditation of ISO9000, ISO14000 and OHSAS18000 on 8th November 2002. It became the first enterprise in sewage treatment industry nationwide to integrate three international standard systems in its operations. It established a good model for management for State-owned enterprises and listed companies after the PRC joined the WTO.
  - (3) Pursuant to the Document Jin Zhang Fa No. [2001]80, "Approving and forwarding the Notice on Regulations on the Basic Medical Insurance for Staff in City and Town issued by the Municipal Labor and Social Security Bureau of the People's Government of Tianjin City", the Company has started to paid medical insurance for its staff in accordance with the Notice in November 2002. The current policy of the Company is to paid medical insurance for its staff out of the total benefits contribution, in accordance with the Regulations. Accordingly, it would not be an additional burden, and would not affect the profitability of the Company.



## Documents Available For Inspection

1. Financial statements which have been signed by the Company's legal representative, Chief Accountant and manager in charge of the accounts department.
2. The auditors' reports issued by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers as signed with seal affixed by the certified public accountants thereof and the full text of the financial statements for the year ended 31st December 2002.
3. Original copy of all documents and announcements disclosed during the reporting period in designated newspapers as required by the China Securities Regulatory Commission.
4. Annual Reports as disclosed in other securities market.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the eleventh Annual General Meeting (“AGM”) of members of Tianjin Capital Environmental Protection Company Limited (the “Company”) will be held at 4/F., Conference Room, the Company, 45 Guizhou Road, Heping District, Tianjin, the People’s Republic of China (the “PRC”) on 8th April 2003 at 10:30 a.m. for the purpose of considering and passing the resolutions as listed below:

## I. As ordinary resolutions:

1. To consider and approve the Annual Report of the Company for the year 2002;
2. To consider and approve the Accounts of the Company for the year 2002, audited by the domestic and international certified public accountants;
3. To consider and approve the Report of the Directors of the Company for the year 2002;
4. To consider and approve the Financial Report of the Company for the year 2002 and Financial Budget for the year 2003;
5. To consider and approve the proposal in respect of the Profit Appropriation Plan of the Company for the year 2002;
6. To consider and approve the proposals relating to the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. and PricewaterhouseCoopers as the domestic and international auditors of the Company;
7. To consider and approve the operating and development plans of the Company for 2003;
8. To consider and approve the Report of the Supervisory Committee for the year 2002;
9. To consider and approve the resolution for loans application for three construction-in-progress in respect of Xianyanglu Sewage Water Treatment Plant, Beicang Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant passed in the 27th meeting of the Second Board.

The Company would apply to China Everbright Bank, Tianjin Branch for a loan of Rmb 700 million on pledge of fixed assets for a term of nine years. It is intended that such funding will be applied to the expansion of Tianjin Jizhuangzi Sewage Processing Plant (including the sewage disposal projects in south-eastern suburb), Tianjin Xianyanglu Sewage Processing Plant Construction Project and Tianjin Beicang Sewage Processing Plant Construction Project. The application of such loans is subject to consideration and approval from the shareholders’ general meeting.

10. To consider and approve the proposal relating to the extension of the maturity period for the issue of the A Shares Convertible Bonds of the Company; it is proposed that the maturity period will be extended for one more year from the maturity date.

## II. As special resolutions:

1. To consider and approve the proposal on the amendments of “the Rules Governing the Procedures for Operating the Meeting of the Board of Directors”:

Amendments to “Rules Governing the Procedures for Operating the Procedures for Operating the Meeting of the Board of Directors” Chapter 2 Powers of the Board Article 5 (11)

Existing provision:

(11) to consider and approve the Company’s loans of more than Rmb 5 million, but below Rmb 50 million, or representing less than 10% of the latest audited net asset value of the Company;

Amended as:

(11) to consider and approve the Company’s loans of the higher of more than Rmb 50 million but below Rmb 150 million, or representing less than 10% of the latest audited net asset value of the Company.

2. To consider and approve the proposal on the grant of mandate to the Board for the allotment and issue of new shares (H Shares) not exceeding 20% of existing H Shares issued and outstanding (please refer to the announcement of the 29th meeting of the Second Board of the Company for details):
  - a) Subject to paragraphs c) and d), and pursuant to the Rules Governing the Listing of Securities of The Hong Kong Stock Exchange Limited (as amended from time to time) and the Company Law of the People’s Republic of China (“PRC”), the Directors of the Company are authorized to exercise all the rights of the Company, to allot and issue new shares individually and collectively during the Relevant Period is generally and unconditionally approved, and the terms and conditions for the Directors to exercise their authority to determine the allotment and issue of new shares include, inter alia:
    - (1) the number of new shares to be issued;
    - (2) the Issue Price of the new shares;
    - (3) the date for the commencement and closing of the issue;
    - (4) the number of new shares to be issued to the existing shareholders; and
    - (5) to make or grant offer proposals, agreements and options as may be necessary in the exercise of such powers.

- b) To make or grant offer proposals, agreements and options to the Directors of the Company as required or may be required in the exercise of such powers during the Relevant Period as referred to in paragraph a) or after the expiry of the Relevant Period.
- c) The total nominal amount of overseas listed foreign shares (other than those issued under the PRC Company Law and the Articles of Association of the Company (the "Articles of Association") by the capitalisation of the statutory capital reserve fund) agreed to allot or conditionally or unconditionally agreed to allot by the Directors of the Company pursuant to paragraph a) (whether pursuant to the exercise of options or otherwise) shall not exceed 20% of the overseas listed foreign shares of the Company existing in issue.
- d) Upon the exercise of the powers pursuant to paragraph a) above, the Directors of the Company shall
  - (1) comply with the PRC Company Law and the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange Limited (as amended from time to time); and
  - (2) obtain the approval from the China Securities Regulatory Commission.
- e) For the purpose of this resolution:

"Relevant Period" refers to the period from the date of the passing of this resolution to the earliest of following three:

  - (1) twelve months after the passing of this resolution;
  - (2) conclusion of the forthcoming annual general meeting of the Company; and
  - (3) the date of the passing of a special resolution to revoke or amend the mandate as referred to in this resolution by shareholders in shareholders' general meeting.
- f) Subject to the approval by the relevant authorities of the PRC and pursuant to the PRC Company Law, the Directors of the Company is authorized to increase the registered capital of the Company to the required amount respectively when exercising the powers under paragraph a) above.

Subject to the approval by the relevant authorities of the PRC, the Board of Directors is authorized to make appropriate and necessary amendments to the Articles of Association, so as to reflect the changes in the capital of the Company that may have arisen under this mandate.

### III. Other business:

Please refer to the announcements of the 2002 Annual Report, the highlights of the 2002 Annual Report and the resolutions of the 29th Meeting of the Second Board published on the web for the above details.

By order of the Board

**Fu Yana Ip Pui Sum**

*Company Secretaries*

Tianjin, the PRC

20th February 2003

*Notes:*

1. The register of members of the Company's H Shares will be closed from 7th March 2003 to 8th April 2003, both days inclusive, for the purpose of determining a Shareholder's List for the AGM. The last lodgement for share transfer must be made on 6th March 2003 at Hong Kong Registrars Limited by or before 4:00 p.m. The book closing date of the register of members of the Company's H Shares for the purpose of determining a Shareholder's List for the distribution of final dividend will be announced after the AGM.
2. Each Shareholder having the rights to attend and vote at the AGM is entitled to appoint one or more proxies (whether a Shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one Shareholder, such proxy shall only exercise his voting rights on a poll.
3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the enclosed Proxy Form). The Proxy Form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the Proxy Form is signed by an attorney, the power of attorney or other documents of authorisation shall be notarially certified. To be valid, the Proxy Form and the notarially certified power of attorney or other documents of authorisation must be delivered to the above legal address of the Company in not less than 24 hours before the time scheduled for the holding of the AGM.
4. Shareholders or proxies who intend to attend the AGM are asked to send the reply slip for attendance duly completed and signed to the Secretarial Office on or before 18th March 2003 in person, by post or by fax. Please use the Proxy Form or its duplicate in writing.
5. Shareholders or their proxies shall present proofs of their identities upon attending the AGM. Should a proxy be appointed, the proxy shall also present the Proxy Form.
6. The AGM is expected to last for about half a day. The shareholders and proxies attending the AGM shall be responsible for their own travelling and accommodation expenses.

Principal office address of the Company: No. 45 Guizhou Road, Heping District,  
Tianjin, the PRC

Postal Code: 300051

Telephone: (8622)-23523036

Facsimile: (8622)-23523100