

Chairman's Statement

1. OPERATIONS OF THE GROUP

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

The principal businesses of the Company are the construction, design, management, operation, technological consultation of sewage water treatment plant and their related infrastructure facilities and auxiliary services; the construction, 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 the development and operation of environmental protection technology and products.

During the reporting period, by capitalizing on the momentum of sound development, the Company has devoted a lot of efforts in establishing the brand name of "Capital Environmental" and fulfilled its mission as becoming the leader in the industry. In 2003, the Company was awarded the Quality Certification on the Operating Assets of Environmental Protection Facilities as reviewed by the National Environmental Protection Bureau. As a result, the competitiveness of the Company was further enhanced. By establishing Guizhou Capital Water Co., Ltd. and acquiring Guiyang Xiaohu Sewage Water Treatment Plant, the scale of operation of the Company was further expanded.

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

During the reporting period, the Company provided sewage water treatment services through Jizhuangzi Sewage Water Treatment Plant and Dongjiao Sewage Water Treatment Plant. Income for sewage water processing are derived from the "Sewage Water Processing Agreement" entered into between the Company and Tianjin Sewage Company. During the reporting period, the two sewage water treatment plants processed 218,160,000 cubic meters in total of sewage water, representing an increase of 8,910,000 cubic meters or 4.1% as compared with 209,250,000 cubic meters last year. During the reporting period, income from sewage water treatment business was Rmb 421,048,000, representing an increase of 5.35% as compared to that last year. The increase in the volume of sewage water processed was mainly attributable to the modification work on Dongjiao Sewage Water Treatment Plant by shifting from river canal to pipe for inflow of water and increased the volume of sewage water inflow to Dongjiao Sewage Water Treatment Plant. The increase in income from sewage water treatment business did not have any substantial effect on the profit of the Company during the period.

Currently, the construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant are underway. Income from construction of sewage water treatment plants has been based on the "Sewage Water Plants Fee Agreement" entered into between the Company and Tianjin Sewage Company on 24th September 2001. During the reporting period, the Company tried to alleviate the effect of SARS on the construction work and ensured the smooth operation of civil construction project. However, the outbreak of SARS resulted in postponement on tendering of equipment for the construction-in-progress project. The expansion project of Jizhuangzi Sewage Water Treatment Plant was originally scheduled to be completed by the end of 2003. However, its equipment installation, adjustment and testing were not finished during the period. During the reporting period, construction work completed amounted to approximately Rmb 282,000,000. In accordance with the progress of the construction project, the Company recognised a construction fee of Rmb 143,982,000.

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

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

b. Operations of toll business

From 1st January 2003 to 31st December 2003, toll business recorded an income of Rmb 72,666,000 (inclusive of the compensation of Rmb 8,000,000). From 1st January 2003 to 31st May 2003, toll income was directly collected by the toll collectors at the toll stations. An income of Rmb 30,690,000 was recognised. In accordance with the proposal for the "Reform of Toll Collection Administration on Roads Constructed with Loans in Tianjin", the Company's former toll stations ceased its operation from 31st May 2003 and were demolished. Based on the level of income from toll business of the Company for the same period in 2002, Tianjin Municipal Engineering Bureau ("TMEB") has provided a one-off compensation of Rmb 8,000,000 in cash to the Company for toll income for the period from 31st May 2003 to 30th June 2003.

In July 2003, in accordance with the "Instructions on Concession of the Southeastern Half Ring of the Middle Ring Line (amended in 2003)" as promulgated by TMEB, the Company was granted the toll collection rights 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") as the operating income from the Southeastern Half Ring Road of the Middle Ring of Tianjin until the expiry of the operating period on 1st March 2029.

In July 2003, the Company entered into the "Toll Fee Collection Subcontracting Agreement" with Tianjin City Motor Vehicles Toll Collection Office pursuant to which the Company agreed to engage the Toll Collection Office to collect tolls on its behalf and to take charge of the operation, management, repair and maintenance of the Current Toll Stations.

As a result, since 1st July 2003, the Company's toll collection arrangement has changed from direct toll collection at toll stations to subcontracting toll collection.

TMEB has provided a one-off cash compensation to the Company for demolishing the former toll stations which was equivalent to the net book value of the former toll stations as at 30th June 2003 of approximately Rmb 32,563,000.

The Company has engaged Scott Wilson Consultancy Group, a professional 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 change in the operation model for toll collection did not have any material effect on the operating results and net asset value of the Company's toll collection business.

1. OPERATIONS OF THE GROUP (Cont'd)

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

- c. The business terminated by the Company during the reporting period

During the reporting period, the Company ceased the operation of the Haihe Bridge project management business. The Company and Tianjin Municipal Investment Company Limited ("TMICL"), the controlling shareholder of the Company, entered into the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring on 24th September 2001. TMICL owns the Haihe Bridge Project. The Company will provide project management service to TMICL for the construction of Haihe Bridge, and will be entitled to a total sum of project management fee amounting to Rmb 10,650,000 in total. However, since 1st January 2003, the Haihe Bridge construction project has been postponed indefinitely. The Company entered into the Termination Agreement regarding the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring with TMICL on 29th April 2003. The two parties agreed to terminate the management service of the Haihe Bridge construction project with effect from 29th April 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, representing a shortfall of Rmb 3,108,000 as compared to originally proposed management fee. As the income from the operation and profit of the Haihe Bridge Project accounted for a small proportion of the income and profit of the Company, the termination of this business will not have a material impact on the operating results of the Company.

The financial data of the various business of the Company are as follows:

Business	Principal operating income <i>Rmb'000</i>	Principal operating costs <i>Rmb'000</i>	Gross profit margin %	Reduction	Reduction	Increment
				of principal operating income as compared with the previous year %	of principal operating costs as compared with the previous year %	of gross profit margin as compared with the previous year %
Sewage water processing and construction of sewage water treatment plants	565,030	107,377	75.49	-3.12	-4.25	+0.22
Road and toll stations	64,666	21,231	61.02	-21.84	-35.48	+6.30

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

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

a. Tianjin Water Recycling Company Limited (天津中水有限責任公司)

As at the end of the year, the Company owns 90% equity interest in Tianjin Water Recycling Company Limited. The registered capital of the company is Rmb 20,000,000. The scope of its major business is the production and sales of recycled water, development and construction of facilities for re-used water; manufacture, installation, commission and operation of equipment for recycled water; technical consultation, service training relating to recycled water; labour services and car washing. During the reporting period, Tianjin Water Recycling Company Limited devoted a lot of effort to promote utilisation of recycled water and proactively coordinated in legislative work of the industry. The "Tianjin Municipal Drainage and Recycled Water Utilisation Administration Regulation" enacted on 1st December 2003 had proactive effect in facilitating the Company's operations. During the reporting period, Tianjin Water Recycling Company Limited commissioned pilot run on its operation and supplied recycled water to Mei Jiang residential district in Tianjin. However, the Company did not derive any income from operations and had made a loss accordingly.

b. Tianjin Beifang Rencaigang Company Limited (天津北方人才港股份有限公司)

As at the end of the year, the Company invested Rmb 2,000,000 in Tianjin Beifang Rencaigang Company Limited, representing 6.1% of its registered capital. The principal activities of the company comprise senior executive insurance services; senior executive personnel services (employment agent, financial guarantee consultation service, personal creditworthiness assessment); enterprise talent assistance project; development and operation of technological project achievements and real estate development and operation. During the reporting period, the Company actively explored the sources for talented personnel, establish and strengthen the personnel market in Tianjin city, and devoted its effort to attract more senior personnel, expertise and technicians for Tianjin and the area surrounding the Bohai district. During the reporting period, profit was recorded for that company.

c. Tianjin Baotong Light Mass Materials Company Limited (天津市寶通輕集料有限責任公司)

As at the end of the year, the Company invested Rmb 2,000,000 in Tianjin Baotong Light Mass Materials Company Limited, representing 20% of its registered capital. The principal activities of that Company are the production and sales of high resistance and light mass materials. The project of that company was in the preparation stage.

d. Tianjin Capital New Materials Company Limited (天津創業建材有限公司)

As at the end of the reporting period, the Company invested Rmb 9,000,000 to Tianjin Capital New Materials Company Limited (the "Capital Materials"), accounting for 45% of its registered capital. It is principally engaged in the manufacturing and sales of fabric wrapped – reinforced plastic mortar pipe, PVC, UPVC and other piping materials. It was incorporated in August 2003 and was in the initial preparation stage for production.

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

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

e. Guizhou Capital Water Co., Ltd. (貴州創業水務有限公司)

Guizhou Capital Water Co., Ltd. (the "Guizhou Capital") was incorporated on 10th October 2003. Its registered capital amounted to Rmb 100,000,000, of which 70% was contributed by the Company. During the reporting period, the Company invested Rmb 44,000,000 in Guizhou Capital. It is principally engaged in the development, construction, operation and management of urban sewage water treatment plants, drinking water treatment plants and solid waste treatment facilities, research, development and marketing of environmental conservation technology, and provides consultancy services of water treatment facilities, environmental conservation project, municipal construction projects, toll road construction projects and traffic construction projects. Guizhou Capital acquired Guiyang Xiaohe Sewage Water Treatment Plant on 10th December 2003, and commissioned pilot run for the operation of Xiaohe Sewage Water Treatment Plant on 1st January 2004.

(3) Major customers and suppliers of the Company

Tianjin Sewage Company, being the representative of the Tianjin Municipal Government, is the Company's major customer and engages the Company to process the urban sewage water of the Tianjin city on its behalf. Tianjin Sewage Company is also a party to the construction of the Company's sewage water treatment projects. Tianjin Sewage Company and the Company's controlling shareholder are both under the supervisory control of TMEB. This in turn constitutes a connected relationship with the Company. Other customers of the Company are mainly vehicle owners that use the toll stations. The fees charged to such customers have been very low on an individual basis. Sales of the top five customers accounted for 89.86% of the Company's total income.

The suppliers of the Company have been relatively fragmented. Purchases from the top five suppliers accounted for 54.58% of the Company's total purchases.

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

In 2003, being affected by SARS, the expansion project of Jizhuangzi Sewage Water Treatment Plant and the invitation of tender from overseas for the construction project of Xianyanglu Sewage Water Treatment Plant were affected. The Company has proactively initiated the civil construction projects to mitigate the impact of SARS on the acquisition of equipment.

Although the Company implemented the above proactive measures, the delay in the installation of equipment had affected the recognition of certain portion of income from the expansion project of Jizhuangzi Sewage Water Treatment Plant. The expansion project of Jizhuangzi Sewage Water Treatment Plant was originally scheduled to be completed by the end of 2003, but the Company had to postpone the completion to 2004.

2. INVESTMENTS OF THE GROUP

(1) During the year, the Company did not raise any fund. In addition, no balance of funds raised in previous years was brought forward to the reporting period.

(2) Major investments made out of funds other than proceeds from subscription

a. During the year, the funds other than proceeds from subscription were mainly used in the investment projects: construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant. During the year, construction work completed amounted to approximately Rmb 282,000,000. In accordance with the progress of the construction, the Company recognised sales of Rmb 143,982,000. As at 31st December 2003, the stage of completion of the three construction-in-progress was:

Expansion of Jizhuangzi Sewage Water Treatment Plant: 53.9%

Construction of Xianyanglu Sewage Water Treatment Plant: 31.3%

Construction of Beicang Sewage Water Treatment Plant: 23.9%

b. During the reporting period, the Company invested Rmb 9,000,000 in Capital Materials. Its registered capital amounted to Rmb 20,000,000, of which 45% was contributed by the Company. It is principally engaged in the manufacturing and sales of fabric wrapped – reinforced plastic mortar pipe, PVC, UPVC and other piping materials.

During the reporting period, the Company invested Rmb 44,000,000 in Guizhou Capital. The registered capital of that company was Rmb 100,000,000, of which 70% was contributed by the Company. It is principally engaged in the development, construction, operation and management of urban sewage water treatment plants, drinking water treatment plants and solid waste treatment facilities, research, development and marketing of environmental conservation technology, and provides consultancy services of water treatment facilities, environmental conservation project, municipal construction projects, toll road construction projects and traffic construction projects.

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

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

- (1) As at 31st December 2003, the liability to asset ratio (Total liabilities ÷ Total assets) was 36.61%. The amount of the liabilities was reasonable and the ratio represented a reasonable, stable and healthy financial condition.
- (2) As at 31st December 2003, the total assets of the Group amounted to Rmb 3,186,946,000, representing an increase by 15.59% as compared with the total assets of Rmb 2,757,008,000 last year. The increase was mainly due to new construction projects.
- (3) As at 31st December 2003, the long-term liabilities of the Group amounted to Rmb 721,652,000, representing an increase by Rmb 154,976,000 as compared with the long-term liabilities of Rmb 566,676,000 last year. The increase was mainly attributable to the loans borrowed for the new construction projects.
- (4) As at 31st December 2003, the shareholders' equity of the Group amounted to Rmb 2,018,966,000, representing an increase by 8.83% as compared with the shareholders' equity of Rmb 1,855,124,000 last year. The increase was mainly attributable to the Company's profits for the year.
- (5) Total profit of the Group for the year was Rmb 412,938,000, representing a decrease by 3.64% as compared with the total profit of Rmb 428,536,000 last year. The decrease was mainly due to the slight decrease of profit from the construction of sewage water treatment plants.
- (6) Net profit for the year was Rmb 276,892,000, representing a decrease by 3.60% as compared with the net profit of Rmb 287,236,000 last year. The decrease was mainly due to the slight decrease of profit from the construction of sewage water treatment plants.
- (7) The cash flows derived from the operating activities of the Group per share for the year amounted to Rmb 0.21, representing a decrease by Rmb 0.06 as compared with Rmb 0.27 of last year. The decrease was mainly due to the slight decrease of revenue from operations of the construction of the sewage water treatment plants and toll fees.

4. ANALYSIS OF OTHER FINANCIAL INFORMATION

(1) **Credit Policy For Debtors**

The Company collects accounts receivable from the relevant parties, in accordance with the term as set out in the contracts and there are no other credit policies.

(2) **Ageing Analysis of Accounts Receivable**

The age of accounts receivable, other receivables and prepayments was within one year. This information has been set out in the notes 5 to 7 of the accounts prepared under PRC GAAP on Pages 75 to 76 of this annual report.

(3) **Pension Cost**

During the reporting period, the total amount of pension contributed by the Company for its staff was Rmb 2,641,000. A description of the relevant policies was set out in the note 3(n) of the account prepared under PRC GAAP on Page 72 and note 2(k) of the account prepared under HK GAAP on Page 114 of this annual report.

The pension for the Company's staff is in the form of Social Retirement Security Fund which will not be withheld by the Company upon termination of the staff's employment.

5. AUDIT STATUS

The accounts of the Company for 2003 prepared in accordance with the PRC Accounting Regulations and prepared in accordance with the Accounting Principle Generally Accepted in Hong Kong have been audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants, Hong Kong respectively. The PRC certified public accountants, Tu Yi and Wang Xiao have issued an auditors' report (PWC Zhong Tian Shen Zi (2004) No. 698) with unqualified opinion.

6. OPERATING AND DEVELOPMENT PLANS IN THE COMING YEAR

In 2004, based on its principle of ambitious development, the Company will devote its effort to become the leader in the industry, realize diversified expansion, facilitate overall development and fulfil its strategy and mission. Its major plans are as follows:

1. The Company will ensure that Dongjiao Sewage Water Treatment Plant, and Jizhuangzi Sewage Water Treatment Plant are operated safely and efficiently and ensure the completion of the expansion project of Jizhuangzi Sewage Water Treatment Plant and the new construction of Xianyanglu Sewage Water Treatment Plant.
2. The Company will continue to explore new methods for capital operation of the Company. The Company will continue to compile information necessary for the issue of A Shares Convertible Bonds and seek to complete the issue of convertible bonds as soon as practicable. Meanwhile, the Company will proactively seek other financing sources so as to establish a comprehensive network of channel for raising capital.
3. The Company will continue to expand its efforts in marketing development and to capture the sewage water markets nationwide as well as in the surrounding areas of Tianjin in a flexible manner such as BOT and TOT through bidding and negotiation.
4. The Company will put more efforts on staff training and recruitment, and establish a human resources management system which attracts and retains talents and makes good use of talents by improving the performance evaluation and compensation incentive system.
5. The Company will apply for establishment of a post-doctoral scientific research workshop based on the research and development center to accommodate the needs of the Company.
6. The Company will increase the growth of the Company's profit by exploring the development and operation of environmental-friendly technology and environmental-friendly products as well as environmental-friendly facilities, and developing technical consultation and technical services for sewage water treatment.

7. REVIEW OF BOARD ACTIVITIES

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

The Board of Directors of the Company convened six board meetings in 2003:

1. The 29th Meeting of the Second Board of the Company was convened on 20th February 2003 at which the following resolutions were considered and approved:
 - a. the Annual Report 2002 and the summary of the report to be announced in the PRC and overseas;
 - b. the financial statements for 2002 of the Company, as respectively audited by domestic and international certified public accountants;
 - c. the working report of the Board of the Company for 2002;
 - d. the Final Financial Report 2002 and the Financial Budget of the Company 2003;
 - e. the proposal in respect of the Profit Appropriation Plan of the Company for 2002;
 - f. the proposals by the Audit Committee for re-appointing PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd., the PRC and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong as the domestic and international auditors of the Company;
 - g. the operating and development plan of the Company for 2003;
 - h. the proposals for resignation of Mr. Gu Qifeng as chief engineer of the Company and the appointment of Mr. Deng Biao as chief engineer of the Company;
 - i. the proposal on the streamline of the operation department;
 - j. the proposal on the acquisition of office building by the Company;
 - k. the proposal on the incentive scheme for senior management officers of the Company;
 - l. the proposal on the establishment of a strategic investment committee;
 - m. the proposal on the establishment of the strategic investment committee under the Board;
 - n. the proposal on the amendments of "The Rules Governing the Procedures for Operating the Meeting of the Board of Directors";
 - o. the proposal on the establishment of American Depository Receipts in respect of the Company's H Shares;

7. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

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

1. The 29th Meeting of the Second Board of the Company was convened on 20th February 2003 at which the following resolutions were considered and approved: *(Cont'd)*
 - p. the proposal on the extension of the maturity period for the issue of A Shares Convertible Bonds of the Company;
 - q. the proposal on the grant of mandate to the Board for the allotment and issue of new Shares (H Shares);
 - r. the proposals on convening the Annual General Meeting 2002 (the 11th Shareholders' general meeting of the Company);

The announcement for the resolutions of this Board meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 21st February 2003.

2. The 30th Meeting of the Second Board of the Company was convened on 29th April 2003 at which the following resolutions were considered and approved:
 - a. the first quarterly report of 2003 of the Company;
 - b. the termination of the Haihe Bridge Project Management Agreement with Tianjin Municipal Investment Company Limited;
 - c. the amendment to the proposal on the purchase of an office premises by the Company;

The announcement for the resolutions of this Board meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 30th April 2003.

3. The 31st Meeting of the Second Board of the Company was convened on 24th July 2003 at which the following resolutions were considered and approved:
 - a. the Interim Report 2003 and the summary of the report to be announced in the PRC and overseas;
 - b. the proposal in respect of the appointment of Mr. Gu Qifeng as the Company's deputy general manager for general affairs;
 - c. the proposal in respect of the investment in constructing a sewage water treatment plant in Xi Qing Development Zone;

7. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

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

3. The 31st Meeting of the Second Board of the Company was convened on 24th July 2003 at which the following resolutions were considered and approved: *(Cont'd)*
 - d. the proposal in respect of the investment in the establishment of Tianjin Capital New Materials Company Limited (天津創業新材料有限公司). As this proposed transaction constituted a connected transaction, the connected parties, including Ms. Ma Baiyu, Mr. Zhang Wenhui, Mr. Zhu Min and Mr. Wang Yueqing had abstained from the voting;
 - e. the proposal in respect of the new toll collection arrangement for traffic from other regions into Tianjin;
 - f. the proposal in respect of establishing a joint venture, Chengdu Water Works Company, with Xing Rong Company and Hui Tong Construction;
 - g. the proposal in respect of establishing a joint venture, Gui Yang Capital Water Works Company, with Long Li Group;
 - h. the resolution in respect of the rearrangement of the Company's department;

The announcement for the resolutions of this Board meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 25th July 2003.

4. The 32nd Meeting of the Second Board of the Company was convened on 25th August 2003 at which the following resolutions were considered and approved:
 - a. the proposal in respect of the establishment of a joint venture with Jinghai Tuanbai Development Company;
 - b. the resolution of the signing of a co-operation agreement with Tianjin Sewage Company in respect of the sewage water treatment project in Tianjin;

The announcement for the resolutions of this Board meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 26th August 2003.

7. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

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

5. The 33rd Meeting of the Second Board of the Company was convened on 24th October 2003 at which the following resolutions were considered and approved:
 - a. the third quarterly report 2003 of the Company;
 - b. the proposal in respect of the nomination of six nominees as members of the Board (one of whom is Ms. Ma Baiyu) and the nomination of Mr. Ko Po Ming as an independent director of the third Board of Directors;
 - c. the proposal in respect of the remuneration for members of the Third Board of Directors;
 - d. the proposal in respect of the amendment of the Articles of Association of the Company;
 - e. the proposal in respect of the amendments of the "Rules Governing the Procedures for Operating the Meeting of the Board of Directors" of the Company;
 - f. the proposal in respect of the amendments of the "Rules Governing the Procedures for Operating the Shareholders' General Meeting" of the Company;
 - g. the proposal in respect of the convening the 2003 Extraordinary General Meeting;

The announcement for the resolutions of this Board meeting was published on Shanghai Securities on 25th October 2003 as well as Hong Kong Wen Wei Po and The Standard on 27th October 2003.

6. The 1st Meeting of the Third Board of the Company was convened on 20th December 2003 at which the following resolutions were made:
 - a. to elect the Chairman of the third Board of Directors of the Company based on the nominations made by the independent directors;
 - b. to appoint the general manager of the Company based on the nominations made by the Chairman;
 - c. to appoint the deputy general managers and chief accountant of the Company based on the nominations made by the General Manager;
 - d. to appoint the Secretary to the Board of Directors, the security affairs representative and the Hong Kong company secretary of the Company based on the nominations made by the Chairman;
 - e. the proposal in respect of the Audit Committee and Salary and Appraisal to be comprised of independent directors was considered and approved.

The announcement for the resolutions of this Board meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 23rd December 2003.

7. REVIEW OF BOARD ACTIVITIES *(Cont'd)*

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

During the reporting period, the Board of Directors of the Company has strictly complied with the resolutions and mandates of the shareholders' meetings, the Company Law, Securities Law and the Articles of Association of the Company, to duly execute all the resolutions passed at the shareholders' meetings. According to the resolutions, the performance by the Board of Directors in 2003 was as follows:

1. The proposal relating to the extension of the validity period on the Proposal to Issue A Shares Convertible Bonds by the Company was passed in the 2002 Annual General Meeting of the Company. The Company has devoted efforts in this aspect in 2003. Currently, the A Shares Convertible Bonds is proceeding in accordance with the requirements of the CSRC and pending final approval.
2. The proposal in respect of the Profit Appropriation Plan for the year 2002 was considered and passed at the 2002 Annual General Meeting of the Company. The Profit Appropriation Plan has been implemented. The registration date, ex-dividend date and dividend payment date were 22nd May 2003, 23rd May 2003 and 6th June 2003.
3. Members of the Third Board of Directors of the Company were elected at the 2003 Extraordinary General Meeting of the Company. The members thereof should comply the relevant laws and regulations, the Articles of Association and the "Rules Governing the Procedures for Operating the Meeting of the Board of Directors", seriously implement all the resolutions of the general meetings pursuant to the resolutions passed and mandates granted at the general meetings. They should perform their duties effectively and make scientific decisions.
4. As to other business transacted in the annual general meeting of the Company, the Board of the Company had implemented such matters in accordance with the resolutions of the general meeting.

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

As audited by PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd., the PRC and PricewaterhouseCoopers, Certified Public Accountants, Hong Kong respectively, the consolidated net profit of the Company amounted to Rmb 276,892,000 in 2003. Taking into account of transferring 10% thereof to the statutory common reserve Rmb 27,689,000 and 5% thereof to the statutory provident fund Rmb 13,845,000 in accordance with the relevant requirement of Company Law of the PRC and the Articles of Association of the Company as well as the retained profit Rmb 371,500,000 at the beginning of the year and the distribution in 2003 of cash dividend Rmb 113,050,000 for 2002, the actual profit distributable to shareholders amounted to Rmb 493,808,000 for the year. Based on the total capital of 1,330,000,000 Shares as at 31st December 2003, it is intended to make a payment of Rmb 0.80 (including tax) in cash per ten shares in accordance with the profit appropriation policy for 2003. The appropriation proposal shall be submitted to the general meeting for approval.

No transfer from the capital reserve fund to share capital was made for 2003.

9. EXPLANATION OF CERTIFIED PUBLIC ACCOUNTANTS IN RESPECT OF FUNDS USED BY THE CONTROLLING SHAREHOLDERS AND OTHER CONNECTED PARTIES OF THE COMPANY

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd., the PRC stated in specific details about the flow of funds with the Company's controlling shareholder and other related parties.

In accordance with the requirements as set out in the "Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their related Parties and the Provision of Guarantees by Listed Companies to External Parties" (Zheng Jian Fa [2003] Document No.56) issued by the China Securities Regulatory Commission and the State Asset Management Commission under the State Council, the statement on the application of funds by the Company's controlling shareholder and other related parties for the year ended 31st December 2003 was prepared as follows:

Application of funds	Name of the related parties	Relationship with the Company	Amount incurred for this year <i>Rmb'000</i>	Accounting items	Balance at the end of the year <i>Rmb'000</i>	Remarks
Operational fund flow	Tianjin Sewage Company	State-owned enterprise or company controlled by Tianjin Municipal Engineering Bureau	421,048	Accounts receivable	52,103	Income receivable from sewage water treatment fees
			143,982	Accounts receivable	35,868	Income receivable from sewage water treatment plant construction projects
			14,020	Advances from customers	(75,657)	Remaining balance of prepayment of 10% sewage water construction and management fee

10. EXPLANATION AND INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS IN RESPECT OF ACCUMULATED AND CURRENT EXTERNAL GUARANTEES GRANTED BY THE COMPANY AND CAPITAL USED BY CONTROLLING SHAREHOLDERS AND OTHER CONNECTED PARTIES OF THE COMPANY

Pursuant to the principle as implied in the "Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their related Parties and the Provision of Guarantees by Listed Companies to External Parties" (Zheng Jian Fa [2003] Document No.56), independent directors have conducted examination and implementation of policies towards the external guarantee provided by the Company in a serious manner on the basis of practical principles. The relevant details are as follows:

"Upon careful examination of independent directors, they find that the Company has not provided any guarantee to the controlling shareholder and other connected parties as at the end of the reporting period."

Pursuant to the requirements as set out in the document above, the Company held its extraordinary general meeting on 20th December 2003 and approved the amendment of the Articles of Association and the "Rules Governing the Procedures for Operating the Meeting of the Board of Directors", so as to add the relevant provisions on approval procedures for provision of external guarantee and credit information of guaranteed parties.

11. ANY OTHER BUSINESS

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

Ma Baiyu

Chairman

Tianjin, the PRC

12th February 2004