

IMPORTANT

The Board of Directors and the Directors of the Company confirmed that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of the content.

Ms. Ma Baiyu, the Chairman, Mr. An Pindong, the financial controller, and Mr. Sha Nai Qiang, the manager of the finance department, have declared that they are responsible for the truthfulness and completeness of the financial report in the 2003 interim report.

The financial statements in the interim report prepared in accordance with the Accounting Principles Generally Accepted in Hong Kong has been reviewed by PricewaterhouseCoopers.

I. COMPANY PROFILE

1. Company name

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

2. Information about the Company’s listed shares

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

3. Company address

Registered and principal office address	No. 45 Guizhou Road Heping District Tianjin The People’s Republic of China (the “PRC”) Postal code: 300051
E-mail address	tjcep@tjcep.com

4. Legal representative

Madam Ma Baiyu

5. 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 PRC Postal code: 300051
Telephone number	86-22-2352 3036
Facsimile number	86-22-2352 3100
E-mail address	tjcep@tjcep.com
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

I. COMPANY PROFILE

6. Designated media for the Company's announcement

Newspapers for the Company's announcement	Shanghai Securities, Hong Kong Wen Wei Po and The Standard
(1) Website for the Company's interim report	
Website as required by the China Securities Regulatory Commission ("CSRC") for the Company's interim report	http://www.sse.com.cn
Website as required by the Hong Kong Stock Exchange for the Company's interim report	http://www.hkex.com.hk
(2) Place where the Company's interim report is available for inspection	Office of the Secretary to the Board of Directors No. 45 Guizhou Road Heping District Tianjin the PRC Postal code: 300051

7. Other information

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, 23rd July 2001 and 25th February 2003
Place of change in registration	No. 45 Guizhou Road, Heping District, Tianjin, the PRC
Number of business licence of enterprise legal person	Qi Gu Jin Zong Zi No. 009079
State tax registration number	Guo Shui Jin Zi 120101103065501
Local tax registration number	Di Shui Jin Zi 120101103065501
Agent for custody of the Company's non-circulating shares	China Securities Registration Company Shanghai Branch
Auditors of the Company	
(1) PRC auditors	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd.
Correspondence address	12/F, Shui On Plaza 333 Huai Hai Zhong Lu Shanghai 2000201 the PRC
(2) International auditors	PricewaterhouseCoopers Certified Public Accountants
Correspondence address	22/F, Prince's Building Central Hong Kong

II. ACCOUNTING DATA AND BUSINESS STATISTICS HIGHLIGHTS

1. IN ACCORDANCE WITH THE ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG (THE "HK GAAP")

The net profit during the period and the net assets as at 30th June 2003 of the Company and its subsidiary (the "Group") as prepared in accordance with the HK GAAP are Rmb 116,409,000 and Rmb 1,858,483,000 respectively.

2. IN ACCORDANCE WITH THE ACCOUNTING STANDARDS AND THE ACCOUNTING REGULATIONS FOR BUSINESS ENTERPRISES IN THE PRC (COLLECTIVELY THE "PRC GAAP")

In accordance with the PRC GAAP, the Group achieved a net profit of Rmb 116,409,000 during the period. Details of the major financial indicators for the period together with the comparative figures of the previous corresponding period are as follows:

	As at 30th June 2003	As at 31st December 2002	Percentage(%) Increase(+) Decrease(-)
	<i>Rmb'000</i>	<i>Rmb'000</i>	
Current assets	675,132	572,363	+17.96
Current liabilities	273,080	446,542	-38.85
Total assets	2,864,822	2,757,008	+3.91
Shareholders' equity (excluding minority interests)	1,858,483	1,742,074	+6.68
Net asset value per share	Rmb1.40	Rmb1.31	+6.87
Adjusted net asset value per share	Rmb1.40	Rmb1.31	+6.87

	Six months ended 30th June 2003	2002	Percentage(%) Increase(+) Decrease(-)
	<i>Rmb'000</i>	<i>Rmb'000</i>	
Net profit	116,409	104,641	+11.25
Net profit excluding extraordinary items (<i>note</i>)	116,519	105,576	+10.37
Earnings per share	Rmb0.09	Rmb0.08	+12.50
Return on net assets	6.26%	6.26%	—
Net cash flows from operating activities	139,273	145,286	-4.14

Note: Extraordinary items include non-operating expenses of Rmb110,000.

3. SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTS PREPARED UNDER THE PRC GAAP AND THE HK GAAP

There is no difference between the net profit and net assets of the Group as prepared in accordance with the HK GAAP and the PRC GAAP.

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

1. STRUCTURE OF SHARE CAPITAL

There is no change in the structure of the Company's share capital and number of shares of the Company during the period.

2. SHAREHOLDERS

(1) Number of shareholders at the end of the period

As at 30th June 2003, the Company had 31,771 shareholders including 31,583 domestic shareholders and 188 foreign shareholders.

(2) As at 30th June 2003, the top ten shareholders of the Company are as follows:

Name of shareholders	Increase(+)/ Decrease(-) during the period	Number of shares held at the end of the period	Percentage to total share capital (%)	Class	Number of shares pledged or frozen	Type of shareholders
1. Tianjin Municipal Investment Company Limited	Nil	839,020,000	63.080	Non-circulating	Nil	State shares
2. HKSCC Nominees Limited	-120,000	334,265,000	25.132	Circulating	Unknown	Foreign shares
3. Bohai Securities Co., Ltd.	Public shares +3,302,689	8,723,068 (including 8,623,068 public shares and 100,000 legal person shares)	0.656	Public shares - circulating/ legal person shares - non-circulating	Unknown	Public shares and legal person shares
4. Shen Tie Jing Fa	Nil	3,500,000	0.263	Non-circulating	Unknown	Legal person shares
5. China Southern Securities Co., Ltd.	Nil	2,725,000	0.200	Non-circulating	Unknown	Legal person shares
6. China Galaxy Securities Co., Ltd.	Nil	1,500,000	0.113	Non-circulating	Unknown	Legal person shares
7. Liaoning Shennong	Nil	1,000,000	0.075	Non-circulating	Unknown	Legal person shares
8. Guotai Tian Zheng	Nil	1,000,000	0.075	Non-circulating	Unknown	Legal person shares
9. Changsha Haisheng Kemao Co., Ltd.	Unknown	1,000,000	0.075	Non-circulating	Unknown	Legal person shares
10. Subsidiary Branch of the Construction Bank of China Tianjin Branch	Nil	1,000,000	0.075	Non-circulating	Unknown	Legal person shares

Notes:

- (1) 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 of the total issued share capital of the Company.
- (2) The top ten shareholders were not strategic investors of the Company.
- (3) 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.
- (4) Save as disclosed in this paragraph, as at 30th June 2003, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Hong Kong Stock Exchange.
- (5) Save as disclosed above, as at 30th June 2003, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

3. CONTROLLING SHAREHOLDER

Tianjin Municipal Investment Company Limited (the "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 (the "Controlling Shareholder"). During the reporting period, there was no change in the controlling shareholder of the Company.

IV. DIRECTORS, SUPERVISORS AND MEMBERS OF THE SENIOR MANAGEMENT OF THE COMPANY

1. MOVEMENTS IN THE COMPANY'S SHARE CAPITAL HELD BY THE DIRECTORS, SUPERVISORS AND MEMBERS OF THE SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

Mr. Wang Zhanying, a supervisor of the Company, held shares of the Company. There was no change in his shareholding during the reporting period.

Other directors, supervisors and members of the senior management of the Company do not hold any shares of the Company.

2. APPOINTMENT OR REMOVAL OF DIRECTORS, SUPERVISORS AND MEMBERS OF THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

In the 29th Meeting of the Second Board held on 20th February 2003, the resolutions in respect of the resignation of Mr. Gu Qifeng as the Company's Chief Engineer and the appointment of Mr. Deng Biao as the Company's Chief Engineer were considered and approved. The relevant announcement was published on Shanghai Securities, Hong Kong Wen Wei Po and The Hong Kong Standard on 21st February 2003.

V. MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Item	Six months ended 30th June		Percentage (%) increase(+)/decrease(-)
	2003	2002	
	<i>Rmb'000</i>	<i>Rmb'000</i>	
Income from principal operations	274,846	257,968	+6.54
Profit from principal operations	193,662	176,584	+9.67
Net profit	116,409	104,641	+11.25
Net (decrease)/increase in cash and cash equivalents	(7,422)	17,698	-141.94

Item	As at	As at	Percentage (%) increase(+)/decrease(-)
	30th June 2003	31st December 2002	
	<i>Rmb'000</i>	<i>Rmb'000</i>	
Total assets	2,864,822	2,757,008	+3.91
Shareholders' equity	1,858,483	1,742,074	+6.68

2. 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, Beicang Sewage Water Treatment Plant and Xianyanglu 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.

(1) 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 (the "Sewage Company"). During the reporting period, the two sewage water treatment plants processed a total of 114,622,879 cubic meters of sewage water, representing an increase of 13,938,227 cubic meters or 13.8% as compared with 100,684,652 cubic meters of sewage water processed during the corresponding period in last year and representing an increase of revenue of 14.4% for the corresponding sewage water processing business. It was mainly attributable to the modification work of Dongjiao Sewage Water Treatment Plant from river inflow to pipe inflow, which increased sewage water processing volume. At the same time, Beitang sewage water river landscape modification project restricted overflow of rainwater and increased sewage water processing volume. During the reporting period, the Company received an income of Rmb 218,930,000 in accordance with the "Sewage Water Processing Agreement".

The income of sewage water processing plant business was generated from the Agreement on the Construction Fee for the Expansion Project of the Sewage Water Treatment Plant entered into between Sewage Company and the Company on 24th September 2001. During the reporting period, the Company tried to reduce the impact of atypical pneumonia on the construction projects, and ensured the commencement of the construction project. However, the outbreak of atypical pneumonia resulted in the delay of inviting tender for the facilities. During the reporting period, the actual construction work completed amounted to Rmb 55,000,000 and the Company recognised an income of Rmb 25,226,000 in accordance with the project progress.

V. MANAGEMENT DISCUSSION AND ANALYSIS

(2) Operations of toll business

Income from toll business amounting to Rmb 30,690,000 was collected by the Company during 1st January to 31st May 2003 of the reporting period. In accordance with the toll fee collection unification arrangement set by the Tianjin Municipal Government, the Company's toll stations in Tianjin Municipality (hereinafter referred to as the "Former Toll Stations") ceased to operate with effect from 31st May 2003. Tianjin Municipal Engineering Bureau ("TMEB") has provided a compensation of Rmb 8,000,000 in cash to the Company for its toll collection services from 31st May 2003 to 30th June 2003 on 31st May 2003, the amount of which is equivalent to the level of income in the same period last year. TMEB has also agreed that a one-off cash compensation which is equivalent to the unaudited net book value of the Former Toll Stations as at 30th June 2003 of approximately Rmb 32,600,000 will be made to the Company for demolishing the Former Toll Stations.

According to the "Regulation on the Operation Management of Tianjin Southeast Half Ring Road (as revised in 2003)" promulgated by TMEB on 18th July 2003, effective from 1st July 2003, the Company has been granted the toll collection rights (till 1st March 2029) for six new toll stations, namely the toll station south to Jizhou Bridge of Jinwei Highway, the toll station east to Jizhou Bridge of Jingha Highway, Jinglai toll station of Jinwen Highway, Dongmajuan toll station of Jingfu Highway, Maying toll station of Yangyu Highway and Gaozhuang toll station of Hannan Highway (collectively referred to as the "Current Toll Stations"), to compensate the Company for its loss of earnings of the Former Toll Stations.

The Company has engaged Scott Wilson Consultancy Group, an independent consulting engineer, to assess the traffic volume, toll fee, operation, management, and maintenance costs of the Former Toll Stations and the Current Toll Stations and issue separate assessment reports in respect thereof. The assessment reports indicated that the new toll collection arrangement will not have a material impact on the operating results and net asset value of the Company.

With the approval granted by the 31st board meeting of the second session of the board of directors of the Company, the Company entered into the "Toll Collection Subcontracting Agreement" on 24th July 2003 with the newly formed Tianjin Toll Collection Office (the "Toll Collection Office"), an independent third party of the Company, pursuant to which the Company has agreed to engage the Toll Collection Office till 1st March 2029 to collect tolls on its behalf and to take charge of the operation, management, repair and maintenance of the Current Toll Stations.

The Company believes that the new toll collection arrangement will not have a material impact on the operating results and net asset value of the Company.

(3) Haihe Bridge Project management

On 24th September 2001, the Company and the Controlling Shareholder entered into the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring. The Controlling Shareholder owns the Haihe Bridge Project at present. Pursuant to the management agreement, the Company will provide management service in respect of the Haihe Bridge construction to the Controlling Shareholder, and will charge a management fee of Rmb 10,650,000 in total.

Since 1st January 2003, the Haihe Bridge construction project has been suspended. The Company entered into the Termination Agreement regarding the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring with the Controlling Shareholder on 29th April 2003. The two parties agreed to terminate the above-mentioned agreement on 1st January 2003. As at 31st December 2002, the Haihe Bridge Project was 70.8% completed. The Company recognised an accumulated income of Rmb 7,542,000 from the Haihe Bridge Project. The termination of the management service of the Haihe Bridge Project will not have a material impact on the operating results and net asset value of the Company.

V. MANAGEMENT DISCUSSION AND ANALYSIS

3. BUSINESSES OR PRODUCTS ACCOUNTING FOR MORE THAN 10% OF THE PRINCIPAL BUSINESS

Business	Principal operating income Rmb'000	Principal operating costs Rmb'000	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 %	Percentage Increment(+) reduction(-) of gross profit margin as compared with the previous year %
Sewage water processing and construction of sewage water treatment plants	244,156	53,745	77.99	+12.88	+6.98	+1.57
Road and toll stations	30,690	11,883	61.28	-21.51	-26.30	+4.29

Note: During the reporting period, income from road and toll station businesses represented income from January to May of 2003. In June 2003, the compensation received for the toll business from TMEB was accounted for as other income of the Company.

4. THE DESCRIPTION OF SINGLE INVESTEE COMPANY IN WHICH THE COMPANY HAS NON-CONTROLLING INVESTMENT INTERESTS ATTRIBUTING TO 10% OR MORE OF THE COMPANY'S NET PROFIT

The companies in which the Company has non-controlling investment interests include Tianjin Beifang Rencaigang Company Limited and Tianjin Baotong Light Mass Materials Company Limited. There is no single investee company in which the Company has non-controlling investment interests attributing to 10% or more of the Company's net profit.

As at the end of the reporting period, the Company owned 90% equity interests in Tianjin Water Recycling Company Limited. The company's registered capital is Rmb 20,000,000. Its businesses are the production and sales of recycled water and the development and construction of facilities for water recycling. The company commenced trial run on 1st December 2002.

5. PROBLEMS AND DIFFICULTIES OCCURRED DURING THE COURSE OF OPERATION

Due to the outbreak of atypical pneumonia, invitation and evaluation of tender for the expansion project of the Jizhuangzi Sewage Water Treatment Plant and construction of Xianyanglu Sewage Water Treatment Plant were affected, thereby affecting the progress of such projects.

The original plan is that the expansion project of the Jizhuangzi Sewage Water Treatment Plant will be completed by the end of 2003. The civil construction works are expected to be completed in principle before the end of 2003. However, the acquisition of facilities will only be expected to complete by the end of 2003 or the beginning of 2004 as a result of the above factors. The Company will use its best endeavours to complete the facilities installation and testing works in the first half of 2004.

As to the construction works concerning Xianyanglu Sewage Water Treatment Plant that is scheduled to be completed before the end of 2004, the Company will actively organize the construction projects to tackle the impact of atypical pneumonia on the facilities purchase, and will seek to actively coordinate the civil construction activities so as to complete the civil construction works for Xianyanglu Sewage Water Treatment Plant by the end of 2003 and the installation and testing works of the facilities in the first half of 2004.

V. MANAGEMENT DISCUSSION AND ANALYSIS

6. INVESTMENTS

(1) Use of proceeds

During the reporting period, the Company did not raise any funds, or no balance of funds raised in previous years was brought forward to the reporting period.

(2) Actual progress and revenue of major investment made out of funds other than proceeds from subscriptions

During the reporting period, the Company's major investments made out of funds other than proceeds from subscriptions were: the construction in progress for the three construction works of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant. During the reporting period, actual work completed amounted to Rmb 55 million. An income of Rmb 25,226,000 was recognised by the Company in accordance with the project progress. As at 30th June 2003, the stage of completion for these three construction works were as follows:

47.6% for Expansion of Jizhuangzi Sewage Water Treatment Plant, 21.1% for construction of Xianyanglu Sewage Water Treatment Plant, 9.1% for construction of Beicang Sewage Water Treatment Plant

7. STATUS OF COMPLETION AGAINST THE FORECASTED OR PLANNED SCHEDULE

As affected by the outbreak of atypical pneumonia, the expansion project of Jizhuangzi Sewage Water Treatment Plant and construction of Xianyanglu Sewage Water Treatment Plant will be adjusted from the original plan. Please refer to paragraph 5 of this section.

VI. MAJOR EVENTS

1. Conditions of corporate governance

In compliance with the Companies Law, the Securities Law, the Principles of Corporate Governance of Listed Companies and other relevant laws, rules and regulations, the Company devotes a lot of efforts to improve the corporate governance structure of the Company under the system of legal person, so as to achieve standardization on the operations of the Company, enhancing the information disclosure and investor relations management works.

In order to tighten the review on the feasibility of the Company's investment, the Company established the Investment Strategy Committee under the Board of Directors upon the consideration and approval by the Second Board of Directors in its 29th meeting. The term of the Investment Strategy Committee will be the same as the term of this Board of Directors. Activities will commence in accordance with the procedures as resolved by the Board of Directors. The Committee will examine and monitor major investments of the Company so as to ensure that such investments will be beneficial to the development of the Company.

2. Adoption and implementation of the profit distribution plan during the reporting period

The profit distribution plan for 2002 was approved in the 2002 Annual General Meeting. On the basis of the total share capital of 1,330,000,000 shares as at 31st December 2002, cash dividend of Rmb 0.085 (including tax) per share was paid to the shareholders of domestic shares, and Rmb 0.085 (including tax) representing HK\$ 0.08012 (including tax) per share was paid to the shareholders of H Shares. The Company announced the payment of dividend on 20th May 2003 and the record date was 22nd May 2003. Ex-dividend date was 23rd May 2003 and the dividend payment date was 6th June 2003.

3. The Company did not declare any profit distribution and the transfer of reserve funds to share capital for the interim period.

4. There was no litigation and arbitration which was material to the Company that occurred during the reporting period or occurred in the previous period and subsisting during the period.

5. During the reporting period, there were no acquisition and disposal of major assets and reorganisations of assets by the Company that commenced in the previous period and subsisting during the period, apart from the changes to the road and toll stations business as mentioned in paragraph 2(2) of section V above.

6. Significant connected transactions during the reporting period

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

(1) 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, whereas the fee will be calculated in accordance with a pricing formula. Tianjin Sewage Company is a State-owned enterprise under the supervisory control of the 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 between TMICL and Tianjin Bohai Chemical Industry (Group) Company Limited on 20th December 2000, the rights and obligations of TMICL were automatically transferred to the Company. The Company became 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 114,622,879 cubic meters of sewage water and received Rmb 218,930,000 of sewage treatment fee in accordance with the Sewage Water Processing Agreement entered into with the Tianjin Sewage Company.

(2) 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 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 Jizhuangzi Sewage Water Treatment Plant amounted to Rmb 55,000,000. In accordance with the Sewage Water Treatment Plant Construction Fee Agreement, the Company obtained an income of Rmb 25,226,000.

VI. MAJOR EVENTS

- (3) As informed by TMICL that the Haihe Bridge Project has been postponed since 1st January 2003, in accordance with the Termination Agreement of the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring entered into between the Company and TMICL on 29th April 2003, the two parties agreed to terminate the above-mentioned contract on 1st January 2003. As at 31st December 2002, the project was completed by 70.8%. The Company recognized an accumulated income of Rmb 7,542,000 from Haihe Bridge Project.
- (4) In accordance with a road repair and maintenance engagement agreement, Tianjin Municipal Roads & Bridges Construction Engineering Company(天津市市政道橋建築工程公司)(the "Roads & Bridges Company") provides repair and maintenance services of Southeastern Half Ring Road to the Company. It will charge fees according to the rate stipulated in "Guidelines on State Municipal Infrastructure Repair and Maintenance Estimation"(urban document No.412 in 1993 of the Ministry of Construction) issued by the Ministry of Construction in the PRC.
- (5) The Company shall pay the office rental to the Controlling Shareholder in accordance with two office rental agreements entered into on 10th October 2000 and 7th April 2002, respectively. According to the agreements, the Company rented the properties for office use from the Controlling Shareholder. The total rental was Rmb 1,050,000 per year (2002: Rmb 1,050,000), subject to adjustment by reference to market price determined by an independent property valuer every three years.
- (6) During the period between 1st January 2003 and 30th June 2003, the sewage processing infrastructure cost incurred by the Company and payable to the related parties amounted to Rmb 22,365,000.
- (7) The toll stations of the Company's road and toll station business from 1st January 2003 to 27th February 2003 consisted of 13 parcels of land, which were granted to the Company according to a land lease agreement by TMEB. As effective from 28th February 2003, the 13 parcels of land were granted to the Company according to the Tianjin State-owned Land Use Rights Leasing Agreement by the Tianjin City Planning and State Land Resources Bureau for an annual rental of about Rmb 380,000. Currently, the toll stations of the Company's road and toll station business were demolished. The Company is applying for the termination of the land leasing agreement of the 13 parcels of land with the Tianjin City Planning and State Land Resources Bureau.

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

7. Significant contracts and status of implementation

- (1) During the reporting period, the Company did not hold in custody, hire or lease any assets, and there is no company that holds in custody, hires or leases any assets of the Company.
 - (2) During the reporting period, the Company neither entered into any guarantees nor had guarantees that occurred in the previous period and subsisting during the period.
 - (3) During the reporting period, the Company neither entered into any trust arrangement with any third party for cash and asset management nor had any such arrangement that occurred in the previous period and subsisting during the period.
8. During the reporting period, the Company or shareholders who are interested in more than 5% of the total issued capital of the Company neither had published any matters of commitments in the designated newspapers and websites that may have material impact on the Company's operating results and financial position nor had such commitments that occurred in the previous period and subsisting during the period.

VI. MAJOR EVENTS

9. Other major events

- (1) During the tenth shareholders' general meeting of the Company held on 16th April 2002, the resolutions for the issue of A Shares Convertible Bonds by the Company were considered and approved. The scheme submitted to the shareholders' general meeting for approval shall be valid for one year from the date on which it was approved by the shareholders' general meeting. Application documents in relation to the issue of A Shares Convertible Bonds were submitted to the CSRC in June 2002 for review and approval. During the eleventh shareholders' general meeting of the Company held on 8th April 2003, the resolution on the extension of the scheme for A Share Convertible Bonds for one more year was considered and approved. At present, the CSRC is still reviewing the application documents regarding the issue of convertible bonds by the Company.
- (2) During the reporting period, tolls from the toll business were directly received by the Company from 1st January to 31st May. Commencing from 31st May 2003, there has been change to the toll collection method of the Company's toll business. For details, please refer to paragraph 2 of section 5 above.

10. Index on material information disclosed

- (1) The Company announced the resolutions passed in the 29th Meeting of the Second Board, resolutions passed in the 21st Meeting of the Second Supervisory Committee and notice for the 2002 Annual General Meeting on 21st February 2003. The announcements were published on page 25 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, where it can be searched by inputting the Company's stock code in "Listed companies information search" (same as below), page A9 of Wen Wei Po in Hong Kong and page N14 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (2) The Company announced the resolutions passed in the 2002 Annual General Meeting and the 11th Shareholders' General Meeting on 9th April 2003. The announcement was published on page 36 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn; page A13 of Wen Wei Po in Hong Kong, and page C47 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (3) The Company announced the resolutions passed in the 30th Meeting of the Second Board of Directors on 30th April 2003. The announcement was published on page 53 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn; page A11 of Wen Wei Po in Hong Kong, and pages N16-18 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (4) The Company announced the payment of final dividend to holders of H Shares on 12th May 2003. The announcement was published on page 8 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn; page A12 of Wen Wei Po in Hong Kong, and page C20 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (5) The Company announced the implementation of profit distribution plan for 2002 with respect to holders of domestic shares on 19th May 2003. The announcement was published on page 5 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn; page A10 (1/2 page) of Wen Wei Po in Hong Kong, and page C37 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (6) The Company issued an announcement of the new arrangement for toll collection on 4th June 2003. The announcement was published on page 20 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn; page B8 of Wen Wei Po in Hong Kong, and page C22 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

BALANCE SHEETS

As At 30th June 2003

	Notes	Group		Company	
		30th June 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	30th June 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>
ASSETS					
CURRENT ASSETS					
Cash and bank balances	3	530,507	537,929	472,067	515,507
Accounts receivable	4	45,759	28,704	45,724	28,232
Other receivables	5	34,853	1,419	34,040	1,078
Prepayments to suppliers	6	61,837	1,871	60,752	253
Inventories	7	2,176	2,440	2,176	2,440
		<hr/>	<hr/>	<hr/>	<hr/>
Total current assets		675,132	572,363	614,759	547,510
		<hr/>	<hr/>	<hr/>	<hr/>
LONG-TERM INVESTMENTS					
Long-term equity investments	8	4,000	4,000	18,380	19,439
		<hr/>	<hr/>	<hr/>	<hr/>
FIXED ASSETS AND CONSTRUCTION IN PROGRESS					
Fixed assets - cost		1,717,669	1,757,717	1,715,362	1,755,436
Less: Accumulated depreciation		(511,430)	(493,021)	(511,038)	(492,771)
		<hr/>	<hr/>	<hr/>	<hr/>
Fixed assets - net book value	9	1,206,239	1,264,696	1,204,324	1,262,665
Construction in progress	10	979,451	915,949	880,992	825,625
		<hr/>	<hr/>	<hr/>	<hr/>
Total fixed assets and construction in progress		2,185,690	2,180,645	2,085,316	2,088,290
		<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS		<u>2,864,822</u>	<u>2,757,008</u>	<u>2,718,455</u>	<u>2,655,239</u>

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

BALANCE SHEETS (Cont'd)

As At 30th June 2003

	Notes	Group		Company	
		30th June 2003 Rmb'000	31st December 2002 Rmb'000	30th June 2003 Rmb'000	31st December 2002 Rmb'000
LIABILITIES AND					
SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term loan	11	—	30,000	—	—
Accounts payable	12	3,602	1,862	724	414
Advances from customers	13	87,188	89,597	87,074	89,597
Welfare payable		6,572	5,753	6,511	5,733
Dividend payable	14	2,122	115,268	2,122	115,268
Taxes payable	15	17,699	21,196	17,691	21,191
Other accruals		303	482	287	465
Other payables	16	153,443	176,523	153,412	174,635
Accrued expenses		2,151	5,861	2,151	5,862
Total current liabilities		273,080	446,542	269,972	413,165
LONG-TERM LIABILITIES					
Long-term loans	17	650,000	500,000	590,000	500,000
Specific payables	18	81,661	66,676	—	—
Total long-term liabilities		731,661	566,676	590,000	500,000
TOTAL LIABILITIES		1,004,741	1,013,218	859,972	913,165
MINORITY INTERESTS		1,598	1,716	—	—
SHAREHOLDERS' EQUITY					
Share capital	19	1,330,000	1,330,000	1,330,000	1,330,000
Capital reserve fund	20(a)	69,289	69,289	69,289	69,289
General reserves	20(b)	84,335	84,335	84,335	84,335
Including:					
Statutory common reserve		56,223	56,223	56,223	56,223
Statutory provident fund		28,112	28,112	28,112	28,112
Undistributed profits	21	374,859	258,450	374,859	258,450
Total shareholders' equity		1,858,483	1,742,074	1,858,483	1,742,074
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,864,822	2,757,008	2,718,455	2,655,239

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

PROFIT AND LOSS ACCOUNTS

For The Six Months Ended 30th June 2003

	Notes	Group		Company	
		Six months ended 30th June		Six months ended 30th June	
		2003	2002	2003	2002
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
INCOME FROM PRINCIPAL OPERATIONS	22	274,846	257,968	274,846	257,968
Less: Costs for principal operations	22	(65,628)	(67,196)	(65,628)	(67,196)
Business tax and surcharges	22	(15,556)	(14,188)	(15,556)	(14,188)
PROFIT FROM PRINCIPAL OPERATIONS		193,662	176,584	193,662	176,584
Add: Profit from other operations	24	5,811	352	5,602	8
Less: Administrative expenses		(16,607)	(20,871)	(15,203)	(19,747)
Financial (expenses)/income - net	24	(9,129)	976	(9,147)	945
OPERATING PROFIT		173,737	157,041	174,914	157,790
Less: Investment loss	25	—	—	(1,059)	(674)
Add: Non-operating income		—	3	—	3
Less: Non-operating expenses		(110)	(938)	(110)	(938)
TOTAL PROFIT		173,627	156,106	173,745	156,181
Less: Income tax	2(s)	(57,336)	(51,540)	(57,336)	(51,540)
Minority interests		118	75	—	—
NET PROFIT		116,409	104,641	116,409	104,641

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

PROFIT APPROPRIATION STATEMENTS

For The Six Months Ended 30th June 2003

	Notes	Group		Company	
		Six months ended 30th June		Six months ended 30th June	
		2003	2002	2003	2002
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
NET PROFIT		116,409	104,641	116,409	104,641
Add: Undistributed profits at beginning of the period		258,450	127,349	258,450	127,349
		<hr/>	<hr/>	<hr/>	<hr/>
Profits available for appropriation		374,859	231,990	374,859	231,990
Less: Transfer to statutory common reserve	20(b)	—	—	—	—
Transfer to statutory provident fund	20(b)	—	—	—	—
		<hr/>	<hr/>	<hr/>	<hr/>
UNDISTRIBUTED PROFITS AT END OF THE PERIOD	21	<u>374,859</u>	<u>231,990</u>	<u>374,859</u>	<u>231,990</u>

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

CASH FLOW STATEMENTS

For The Six Months Ended 30th June 2003

	Group		Company	
	Six months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash inflows:				
Cash received from rendering of services	255,383	310,603	254,831	309,918
Other cash received relating to operating activities	21,755	36,392	21,584	6,392
	<u>277,138</u>	<u>346,995</u>	<u>276,415</u>	<u>316,310</u>
Sub-total of cash inflows				
Cash outflows:				
Cash paid for goods and services	(31,963)	(28,275)	(32,030)	(27,925)
Cash paid to and on behalf of employees	(16,920)	(16,913)	(16,959)	(16,201)
Taxes paid	(78,311)	(142,059)	(78,314)	(142,032)
Other cash paid relating to operating activities	(10,671)	(14,462)	(9,015)	(14,173)
	<u>(137,865)</u>	<u>(201,709)</u>	<u>(136,318)</u>	<u>(200,331)</u>
Sub-total of cash outflows				
Net cash flows from operating activities	<u>139,273</u>	<u>145,286</u>	<u>140,097</u>	<u>115,979</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows:				
Other cash received relating to investing activities	522	1,063	504	1,033
Cash outflows:				
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(156,747)	(24,974)	(148,587)	(3,262)
	<u>(156,225)</u>	<u>(23,911)</u>	<u>(148,083)</u>	<u>(2,229)</u>
Sub-total of cash outflows				
Net cash flows from investing activities	<u>(156,225)</u>	<u>(23,911)</u>	<u>(148,083)</u>	<u>(2,229)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash inflows:				
Cash received from borrowings	150,000	—	90,000	—
Cash received relating to other financing activities	14,984	—	—	—
	<u>164,984</u>	<u>—</u>	<u>90,000</u>	<u>—</u>
Sub-total of cash inflows				
Cash outflows:				
Cash repayments of amounts borrowed	(30,000)	—	—	—
Cash payments for distribution of dividends or profits	(111,403)	(103,677)	(111,403)	(103,677)
Cash payments for interest expenses	(14,051)	—	(14,051)	—
	<u>(155,454)</u>	<u>(103,677)</u>	<u>(125,454)</u>	<u>(103,677)</u>
Sub-total of cash outflows				
Net cash flows from financing activities	<u>9,530</u>	<u>(103,677)</u>	<u>(35,454)</u>	<u>(103,677)</u>
NET (DECREASE)/INCREASE IN CASH	<u>(7,422)</u>	<u>17,698</u>	<u>(43,440)</u>	<u>10,073</u>

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

CASH FLOW STATEMENTS (Cont'd)

For The Six Months Ended 30th June 2003

Supplementary Information

	Group		Company	
	Six months ended 30th June		Six months ended 30th June	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
(i) Reconciliation of net profit to net cash flows from operating activities				
Net profit	116,409	104,641	116,409	104,641
Add/(Less):				
Minority interests	(118)	(75)	—	—
Depreciation and amortisation of fixed assets	28,441	25,328	28,229	25,213
Losses on disposal of fixed assets	91	889	91	889
Interest expense-net	9,651	—	9,651	—
Loss on investments	—	—	1,059	674
Decrease in inventories	264	543	264	543
(Increase)/decrease in operating receivables	(17,691)	65,892	(18,189)	66,069
Increase/(decrease) in operating payables	2,226	(51,932)	2,513	(82,050)
	<u>139,273</u>	<u>145,286</u>	<u>140,097</u>	<u>115,979</u>
Net cash flows from operating activities				
(ii) Net (decrease)/increase in cash				
Cash at end of the period	530,507	278,166	472,067	218,843
Less: Cash at beginning of the period	(537,929)	(260,468)	(515,507)	(208,770)
	<u>(7,422)</u>	<u>17,698</u>	<u>(43,440)</u>	<u>10,073</u>
Net (decrease)/increase in cash				

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

NOTES TO THE ACCOUNTS

For The Six Months Ended 30th June 2003

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. The principal business of the Company’s subsidiary is set out in note 8(a).

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

(a) Sewage Water Processing and Sewage Water Processing Plants Construction Businesses

(i) Sewage Water Processing Business

The sewage water processing business is conducted according to a Sewage Water Processing Agreement entered into on 10th October 2000, 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

Pursuant to a Sewage Water Plants Construction Fee Agreement (“Construction Fee Agreement”) entered into between the Company and TSC on 24th September 2001, the Company provides sewage water processing plant construction services to TSC in respect of the construction, including the funding requirements, of the Xianyanglu Sewage Water Processing Plant, Jizhuangzi (Expansion) Sewage Water Processing Plant and Beicang Sewage Water Processing Plant (the “Sewage Plant Construction Projects”). According to the Construction Fee Agreement, TSC will pay and the Company will charge, a fee during the construction period of the Sewage Plant Construction Projects, as a reward to remunerate the Company. 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 each of the sewage water processing plants. The construction fees will be payable by TSC to the Company in advance on a monthly basis based on amounts calculated according to the percentage of completion of the respective construction projects estimated by management. The percentage of completion of each project will be adjusted on a quarterly basis according to the certifications issued by qualified independent surveyors or engineers. 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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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)

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

	Xianyanglu Sewage Water Processing Plant Construction Project	Jizhuangzi Sewage Water Processing Plant Expansion Project	Beicang Sewage Water Processing Plant Construction Project
Location	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC
Daily capacity (cubic meter) upon completion of construction	450,000	280,000	100,000
Estimated date of completion	End of 2004	Mid of 2004	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 2002	19.7%	45.1%	6.1%
— as at 30th June 2003	21.1%	47.6%	9.1%
Construction fees recognised by the Company (Rmb' million)			
— up to 31st December 2002	116	143	16
— up to 30th June 2003	124	151	24

(b) Road and Toll Station Business

The Company owns the right to 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.

During the period, following the reform of the public transportation network in the nearby region of Tianjin for the purpose of facilitating vehicles registered outside Tianjin entering into Tianjin, the Tianjin Municipal Government decided to relocate the toll stations collecting tolls on vehicles entering into Tianjin, including those of the Company, to the boundary of the interstate highways surrounding Tianjin. The collection of tolls from vehicles registered outside Tianjin will be centralised at Tianjin Toll Collection Office. As a result of this unification arrangement, the Company's toll stations had ceased operations since 31st May 2003 and the toll stations had been demolished. In this regard, the Company has reached compensation arrangements with TMEB which include, inter alia, the followings:

- (i) An one-off cash compensation will be made by TMEB to the Company in an amount equivalent to the net book value of the assets of the demolished toll stations as at 30th June 2003 of Rmb32,563,000.
- (ii) TMEB has also agreed to compensate the Company for loss in revenue, during the period from 31st May 2003 to the date of completion of construction of new toll stations (section (iii) below), at amounts equivalent to the amounts of revenue received in the same period of last year. Up to 30th June 2003, the Company has recognised a net compensation income of Rmb5,538,000, representing toll fee revenue compensation of Rmb8,000,000 net of expenses.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(b) Road and Toll Station Business *(Cont'd)*

(iii) According to the Regulation on the Operation Management of Tianjin Southeast Half Ring Road (as revised on 18th July 2003) issued by TMEB on 18th July 2003, the Company was granted the right to six new toll collection stations for a term from 1st July 2003 to 28th February 2029. Subsequent to the period end, on 24th July 2003, the Company entered into a toll fee collection subcontracting agreement with Tianjin Toll Collection Office.

(c) Haihe Bridge Project Management Business - discontinued business

On 24th September 2001, the Company entered into the Haihe Bridge Project Management Agreement with Tianjin Municipal Investment Company Limited (the "controlling shareholder"), the owner of the Haihe Bridge Construction Project. According to the agreement, the Company provides project management services to the controlling shareholder for the construction of Haihe Bridge and is entitled to a total sum of project management fee amounting to Rmb10,650,000.

On 29th April 2003, pursuant to the Termination Agreement regarding the Haihe Bridge Project Management, the Company and TMICL agreed to terminate the project management agreement as the construction of Haihe Bridge project has been suspended since 1st January 2003. Up to 31st December 2002, 70.8% of the Haihe Bridge construction work has been completed and the Company has recognised Haihe Bridge management fee income totalling Rmb 7,542,000. The termination of the Haihe Bridge project management business does not have a material impact to the financial position of the Group.

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. These accounts represent the interim accounts of year 2003 and therefore are prepared only up to the period ended 30th June.

(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.

(e) Cash

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

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(Cont'd)

(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.

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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(Cont'd)

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

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. The expenses relating to improvements of fixed assets are capitalised and amortised over their expected useful lives.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(Cont'd)

(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.

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 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.

(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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(Cont'd)

(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 calculated based on the period of the principal amounts deposited and the effective interest rates.

(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).

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(Cont'd)

(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	
	30th June 2003	31st December 2002	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash on hand	37	11	37	10
Cash in bank	530,470	537,918	472,030	515,497
Total	<u>530,507</u>	<u>537,929</u>	<u>472,067</u>	<u>515,507</u>

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

4 ACCOUNTS RECEIVABLE

	Group		Company	
	30th June 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	30th June 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>
Ageing analysis of accounts receivable is as follows:				
Within one year	45,759	28,704	45,724	28,232
Less: Provision for bad debts	—	—	—	—
Net accounts receivable	<u>45,759</u>	<u>28,704</u>	<u>45,724</u>	<u>28,232</u>

Details of the accounts receivable are set out as follows:

Due from TSC				
— revenue from sewage water processing services (<i>note 1(a)(i)</i>)	44,693	27,201	44,693	27,201
Due from the controlling shareholder				
— Haihe Bridge project management fee income (<i>note 1(c)</i>)	1,031	1,031	1,031	1,031
Others	<u>35</u>	<u>472</u>	<u>—</u>	<u>—</u>
Total	<u>45,759</u>	<u>28,704</u>	<u>45,724</u>	<u>28,232</u>

All accounts receivable were aged within one year, most of which were from related companies and 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 the voting shares as at 30th June 2003.

5 OTHER RECEIVABLES

	Group		Company	
	30th June 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	30th June 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>
Ageing analysis of other receivables is as follows:				
Within 1 year	34,853	1,419	34,040	1,078
Less: Provision for bad debts	—	—	—	—
Net other receivables	<u>34,853</u>	<u>1,419</u>	<u>34,040</u>	<u>1,078</u>

Other receivables as at 30th June 2003 included an amount of Rmb 32,563,000 (2002: nil) which represented the compensation receivable from TMEB for the demolition of the toll stations that formerly owned by the Company (note 9). There were no receivables from any of the Company's shareholders which hold 5% or more of the voting shares as at 30th June 2003.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

6 PREPAYMENTS TO SUPPLIERS

	Group		Company	
	30th June 2003 Rmb'000	31st December 2002 Rmb'000	30th June 2003 Rmb'000	31st December 2002 Rmb'000
Prepayment for purchase of a building	60,000	—	60,000	—
Others	1,837	1,871	752	253
Total	<u>61,837</u>	<u>1,871</u>	<u>60,752</u>	<u>253</u>

Prepayment for purchase of a building represents deposit and prepayment made according to a purchase agreement to Tianjin Ningfa Group Company Limited in respect of the proposed acquisition of Ningfa Building, a 20-storey office and investment property located at Nankai District of Tianjin.

The prepayments are aged within one year and therefore no bad debt provision was made. There were no prepayments to any of the Company's shareholders which hold 5% or more of the voting shares as at 30th June 2003.

7 INVENTORIES

	Group and Company			
	30th June 2003 Cost Rmb'000	30th June 2003 Provision Rmb'000	31st December 2002 Cost Rmb'000	31st December 2002 Provision Rmb'000
Raw materials	1,892	—	2,022	—
Spare parts and consumables	284	—	418	—
Total	<u>2,176</u>	<u>—</u>	<u>2,440</u>	<u>—</u>

8 LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	30th June 2003 Rmb'000	31st December 2002 Rmb'000	30th June 2003 Rmb'000	31st December 2002 Rmb'000
Investment in a subsidiary company (note (a))	—	—	14,380	15,439
Other long-term equity investments (note (b))	4,000	4,000	4,000	4,000
Net book value	<u>4,000</u>	<u>4,000</u>	<u>18,380</u>	<u>19,439</u>

(a) Investment in a subsidiary company

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

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

8 LONG-TERM EQUITY INVESTMENTS (Cont'd)

(b) Other long-term equity investments

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

9 FIXED ASSETS AND ACCUMULATED DEPRECIATION/AMORTISATION

	Group					Total Rmb'000
	Land use rights Rmb'000	Road Rmb'000	Buildings and structures Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and others Rmb'000	
Cost						
At 1st January 2003	651,098	185,418	655,877	208,788	56,536	1,757,717
Additions	—	—	—	1,843	996	2,839
Disposals	(5,655)	—	(22,877)	(6,871)	(7,484)	(42,887)
At 30th June 2003	<u>645,443</u>	<u>185,418</u>	<u>633,000</u>	<u>203,760</u>	<u>50,048</u>	<u>1,717,669</u>
Accumulated depreciation/ amortisation						
At 1st January 2003	42,341	35,052	259,411	126,122	30,095	493,021
Charge for the period	7,197	2,989	8,745	5,149	4,361	28,441
Disposals	(322)	—	(3,618)	(2,498)	(3,594)	(10,032)
At 30th June 2003	<u>49,216</u>	<u>38,041</u>	<u>264,538</u>	<u>128,773</u>	<u>30,862</u>	<u>511,430</u>
Net book value						
At 30th June 2003	<u>596,227</u>	<u>147,377</u>	<u>368,462</u>	<u>74,987</u>	<u>19,186</u>	<u>1,206,239</u>
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>

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

	Company					Total Rmb'000
	Land use rights Rmb'000	Road Rmb'000	Buildings and structures Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and others Rmb'000	
Cost						
At 1st January 2003	651,098	185,418	655,877	208,788	54,255	1,755,436
Additions	—	—	—	1,843	970	2,813
Disposals	(5,655)	—	(22,877)	(6,871)	(7,484)	(42,887)
At 30th June 2003	<u>645,443</u>	<u>185,418</u>	<u>633,000</u>	<u>203,760</u>	<u>47,741</u>	<u>1,715,362</u>
Accumulated depreciation/ amortisation						
At 1st January 2003	42,341	35,052	259,411	126,122	29,845	492,771
Charge for the period	7,197	2,989	8,745	5,149	4,219	28,299
Disposals	(322)	—	(3,618)	(2,498)	(3,594)	(10,032)
At 30th June 2003	<u>49,216</u>	<u>38,041</u>	<u>264,538</u>	<u>128,773</u>	<u>30,470</u>	<u>511,038</u>
Net book value						
At 30th June 2003	<u>596,227</u>	<u>143,377</u>	<u>368,462</u>	<u>74,987</u>	<u>17,271</u>	<u>1,204,324</u>
At 31st December 2002	<u>608,757</u>	<u>150,366</u>	<u>396,466</u>	<u>82,666</u>	<u>24,410</u>	<u>1,262,665</u>

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

As mentioned in note 1(b)(i) above, the Company's toll stations had ceased operations since 31st May 2003 and the toll stations had been demolished as a result of the unification of toll collection arrangement implemented by the Tianjin Municipal Government. According to a written confirmation issued by TMEB, TMEB will make an one-off cash compensation to the Company in an amount equivalent to the net book value of the assets of the demolished toll stations of the Company as at 30th June 2003 of Rmb 32,563,000.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

10 CONSTRUCTION IN PROGRESS

Name of project	Budget costs (acquisition consideration included) <i>Rmb'000</i>	As at 1st January 2003 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	As at 30th June 2003 <i>Rmb'000</i>	Source of funds	Incurred costs to budget costs ratio
Xianyanglu Sewage Water Processing Plant Construction Project	1,190,121	281,677	16,929	298,606	Bank loans and self-raised fund	25.09%
Jizhuangzi Sewage Water Processing Plant Expansion Project	1,054,722	518,147	25,646	543,793	Bank loans and self-raised fund	51.56%
Beicang Sewage Water Processing Plant Construction Project	366,270	25,801	12,792	38,593	Bank loans and self-raised fund	10.64%
Total construction in progress (Company)	<u>2,611,113</u>	<u>825,625</u>	<u>55,367</u>	<u>880,992</u>		
Tianjin Jizhuangzi Sewage Water Recycling Project	114,500	90,324	8,135	98,459	Specific loans and self-raised fund	85.99%
Total construction in progress (Group)	<u><u>2,725,613</u></u>	<u><u>915,949</u></u>	<u><u>63,502</u></u>	<u><u>979,451</u></u>		
Including: Capitalised borrowing costs						
- Company		6,328	5,024	11,352		
- Group		6,328	6,066	12,394		

11 SHORT-TERM LOAN

The short-term loan as at 31st December 2002 was obtained from Shanghai Pudong Development Bank, guaranteed by the Company's controlling shareholder and beared interest at a rate of 5.76% per annum. The loan had been repaid by the Company during the period.

12 ACCOUNTS PAYABLE

There were no accounts payable to any of the Company's shareholders which hold 5% or more of the voting shares as at 30th June 2003.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

13 ADVANCES FROM CUSTOMERS

Pursuant to the Construction Fee Agreement (Note 1(a)(ii)), TSC shall pay to the Company advances totalling of Rmb117,052,000, 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 30th June 2003, advances from customers include the remaining balance of the advances (after offsetting ten percent of accumulated construction fees recognised, Rmb29,978,000, from the period from 24th September 2001 to 30th June 2003).

There were no advances from the Company's shareholders which hold 5% or more of the voting shares as at 30th June 2003.

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 final dividend of Rmb0.85 (tax included) for every ten shares held by shareholders, totalling Rmb113,050,000, based on the total number of shares of 1,330,000,000 as at 31st December 2002. The dividend distribution was approved by the shareholders at the eleventh annual general meeting held on 8th April 2003. In addition, balance as at 30th June 2003 represents the dividend for year 2002 not yet paid to the legal person shareholders.

15 TAXES PAYABLE

	Group		Company	
	30th June 2003	31st December 2002	30th June 2003	31st December 2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income tax	18,261	9,225	18,261	9,225
Business tax and others	(562)	11,971	(570)	11,966
Total	<u>17,699</u>	<u>21,196</u>	<u>17,691</u>	<u>21,191</u>

16 OTHER PAYABLES

	Group		Company	
	30th June 2003	31st December 2002	30th June 2003	31st December 2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Payable to controlling shareholder (note (a))	—	4,737	—	4,737
Construction costs payable (note (b))	40,440	62,240	40,440	60,352
Payable to TSC (note (c))	110,120	105,565	110,120	105,565
Others	2,883	3,981	2,852	3,981
Total	<u>153,443</u>	<u>176,523</u>	<u>153,412</u>	<u>174,635</u>

- (a) The balance payable to controlling shareholder as at 31st December 2002 was unsecured, interest free and was settled during the period. There were no other payables to any of the Company's shareholders which holds 5% or more of voting shares.
- (b) The construction costs payable represent construction costs incurred in relation to the construction of the sewage water processing plants by the Company but remained outstanding as at the end of the period. The construction costs payable included amounts of Rmb22,365,000 (2002: Rmb22,781,000) payable to related companies.
- (c) The payable to TSC mainly represents the net amount payable in respect of the acquisition of the Sewage Plant Construction Projects. The amount is unsecured, interest free and has no specific repayment terms.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

17 LONG-TERM LOANS

Long-term bank loans include:

- (a) A long-term loan of Rmb 540,000,000 (2002: Rmb 500,000,000) obtained from the State Development Bank and transferred to the Company along with the acquisition of the Sewage Plant Construction Projects. The loan has a total facility limit of Rmb740,000,000 and is guaranteed by TMEB and secured by some of the fee collection rights of TMEB's business.
- (b) A long-term loan of Rmb 50,000,000 (2002: Nil) obtained from China Everbright Bank for the purpose of financing the construction of the Sewage Plant Construction Projects. The loan has a total facility limit of Rmb700,000,000 and is secured by the right to receive sewage water processing fees of TSC.
- (c) A long-term loan of Rmb 60,000,000 (2002: Nil) obtained by the Company's subsidiary, Tianjin Water Recycling Co., Ltd, from China Everbright Bank, for the purpose of financing the construction of water recycling pipeline. The loan is guaranteed by the controlling shareholder of the Company.

The long-term loans are repayable as follows:

	Group		Company	
	30th June 2003	31st December 2002	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable within one year	—	—	—	—
Payable in the second year	50,000	50,000	50,000	50,000
Payable in the third year to fifth year	396,000	243,000	336,000	243,000
Payable after the fifth year	204,000	207,000	204,000	207,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total	650,000	500,000	590,000	500,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

18 SPECIFIC PAYABLES

Specific payables include amounts totalling Rmb81,000,000 (2002: Rmb66,000,000), granted by TMEB to the Company's subsidiary, Tianjin Water Recycling Co., Ltd., 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 have been interest free from their respective dates of grant to 30th June 2003, 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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

19 SHARE CAPITAL

	Company	
	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered share capital		
Par value of Rmb1 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>1,330,000</u>	<u>1,330,000</u>
Issued and paid up capital		
(1) A shares		
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		
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>1,330,000</u>	<u>1,330,000</u>

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

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

20 CAPITAL RESERVE FUND AND GENERAL RESERVES

	Group and Company		
	Capital reserve fund	Statutory common reserve	Statutory provident fund
	<i>(note (a)) Rmb'000</i>	<i>(note (b)) Rmb'000</i>	<i>(note (b)) Rmb'000</i>
At 31st December 2002 and 30th June 2003	<u>69,289</u>	<u>56,223</u>	<u>28,112</u>

(a) Capital reserve fund

Capital reserve fund comprises the following item:

	Group and Company	
	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Share premium	<u>69,289</u>	<u>69,289</u>

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

(b) General reserves

The general reserves comprise the statutory common reserve and the statutory provident fund.

According to the Company's Articles of Association, it is required to transfer 10% and 5% to 10% of the net profit of the Company as shown in the accounts prepared under PRC accounting regulations to the statutory common reserve (until the reserve reaches 50% of the registered capital) and statutory provident fund, respectively. The transfers to these reserves must be made before the distribution of dividends to shareholders.

The Company's board of directors does not recommend the appropriation of net profit for the six months ended 30 June 2003. The profit appropriation scheme will be decided after the 2003 annual accounts being audited.

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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

21 UNDISTRIBUTED PROFITS

	Group and Company <i>Rmb '000</i>
At 1st January 2003	258,450
Add: Net profit for the period	116,409
	<hr/>
At 30th June 2003	374,859
	<hr/> <hr/>

22 INCOME FROM PRINCIPAL OPERATIONS AND SEGMENT INFORMATION

(a) Income from principal operations

	Group	
	Six months ended 30th June	
	2003	2002
	<i>Rmb '000</i>	<i>Rmb '000</i>
Revenue from sewage water processing services	218,930	191,301
Revenue from sewage water processing plants construction services	25,226	25,005
	<hr/>	<hr/>
Sub-total	244,156	216,306
Toll fee income	30,690	39,102
Haihe Bridge project management fee	—	2,560
	<hr/>	<hr/>
	274,846	257,968
	<hr/> <hr/>	<hr/> <hr/>

(b) Segment information

	Sewage water processing and sewage water processing plant construction	Road and toll stations	Group
	Six months ended 30th June 2003		
	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>
Income from principal operations	244,156	30,690	274,846
Costs for principal operations	(53,745)	(11,883)	(65,628)
Business tax and surcharges	(13,428)	(2,128)	(15,556)
	<hr/>	<hr/>	<hr/>
Profit from principal operations	176,983	16,679	193,662
Less: Administrative expenses	(13,063)	(3,544)	(16,607)
Add: Financial (expenses)/income - net	(9,204)	75	(9,129)
Others	185	5,516	5,701
	<hr/>	<hr/>	<hr/>
Total profit	154,901	18,726	173,627
Less: Income tax	(51,156)	(6,180)	(57,336)
	<hr/>	<hr/>	<hr/>
Net profit before minority interests	103,745	12,546	116,291
Minority interests	118	—	118
	<hr/>	<hr/>	<hr/>
Net profit	103,863	12,546	116,409
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

(b) Segment information (Cont'd)

	Sewage water processing and sewage water plant construction	Road and toll stations	Haihe Bridge project management	Group
	Six months ended	Six months ended	30th June 2002	30th June 2002
	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i> <i>(note 1(c))</i>	<i>Rmb '000</i>
Income from principal operations	216,306	39,102	2,560	257,968
Costs for principal operations	(50,237)	(16,124)	(835)	(67,196)
Business tax and surcharges	(11,897)	(2,151)	(140)	(14,188)
Profit from principal operations	154,172	20,827	1,585	176,584
Less: Administrative expenses	(14,910)	(5,961)	—	(20,871)
Add: Financial income - net	36	940	—	976
Others	202	(785)	—	(583)
Total profit	139,500	15,021	1,585	156,106
Less: Income tax	(46,060)	(4,957)	(523)	(51,540)
Net profit before minority interests	93,440	10,064	1,062	104,566
Minority interests	75	—	—	75
Net profit	93,515	10,064	1,062	104,641

23 PROFIT FROM OTHER OPERATIONS

Included in the profit from other operations was an amount of Rmb5,538,000 which represented the compensation of Rmb8,000,000 for the Company's road and toll station business in June 2003 received from TMEB after deducting related costs (note 1(b(ii))).

24 FINANCIAL (EXPENSES)/INCOME - NET

	Group		Company	
	Six months ended	Six months ended	Six months ended	Six months ended
	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest expense	(15,717)	—	(14,675)	—
Less: Interest capitalised	6,066	—	5,024	—
Interest expense-net	(9,651)	—	(9,651)	—
Less: Interest income	657	1,064	637	1,032
Others	(135)	(88)	(133)	(87)
	(9,129)	976	(9,147)	945

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

25 INVESTMENT LOSS

	Group		Company	
	Six months ended 30th June 2003	2002	Six months ended 30th June 2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Based on equity accounting				
Share of loss of subsidiary	—	—	(1,059)	(674)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

26 COMMITMENTS

(a) Capital commitments

	Group		Company	
	30th June 2003	31st December 2002	30th June 2003	31st December 2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted but not provided for (note i)	222,691	146,710	213,309	134,968
Authorised but not contracted for (note ii)	1,624,538	1,662,955	1,616,836	1,650,520
	<u>1,847,229</u>	<u>1,809,665</u>	<u>1,830,145</u>	<u>1,785,488</u>

(i) The Group amount comprises the capital commitments of the Company in respect of the Sewage Plant Construction Projects (note1(a)(ii)) amounting to Rmb118,309,000 and the purchase of Ningfa Building as office premises and investment properties of the Company amounting to Rmb95,000,000, and the capital commitments of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., in respect of Tianjin Jizhuangzi sewage water recycling project amounting to Rmb9,382,000.

(ii) The Group amount comprises the capital commitments of the Company in respect of the Sewage Plant Construction Projects from 1st July 2003 to completion date amounting to Rmb 1,616,836,000, and the capital commitments of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., in respect of Tianjin Jizhuangzi sewage water recycling project amounting to Rmb7,702,000.

In addition, subsequent to the period end, on 24th July 2003, the Company's board of directors passed a resolution to approve the following investments:

Investment project	Operating activities	Estimated investment cost Rmb'000
Investment to construct a sewage water processing plant	Sewage water processing	52,523
Investment to establish three joint venture companies	Operate water work and manufacture of new materials of water pipes	<u>289,000</u>
		<u>341,523</u>

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

26 COMMITMENTS (Cont'd)

(b) Operating lease commitments

At 30th June 2003, 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	
	30th June 2003	31st December 2002	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable within one year	1,050	1,050	1,050	1,050
Payable in the second to fifth year	2,700	3,000	2,700	3,000
Payable after the fifth year	5,850	6,075	5,850	6,075
	<u>9,600</u>	<u>10,125</u>	<u>9,600</u>	<u>10,125</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 1st January	Additions	As at 30th June
	2003		2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Tianjin Municipal Investment Company Limited	1,724,278	—	1,724,278
Tianjin Water Recycling Co., Ltd	20,000	—	20,000
	<u>1,744,278</u>	<u>—</u>	<u>1,744,278</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 30th June	
	2003	%	2003	%	2003	%
	<i>Rmb'000</i>		<i>Rmb'000</i>		<i>Rmb'000</i>	
Tianjin Municipal Investment Company Limited	839,020	63.08	—	—	839,020	63.08
	<u>839,020</u>	<u>63.08</u>	<u>—</u>	<u>—</u>	<u>839,020</u>	<u>63.08</u>

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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.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 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 Management Bureau No.8 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 No.2 Company	State-owned company under the supervisory control of TMEB
Tianjin Municipal Road & Bridge Company Limited	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

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

28 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions with related companies during the six months ended 30th June 2003, which were carried out in the normal course of operations of the Group.

Name of enterprise	Nature of transaction	Six months ended 30th June	
		2003 Rmb'000	2002 Rmb'000
Income:			
TSC	Revenue from sewage water processing services (note (a))	218,930	191,301
TSC	Revenue from construction of sewage water processing plants (note (b))	25,226	25,005
TMICL	Revenue from Haihe Bridge project management service (note (c))	—	2,560
Expenses:			
TURBCC	Road repair and maintenance (note (d))	1,375	1,536
TMICL	Operating lease rental in respect of office premises (note (e))	525	525
Others:			
Related contractors	Amounts payable for sewage water processing plants construction costs (note (f))	22,365	41,157

Notes:

- 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).
- This represents revenue derived from the construction of sewage water processing plants services 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).
- 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).
- 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 Tianjin 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 is under the supervisory control of TMEB.
- 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. According to the agreements, the Company shall lease two buildings from the controlling shareholder as its office premises for a total annual rentals of Rmb1,050,000 (2002: Rmb1,050,000), and such rentals will be adjusted every three years based on the then market rentals as determined by an independent valuer.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

28 RELATED PARTY TRANSACTIONS (Cont'd)

Notes: (Cont'd)

- (f) This represents the construction costs incurred in respect of the sewage water processing plants for the six months ended 30th June 2003 and payable to the following related contractors:

Name of related parties	Six months ended 30th June	
	2003	2002
	Rmb'000	Rmb'000
Tianjin Urban Road Construction No.2 Co., Ltd.	5,601	22,524
Tianjin Urban Road Construction No.3 Co., Ltd.	2,584	5,705
Tianjin Urban Road Construction No.5 Co., Ltd.	944	—
Tianjin City Construction Group Co., Ltd.	10,116	406
Tianjin Sewage Management Bureau No.2 Management Office	—	600
Tianjin Sewage Management Bureau No.4 Management Office	—	1,000
Tianjin Sewage Management Bureau No.8 Management Office	224	—
Tianjin Sewage Engineering Company	2,023	7,666
Tianjin Sewage Engineering No.2 Company	—	750
Tianjin Municipal Road & Bridge Company Limited	160	—
Tianjin Road & Bridge Management Bureau	629	—
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	84	1,500
Total	<u>22,365</u>	<u>41,157</u>

- (g) The toll stations of the Company's road and toll station business from 1st January 2003 to 27th February 2003 consisted of 13 parcels of land, which were granted to the Company according to a land lease agreement by TMEB. As effective from 28th February 2003, the 13 parcels of land were granted to the Company according to the Tianjin State-owned Land Use Rights Leasing Agreement by the Tianjin City Planning and State Land Resources Bureau for an annual rental of about Rmb 380,000. Currently, the toll stations of the Company's road and toll station business were demolished. The Company is applying for the termination of the land leasing agreement of the 13 parcels of land with the Tianjin City Planning and State Land Resources Bureau.

29 DIRECTORS' REMUNERATION

The Company and its subsidiaries have paid an aggregate remuneration (including salaries, housing allowance and other allowance) of Rmb1,090,296 to the Company's directors and paid retirement benefits of Rmb14,058 for the Company's directors, totalling Rmb1,104,354 for the six months ended 30th June 2003 (30th June 2002: Rmb981,167). The total amount includes director fees of Rmb344,502 (30th June 2002: Rmb365,087) paid to independent non-executive directors during the period.

30 AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

The accounts were authorized for issue by the Company's board of directors on 24th July 2003.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For The Six Months Ended 30th June 2003

		Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>	Unaudited 2002 <i>Rmb'000</i>
	<i>Note</i>		
TURNOVER	3	259,290	243,780
Cost of sales		<u>(65,628)</u>	<u>(67,196)</u>
Gross profit		193,662	176,584
Other revenues		6,468	1,419
Administrative expenses		(16,607)	(20,871)
Other operating expenses		<u>(245)</u>	<u>(1,026)</u>
Operating profit	4	183,278	156,106
Finance costs		<u>(9,651)</u>	<u>—</u>
Profit before taxation		173,627	156,106
Taxation	5	<u>(57,336)</u>	<u>(51,540)</u>
Profit after taxation		116,291	104,566
Minority interests		<u>118</u>	<u>75</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>116,409</u>	<u>104,641</u>
		<i>Rmb</i>	<i>Rmb</i>
EARNINGS PER SHARE	7	<u>0.09</u>	<u>0.08</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONSOLIDATED BALANCE SHEET

As At 30th June 2003

		Unaudited	Audited
		30th June	31st December
		2003	2002
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
FIXED ASSETS	8	2,185,690	2,180,645
INVESTMENT SECURITIES		4,000	4,000
CURRENT ASSETS			
Inventories		2,176	2,440
Accounts receivable	9	45,759	28,704
Other receivables and prepayments	10	96,690	3,290
Bank balances and cash		530,507	537,929
		<u>675,132</u>	<u>572,363</u>
CURRENT LIABILITIES			
Accounts payable		3,602	1,862
Advances from customers		87,188	89,597
Other payables	11	161,907	202,808
Dividend payable		2,122	—
Taxation payable		18,261	9,225
Short term bank loan, unsecured		—	30,000
		<u>273,080</u>	<u>333,492</u>
NET CURRENT ASSETS		<u>402,052</u>	<u>238,871</u>
		<u>2,591,742</u>	<u>2,423,516</u>
Financed by:			
SHARE CAPITAL	12	1,330,000	1,330,000
CAPITAL RESERVE		69,289	69,289
GENERAL RESERVES		84,335	84,335
RETAINED EARNINGS		374,859	258,450
PROPOSED FINAL DIVIDEND		—	113,050
SHAREHOLDERS' FUNDS		<u>1,858,483</u>	<u>1,855,124</u>
MINORITY INTERESTS		1,598	1,716
LONG-TERM LIABILITIES	13	731,661	566,676
		<u>2,591,742</u>	<u>2,423,516</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30th June 2003

	Share capital <i>Rmb'000</i>	Capital reserve <i>Rmb'000</i>	Unaudited General reserves <i>Rmb'000</i>	Retained earnings <i>Rmb'000</i> <i>(Note)</i>	Total <i>Rmb'000</i>
At 1st January 2003	1,330,000	69,289	84,335	371,500	1,855,124
Profit attributable to shareholders	—	—	—	116,409	116,409
Final dividend	—	—	—	(113,050)	(113,050)
	<u>1,330,000</u>	<u>69,289</u>	<u>84,335</u>	<u>374,859</u>	<u>1,858,483</u>
At 30th June 2003	<u>1,330,000</u>	<u>69,289</u>	<u>84,335</u>	<u>374,859</u>	<u>1,858,483</u>
At 1st January 2002	1,330,000	69,289	41,250	233,749	1,674,288
Profit attributable to shareholders	—	—	—	104,641	104,641
Final dividend	—	—	—	(106,400)	(106,400)
	<u>1,330,000</u>	<u>69,289</u>	<u>41,250</u>	<u>231,990</u>	<u>1,672,529</u>
At 30th June 2002	<u>1,330,000</u>	<u>69,289</u>	<u>41,250</u>	<u>231,990</u>	<u>1,672,529</u>

Note: The retained earnings as at 1st January 2003 included 2002 proposed dividends of Rmb 113,050,000 which was not reflected as a dividend payable in 2002 accounts and is reflected as an appropriation of retained earnings for the six months ended 30th June 2003.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For The Six Months Ended 30th June 2003

	Unaudited Six months ended 2003 <i>Rmb'000</i>	Unaudited 30th June 2002 <i>Rmb'000</i>
Net cash from operating activities	139,273	145,286
Net cash used in investing activities	(156,225)	(23,911)
Net cash from/(used in) financing activities	9,530	(103,677)
(Decrease)/increase in bank balances and cash	(7,422)	17,698
Bank balances and cash at 1st January	537,929	260,468
Bank balances and cash at 30th June	<u>530,507</u>	<u>278,166</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

NOTES TO THE CONDENSED INTERIM ACCOUNTS

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. The Company has a subsidiary to be engaged in the business of water recycling. As at 30th June 2003, the subsidiary is in trial run.

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

(a) Sewage Water Processing and Sewage Water Processing Plants Construction Businesses

(i) Sewage Water Processing Business

The sewage water processing business is conducted according to a Sewage Water Processing Agreement entered into on 10th October 2000, 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

Pursuant to a Sewage Water Plants Construction Fee Agreement (“Construction Fee Agreement”) entered into between the Company and TSC on 24th September 2001, the Company provides sewage water processing plant construction services to TSC in respect of the construction, including the funding requirements, of the Xianyanglu Sewage Water Processing Plant, Jizhuangzi (Expansion) Sewage Water Processing Plant and Beicang Sewage Water Processing Plant (the “Sewage Plant Construction Projects”). According to the Construction Fee Agreement, TSC will pay and the Company will charge, a fee during the construction period of the Sewage Plant Construction Projects, as a reward to remunerate the Company. 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 each of the sewage water processing plants. The construction fees will be payable by TSC to the Company in advance on a monthly basis based on amounts calculated according to the percentage of completion of the respective construction projects estimated by management. The percentage of completion of each project will be adjusted on a quarterly basis according to the certifications issued by qualified independent surveyors or engineers. 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

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)

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

	Xianyanglu Sewage Water Processing Plant Construction Project	Jizhuangzi Sewage Water Processing Plant Expansion Project	Beicang Sewage Water Processing Plant Construction Project
Location	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC
Daily capacity (cubic meter) upon completion of construction	450,000	280,000	100,000
Estimated date of completion	End of 2004	Mid of 2004	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 2002	19.7%	45.1%	6.1%
— as at 30th June 2003	21.1%	47.6%	9.1%
Construction fees recognised by the Company (Rmb'million)			
— up to 31st December 2002	116	143	16
— up to 30th June 2003	124	151	24

(b) Road and Toll Station Business

The Company owns the right to 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.

During the period, following the reform of the public transportation network in the nearby region of Tianjin for the purpose of facilitating vehicles registered outside Tianjin entering into Tianjin, the Tianjin Municipal Government decided to relocate the toll stations collecting tolls on vehicles entering into Tianjin, including those of the Company, to the boundary of the interstate highways surrounding Tianjin. The collection of tolls from vehicles registered outside Tianjin will be centralised at Tianjin Toll Collection Office. As a result of this unification arrangement, the Company's toll stations had ceased operations since 31st May 2003 and the toll stations had been demolished. In this regard, the Company has reached compensation arrangements with TMEB which include, inter alia, the following:

- (i) An one-off cash compensation will be made by TMEB to the Company in an amount equivalent to the net book value of the assets of the demolished toll stations as at 30th June 2003 of Rmb32,563,000.
- (ii) TMEB has also agreed to compensate the Company for loss in revenue, during the period from 31st May 2003 to the date of completion of construction of new toll stations (section (iii) below), at amounts equivalent to the amounts of revenue received in the same period of last year. Up to 30th June 2003, the Company has recognised a net compensation income of Rmb5,538,000, representing toll fee revenue compensation of Rmb8,000,000 net of expenses.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

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

(b) Road and Toll Station Business *(Cont'd)*

- (iii) According to the Regulation on the Operation Management of Tianjin Southeast Half Ring Road (as revised on 18th July 2003) issued by TMEB on 18th July 2003, the Company was granted the right to six new toll collection stations for a term from 1st July 2003 to 28th February 2029. Subsequent to the period end, on 24th July 2003, the Company entered into a toll fee collection subcontracting agreement with Tianjin Toll Collection Office.

(c) Haihe Bridge Project Management Business - discontinued business

On 24th September 2001, the Company entered into the Haihe Bridge Project Management Agreement with Tianjin Municipal Investment Company Limited ("TMICL"), the controlling shareholder of the Company and owner of the Haihe Bridge Construction Project. According to the agreement, the Company provides project management services to TMICL for the construction of Haihe Bridge and is entitled to a total sum of project management fee amounting to Rmb10,650,000.

On 29th April 2003, pursuant to the Termination Agreement regarding the Haihe Bridge Project Management, the Company and TMICL agreed to terminate the project management agreement as the construction of Haihe Bridge project has been suspended since 1st January 2003. Up to 31st December 2002, 70.8% of the Haihe Bridge construction work has been completed and the Company has recognised Haihe Bridge management fee income totalling Rmb7,542,000. The termination of the Haihe Bridge project management business does not have a material impact to the financial position of the Group.

2 ACCOUNTING POLICIES

The unaudited condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and Appendix 16 of Rules Governing The Listing of Securities on the Stock Exchange of Hong Kong Limited.

The condensed interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of the condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2002, except that the Group has adopted the following new or revised SSAPs which became effective for accounting periods commencing on or after 1st January 2003:

SSAP 12 (revised):	Income taxes
SSAP 34 (revised):	Employee benefits
SSAP 35:	Government grants and disclosure of government assistance

The adoption of these new or revised SSAPs has no material impact to the Group's results or net asset value.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

3 TURNOVER AND SEGMENT INFORMATION

An analysis of the turnover and contributions to operating profit for the period by principal activities is as follows:

	Sewage water processing and sewage water processing plant construction	Road and toll stations	Group
	Six months ended 30th June 2003		
	Rmb'000	Rmb'000	Rmb'000
Turnover	230,728	28,562	259,290
Segment results	154,901	18,726	173,627
Taxation	(51,156)	(6,180)	(57,336)
Profit after taxation	103,745	12,546	116,291
Minority interests	118	—	118
Profit attributable to shareholders	103,863	12,546	116,409

	Sewage water processing and sewage water plant construction	Road and toll stations	Haihe bridge project management	Group
	Six months ended 30th June 2002			
	Rmb'000	Rmb'000	Rmb'000 (note 1(c))	Rmb'000
Turnover	204,409	36,951	2,420	243,780
Segment results	139,500	15,021	1,585	156,106
Taxation	(46,060)	(4,957)	(523)	(51,540)
Profit after taxation	93,440	10,064	1,062	104,566
Minority interests	75	—	—	75
Profit attributable to shareholders	93,515	10,064	1,062	104,641

Pursuant to the PRC tax rules, the Group is subject to PRC business tax levied at 5% of operating revenue and government surcharges levied at 10% of the amount of business tax. The business tax and government surcharges related to revenues derived from the Group during the six months ended 30th June 2003 amounted to Rmb15,556,000 (2002: Rmb14,188,000) and has been deducted from the operating revenue to arrive at the turnover of the Group.

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

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Crediting:		
Compensation for road and toll stations operations, net of expenses (<i>note 1(b)(ii)</i>)	5,538	—
Charging:		
Depreciation and amortisation	28,441	25,328
Staff costs	17,932	17,221
Repair and maintenance costs	4,573	9,771
Loss on disposal of fixed assets	91	889
	<u> </u>	<u> </u>

5 TAXATION

No Hong Kong profits tax has been provided as the Group has no assessable profits in Hong Kong (2002: Nil). PRC income tax has been charged at 33% (2002: 33%) on the assessable profits of the Group.

6 DIVIDEND

No dividend was proposed by the Company for the six months ended 30th June 2003 (2002: Nil).

7 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of Rmb116,409,000 (2002: Rmb104,641,000) and 1,330,000,000 shares (2002: 1,330,000,000 shares) in issue during the period.

8 FIXED ASSETS

	<i>Rmb'000</i>
As at 1st January 2003	2,180,645
Additions in construction in progress in respect of	
— Sewage Plant Construction Projects (<i>note 1(a)(ii)</i>)	55,367
— Sewage Water Recycling Project of the subsidiary	8,135
Additions of other fixed assets	2,839
Disposals	(32,855)
Depreciation and amortisation for the period	(28,441)
	<u> </u>
As at 30th June 2003	<u>2,185,690</u>

As mentioned in note 1(b)(i) above, the Company's toll stations had ceased operations since 31st May 2003 and the toll stations had been demolished as a result of the unification of toll collection arrangement implemented by the Tianjin Municipal Government. According to a written confirmation issued by TMEB, TMEB will make an one-off cash compensation to the Company in an amount equivalent to the net book value of the assets of the demolished toll stations of the Company as at 30th June 2003 of Rmb32,563,000.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

9 ACCOUNTS RECEIVABLES

All accounts receivable were aged within one year.

Details of the accounts receivable are set out as follows:

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Due from TSC		
— revenue from sewage water processing services (<i>note 1(a)(i)</i>)	44,693	27,201
Due from TMICL		
— Haihe Bridge project management fee income (<i>note 1(c)</i>)	1,031	1,031
Others	35	472
	<hr/>	<hr/>
Total	45,759	28,704
	<hr/> <hr/>	<hr/> <hr/>

10 OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments as at 30th June 2003 included an amount of Rmb32,563,000 (2002: nil) which represented the compensation receivable from TMEB for the demolition of the toll stations that formerly owned by the Company (*note 8*), and a prepayment of Rmb60,000,000 (2002: nil) to a property developer in respect of the acquisition of the Company's office premises and investment properties (*note 14(a)(i)*).

11 OTHER PAYABLES

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable to TMICL	—	4,737
Construction costs payable (<i>note (a)</i>)	40,440	62,240
Payable to TSC (<i>note (b)</i>)	110,120	105,565
Others	11,347	30,266
	<hr/>	<hr/>
Total	161,907	202,808
	<hr/> <hr/>	<hr/> <hr/>

(a) The construction costs payable represent construction costs incurred in relation to the construction of the sewage water processing plants by the Company but remained outstanding as at the end of the period. The construction costs payable included amounts of Rmb22,365,000 (2002: Rmb22,781,000) payable to related companies.

(b) The payable to TSC mainly represents the net amount payable in respect of the acquisition of the Sewage Plant Construction Projects. The amount is unsecured, interest free and has no specific repayment terms.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

12 SHARE CAPITAL

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered, issued and fully paid capital of Rmb 1 each:		
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>

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

13 LONG-TERM LIABILITIES

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Long-term bank loan (<i>note (a)</i>)	650,000	500,000
Specific payable (<i>note (b)</i>)	81,661	66,676
	<u>731,661</u>	<u>566,676</u>

(a) Long-term bank loans include:

- (i) A long-term loan of Rmb 540,000,000 (2002: Rmb500,000,000) obtained from the State Development Bank and transferred to the Company along with the acquisition of the Sewage Plant Construction Projects. The loan has a total facility limit of Rmb740,000,000 and is guaranteed by TMEB and secured by some of the fee collection rights of TMEB's business.
- (ii) A long-term loan of Rmb 50,000,000 (2002: Nil) obtained from China Everbright Bank for the purpose of financing the construction of the Sewage Plant Construction Projects. The loan has a total facility limit of Rmb700,000,000 and is secured by the right to receive sewage water processing fees of TSC.
- (iii) A long-term loan of Rmb 60,000,000 (2002: Nil) obtained by the Company's subsidiary, Tianjin Water Recycling Co., Ltd, from China Everbright Bank, for the purpose of financing the construction of water recycling pipeline. The loan is guaranteed by TMICL.

The long-term bank loans are repayable as follows:

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<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	396,000	243,000
Payable after the fifth year	204,000	207,000
Total	<u>650,000</u>	<u>500,000</u>

- (b) Specific payables include amounts totalling Rmb81,000,000 (2002: Rmb66,000,000 their respective), granted by TMEB to the Company's subsidiary, Tianjin Water Recycling Co., Ltd., 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 have been interest free from their respective dates of grant to 30th June 2003, 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

14 COMMITMENTS

(a) Capital commitments

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for (<i>note (i)</i>)	222,691	146,710
Authorised but not contracted for (<i>note (ii)</i>)	1,624,538	1,662,955
	<u>1,847,229</u>	<u>1,809,665</u>

(i) This comprises the capital commitments of the Company in respect of the Sewage Plant Construction Projects (*note 1(a)(ii)*) amounting to Rmb118,309,000 and the purchase of Ningfa Building as office premises and investment properties of the Company amounting to Rmb95,000,000, and the capital commitments of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., in respect of Tianjin Jizhuangzi sewage water recycling project amounting to Rmb9,382,000.

(ii) This comprises the capital commitments of the Company in respect of the Sewage Plant Construction Projects from 1st July 2003 to completion date amounting to Rmb 1,616,836,000, and the capital commitments of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., in respect of Tianjin Jizhuangzi sewage water recycling project amounting to Rmb7,702,000.

In addition, subsequent to the period end, on 24th July 2003, the Company's board of directors passed a resolution to approve the following investments:

Investment project	Operating activities	Estimated investment cost
		<i>Rmb '000</i>
Investment to construct a sewage water processing plant	Sewage water processing	52,523
Investment to establish three joint venture companies	Operate water work and manufacture of new materials of water pipes	289,000
		<u>341,523</u>

(b) Operating lease commitments

At 30th June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of offices premises leased from TMICL as follows:

	30th June 2003	31st December 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable within one year	1,050	1,050
Payable in the second to fifth years	2,700	3,000
Payable after the fifth year	5,850	6,075
	<u>9,600</u>	<u>10,125</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

15 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions with related companies during the six months ended 30th June 2003, which were carried out in the normal course of operations of the Group.

Name of enterprises	Nature of transaction	Six months ended 30th June	
		2003 Rmb'000	2002 Rmb'000
Income:			
TSC	Revenue from sewage water processing services (note (a))	218,930	191,301
TSC	Revenue from construction of sewage water processing plants (note (b))	25,226	25,005
TMICL	Revenue from Haihe Bridge project management service (note (c))	—	2,560
Expenses:			
TURBCC	Road repair and maintenance (note (d))	1,375	1,536
TMICL	Operating lease rental in respect of office premises (note (e))	525	525
Others:			
Related contractors	Amounts payable for sewage water processing plants construction costs (note (f))	22,365	41,157

Notes:

- 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).
- This represents revenue derived from the construction of sewage water processing plants services 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).
- This represents revenue derived from the Haihe Bridge project management services rendered to TMICL, details of which are set out in Note 1(c).
- 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 Tianjin 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 is under the supervisory control of TMEB.
- The operating lease rentals were paid to the TMICL based on two office premises leasing agreements signed on 10th October 2000 and 7th April 2002. According to the agreements, the Company shall lease two buildings from TMICL as its office premises for a total annual rentals of Rmb1,050,000 (2002: Rmb1,050,000), and such rentals will be adjusted every three years based on the then market rentals as determined by an independent valuer.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

15 RELATED PARTY TRANSACTIONS (Cont'd)

- (f) This represents the construction costs incurred in respect of the sewage water processing plants for the six months ended 30th June 2003 and payable to the following related contractors:

Name of related parties	Six months ended 30th June	
	2003	2002
	Rmb'000	Rmb'000
Tianjin Urban Road Construction No.2 Co., Ltd.	5,601	22,524
Tianjin Urban Road Construction No.3 Co., Ltd.	2,584	5,705
Tianjin Urban Road Construction No.5 Co., Ltd.	944	—
Tianjin City Construction Group Co., Ltd.	10,116	406
Tianjin Sewage Management Bureau No.2 Management Office	—	600
Tianjin Sewage Management Bureau No.4 Management Office	—	1,000
Tianjin Sewage Management Bureau No.8 Management Office	224	—
Tianjin Sewage Engineering Company	2,023	7,666
Tianjin Sewage Engineering No.2 Company	—	750
Tianjin Municipal Road & Bridge Company Limited	160	—
Tianjin Road & Bridge Management Bureau	629	—
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	84	1,500
	<hr/>	<hr/>
Total	22,365	41,157
	<hr/> <hr/>	<hr/> <hr/>

- (g) The toll stations of the Company's road and toll station business from 1st January 2003 to 27th February 2003 consisted of 13 parcels of land, which were granted to the Company according to a land lease agreement by TMEB. As effective from 28th February 2003, the 13 parcels of land were granted to the Company according to the Tianjin State-owned Land Use Rights Leasing Agreement by the Tianjin City Planning and State Land Resources Bureau for an annual rental of about Rmb 380,000. Currently, the toll stations of the Company's road and toll station business were demolished. The Company is applying for the termination of the land leasing agreement of the 13 parcels of land with the Tianjin City Planning and State Land Resources Bureau.

IX. SUPPLEMENTARY INFORMATION PROVIDED BY MANAGEMENT

1. 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	193,662	10.42	10.76	0.15	0.15
Operating profit	173,737	9.35	9.65	0.13	0.13
Net profit	116,409	6.26	6.47	0.09	0.09
Net profit, net of extraordinary gains or loss	116,519	6.27	6.47	0.09	0.09

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:

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

of which: P represents profit for the reporting period; NP represents the net profit for the reporting period; E₀ represents the net assets at the beginning of the period; E_i represents increase in net assets from issue of new shares or convertible bonds for the reporting period; E_j represents decrease of net assets as a result of repurchase or declaration of cash dividends for the reporting period; M₀ represents the number of months during the reporting period; M_i represents the number of months between the period after occurrence of an increase in net assets and the end of reporting period; M_j 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:

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

of which: P represents profit for the reporting period; S₀ represents total number of shares at the beginning of period; S₁ represents the increase of shares due to transfer from common reserve to share capital or appropriation of dividends during the reporting period; S_i represents the increase of shares due to issue of new shares or convertible bonds during the reporting period; S_j represents reduced shares due to repurchase or share reduction during the reporting period; M₀ represents the number of months during the reporting period; M_i represents the number of months between the period after occurrence of an increase in shares and the end of reporting period; M_j represents the number of months between the period after occurrence of a reduction in shares and the end of reporting period.

IX. SUPPLEMENTARY INFORMATION PROVIDED BY MANAGEMENT

2. 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

	30th	31st	Change in		Note
	June	December	amount and range		
	2003	2002	Amounts	%	
	Rmb'000	Rmb'000	Rmb'000		
Accounts receivable	45,759	28,704	17,055	59	1
Other receivables	34,853	1,419	33,434	2,356	2
Prepayments to suppliers	61,837	1,871	59,966	3,205	3
Long-term loans	650,000	500,000	150,000	30	4

Notes:

- Increase in accounts receivable was mainly because the balance at the end of the period represented approximately the last one and a half month's sewage water processing service fee, while the balance at the end of last year represented approximately the last month's sewage water processing service fee.
- Increase in other receivables was mainly because other receivables at the end of the period included an amount of Rmb 32,563,000 (2002: nil) which represented the compensation receivable from TMEB for the demolition of the toll stations that formerly owned by the Company.
- Increase in prepayments to suppliers was mainly because the balance at the end of the period included a prepayment for the new office building amounting to Rmb 60,000,000, which represented deposit and prepayment made according to a purchase agreement to Tianjin Ningfa Group Company Limited in respect of the proposed acquisition of Ningfa Building, a 20-storey office and investment property located at Nankai District of Tianjin.
- Increase in long-term loans was mainly because the Company obtained long-term loans of Rmb 90,000,000 from banks for the purpose of financing the construction of the Sewage Plant Construction Projects and the Company's subsidiary obtained a long-term loan of Rmb 60,000,000 from a bank for the purpose of financing the construction of water recycling pipeline during the reporting period.

X. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the period. The Company has not purchased or sold any of the Company's shares during the period.

XI. AUDIT COMMITTEE

The Audit Committee comprises the independent non-executive directors Messrs Chan Boon Teong, Wang Xiang Fei and Gao Zong Ze. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including a review of the condensed interim accounts of the Company prepared under HK GAAP.

XII. CODE OF BEST PRACTICE

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.

XIII. DOCUMENTS AVAILABLE FOR INSPECTION

1. Interim report for 2003 signed by the Chairman;
2. Statement of accounts, undersigned and sealed by the legal representative, the officer in charge of the accounting works (Chief Financial Accountant) and the officer in charge of the accounting department;
3. Original copies of documents and announcement of the Company which were publicly disclosed on newspapers and magazines specified by CSRC during the period covered by this report;
4. Interim report for 2003 as published for Hong Kong securities market (available on or before 8th August 2003).

By order of the Board
Ma Baiyu
Chairman

Tianjin, the PRC

24th July 2003