

Directors' Report

PRINCIPAL ACTIVITIES

Prior to the asset exchange on 20th December 2000, the principal activity of the the Company and its subsidiaries (the "Group") was the manufacturing of chemical raw materials. Following the completion of asset exchange, the principal activities of the Company have been changed to environmental protection and urban infrastructure construction. The Company is the only listed vehicle of the Tianjin City that is engaged in environment protection and urban infrastructure construction. The net profit of the Group in 2003, as prepared in accordance with PRC GAAP and HK GAAP, is approximately Rmb 276,892,000. The accounts for these operations are set out in the appropriate sections of this annual report.

FINANCIAL SUMMARY

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

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

RESULTS AND APPROPRIATIONS

The results and profit appropriation of the Group for the year ended 31st December 2003 as prepared in accordance with PRC GAAP and HK GAAP are set out in the profit and loss account and the profit appropriation statement on pages 60 and 61, and the consolidated profit and loss account on page 101 of this annual report, respectively.

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

	Turnover		Operating profit before taxation (including finance costs)	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Sewage water processing and construction				
of sewage water treatment plants	533,953	551,126	372,287	386,480
Road and toll stations	60,692	78,185	40,651	38,585
Haihe Bridge project management	—	4,547	—	3,471
Total	<u>594,645</u>	<u>633,858</u>	<u>412,938</u>	<u>428,536</u>

DIVIDENDS

The directors did not declare an interim dividend (2002: nil). They recommend the payment of a final dividend (tax included) of Rmb 0.8 per 10 shares for the year ended 31st December 2003 (2002: Rmb 0.85 per 10 shares).

DETAILS OF SHARE CAPITAL

(1) Table of changes in share capital:

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

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

(2) Issue and listing of shares:

For the three years ended 31st December 2003, the Company has not issued any shares.

DETAILS OF SHAREHOLDERS

1. The total number of shareholders of the Company as at 31st December 2003 is 27,873.
2. As at 31st December 2003, the shareholders who were interested in more than 5% (5% inclusive) of the total issued share capital and the top ten shareholders of the Company were as follows
 - (I) Only Tianjin Municipal Investment Company Limited ("TMICL") interested in more than 5% (5% inclusive) of the total issued share capital holds 839,020,000 shares in the Company, representing approximately 63.08% of the Company's share capital and is the Company's largest shareholder ("Controlling Shareholder"). During the reporting period, TMICL had not pledged or frozen any of the Company's shares.
 - (II) The top ten shareholders of the Company were as follows

No.	Name of shareholders	Increase(+)/ Decrease (-) during the year	Number of shares held at the end of the year (Shares)	Percentage to total share capital (%)	Class (circulating/ non-circulating)	Number of shares pledged or frozen (Shares)	Type of shareholders
1	Tianjin Municipal Investment Company Limited	Nil	839,020,000	63.080	Non-circulating	0	State shares
2	HKSCC Nominees Limited	+1,050,000	335,435,000	25.221	Circulating	Unknown	Foreign shares
3	Bohai Securities Co., Ltd.	Public shares +4,886,626	10,307,005 (including 10,207,005 public shares and 100,000 legal person shares)	0.775	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	Note C	Legal person shares
6	Galaxy Securities	Nil	1,500,000	0.113	Non-circulating	Unknown	Legal person shares
7	Shanxi Tongce Investment Co., Ltd.	Unknown	1,097,905	0.083	Circulating	Unknown	Public shares
8	Shanghai Baoshan Iron & Steel Plant Equipment Inspection Co.	Unknown	1,065,232	0.080	Circulating	Unknown	Public shares
9	Liaoning Shennong	Nil	1,000,000	0.075	Non-circulating	Unknown	Legal person shares
10	Guotai Tian Zheng	Nil	1,000,000	0.075	Non-circulating	Unknown	Legal person shares

DETAILS OF SHAREHOLDERS (Cont'd)

Notes:

- A. Pursuant to the register of the shareholders as provided by the HKSCC Nominees Limited, H Shares were held on behalf of various clients' accounts. There was no client who was interested in 5% or more than 5% of the total issued share capital of the Company.
- B. The top ten shareholders were not strategic investors of the Company.
- C. The securities of China Southern Securities Co., Ltd. have been withheld as collateral by China Securities Depository and Clearing Corporation Limited because of insufficient funds due for settlement.
- D. Save as disclosed in this paragraph, as at 31st December 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.
- E. Save as disclosed above, as at 31st December 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.

(III) The relationship of top ten shareholders

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.

3. Controlling shareholder of the Company

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

DETAILS OF SHAREHOLDERS (Cont'd)

3. Controlling shareholder of the Company (Cont'd)

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

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

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

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

5. As at 31st December 2003, the top ten shareholders of the Company's circulating shares were as follows

No.	Name of shareholders	Number of circulating shares held at the end of the year	Type of shares
1	HKSCC Nominees Limited	335,435,000	H shares
2	Bohai Securities Co., Ltd.	10,207,005	A shares
3	Shanxi Tongce Investment Co., Ltd.	1,097,905	A shares
4	Shanghai Baoshan Iron & Steel Plant Equipment Inspection Co.	1,065,232	A shares
5	Ma Qiubo	869,600	A shares
6	Shanghai Capital Investment Co., Ltd.	757,155	A shares
7	HSBC Nominees (HK) Limited	656,000	H shares
8	Chen Guangshen	655,000	A shares
9	Bank of Communication – Hunan Finance and Hefeng Value Enhancing Industry Fund	598,900	A shares
10	Liu Zijie	576,256	A shares

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION

1. Directors, Supervisors and Senior Management

Name	Gender	Position	Age	Term	Shareholding at the beginning of the year	Shareholding at the end of the year
Ma Baiyu	F	Chairman	42	2003.12.20-2006.12.19	0	0
An Pindong	M	Director and Financial Controller	36	2003.12.20-2006.12.19	0	0
Gu Qifeng	M	Director and General Manager	38	2003.12.20-2006.12.19	0	0
Wang Zhanying	M	Director	49	2003.12.20-2006.12.19	5,000	5,000
Wang Yueqing	M	Director	60	2000.12.20-2003.12.19	0	0
Zhu Min	M	Director	50	2000.12.20-2003.12.19	0	0
Zhang Wenhui	M	Director	49	2000.12.20-2003.12.19	0	0
Tan Zhaofu	M	Director	49	2003.12.20-2006.12.19	0	0
Fu Yana	F	Director, Deputy General Manager and Company Secretary	33	2003.12.20-2006.12.19	0	0
Wang Xiangfei	M	Independent Director	53	2002.04.16-2005.04.15	0	0
Gao Zongze	M	Independent Director	65	2002.04.16-2005.04.15	0	0
Chan Boon Teong	M	Independent Director	62	2000.12.20-2003.12.19	0	0
Ko Po Ming	M	Independent Director	46	2003.12.20-2006.12.19	0	0
Zhang Wenhui	M	Chairman of Supervisory Committee	49	2003.12.20-2006.12.19	0	0
Yu Ruihua	F	Chairman of Supervisory Committee	58	2000.12.20-2003.12.19	0	0
Chen Baosen	M	Supervisor	52	2000.12.20-2003.12.19	0	0
Shi Chunhua	M	Supervisor	40	2000.12.20-2003.12.19	0	0
Wang Zhanying	M	Supervisor	49	2000.12.20-2003.12.19	5,000	5,000
Zhang Mingqi	M	Supervisor	47	2001.09.19-2004.09.18	0	0
Nie Youzhuang	M	Supervisor	35	2003.12.20-2006.12.19	700	700
Wen Qiuli	M	Supervisor	37	2003.12.20-2006.12.19	0	0
Hou Xiaojian	F	Supervisor	39	2003.12.20-2006.12.19	0	0
Wang Hui	M	Supervisor	36	2002.10.16-2005.10.15	0	0

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

1. Directors, Supervisors and Senior Management (Cont'd)

Name	Gender	Position	Age	Term	Shareholding at the beginning of the year	Shareholding at the end of the year
Luo Lianfang	M	Deputy General Manager	56	2003.12.20-2006.12.19	0	0
Lin Wenbo	M	Deputy General Manager	47	2003.12.20-2006.12.19	0	0
Zhu Yanbo	M	Deputy General Manager	56	2003.12.20-2006.12.19	0	0
Liu Wenya	M	Deputy General Manager	46	2003.12.20-2006.12.19	0	0
Wang Hongren	M	Deputy General Manager	59	2003.12.20-2006.12.19	0	0
Deng Biao	M	Chief Engineer	38	2003.12.20-2006.12.19	0	0
Ip Pui Sum	M	Company Secretary in Hong Kong	45	2003.12.20-2006.12.19	0	0

Description: 1. The election for the Board of Directors and the Supervisory Committee for the next session took place in the EGM of the Company held on 20th December 2003. The term of office of Mr. Wang Yueqing, Mr. Zhu Min, Mr. Zhang Wenhui, and Mr. Chan Boon Teong (Independent Director) expired and they did not serve as directors in the next term. Ms. Ma Baiyu, Mr. Gu Qifeng and Mr. An Pindong continued to serve as Directors. Mr. Wang Zhanying, Mr. Tan Zhaofu, Ms. Fu Yana and Mr. Ko Po Ming were elected as the Directors (of whom Mr. Ko Po Ming was the Independent Director). The term of office of Ms. Yu Ruihua, Mr. Chen Baosen and Mr. Shi Chunhua expired and they did not serve as supervisors in the next term. Mr. Wang Zhanying resigned as the Supervisor of the Company. Mr. Zhang Wenhui, Ms Hou Xiaojian, Mr. Wen Qiuli and Mr. Nie Youzhuang were elected as the Supervisors of the Company.

2. The shares held by Mr. Wang Zhanying and Mr. Nie Youzhuang have been subject to a lock-up arrangement since their employment date.

3. The positions of the directors, supervisors and senior management in the Company's shareholders:

Ms. Ma Baiyu, the Chairman of the Company, also holds the position as the director of the Company's controlling shareholder. Mr. Zhang Wenhui, the Chairman of Supervisory Committee, also holds the position as the Party Committee Assistant Secretary. Apart from that, the directors, supervisors and senior management of the Company do not hold any positions of controlling shareholder other than the position as a director.

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

2. Remunerations of directors, supervisors and senior management

During 2003, salaried directors, supervisors and senior officers of the Company received their annual remuneration pursuant to the provisions of the respective directors' and supervisors' service agreements and staff wages allocation plan of the Company. The annual remuneration of independent directors is determined during shareholders' general meetings and will be paid in a lump sum by the end of the year.

During the reporting period, the Company held the EGM on 20th December 2003 and elected the members of the Board of Directors and Supervisory Committee for the next term. The first meeting of the Third Board of Directors was also held on the same day and appointed senior officers for a new term. As at 19th December 2003, the remunerations paid to the previous directors, supervisors and senior officers of the Company including basic salaries, various kind of incentives, welfare benefits, allowances, housing subsidy and other subsidies, amounted to Rmb 4,185,000 (including allowances amounted to HK\$650,000 paid to the independent directors) in aggregate for the year. The remuneration paid to the three highest paid directors was Rmb 1,000,000 in aggregate. The remuneration paid to the three highest paid individuals was Rmb 1,000,000 in aggregate.

The remuneration of directors, supervisors and senior officers for a new term will be paid from 1st January 2004.

The Company has 22 directors, supervisors and senior officers on 19th December 2003 and 22 of them were paid remuneration by the Company. There were 4 individuals whose annual remuneration was Rmb 300,000 or above. There were 9 individuals whose annual remuneration was between Rmb 200,000 and Rmb 300,000. There were 9 individuals whose annual remuneration was Rmb 200,000 or below.

Remunerations of directors and supervisors

	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Fees	689	715
Salaries and other emoluments	2,112	1,780
Pensions	59	22
	<u>2,860</u>	<u>2,517</u>

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

	Number	
	2003	2002
Rmb nil - Rmb 1,073,000 (HK\$1,000,000)	<u>22</u>	<u>21</u>

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

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

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

1. During the reporting period, the Company convened a EGM on 20th December 2003. The term of office of Mr. Wang Yueqing, Mr. Zhu Min, Mr. Zhang Wenhui, and Mr. Chan Boon Teong (Independent Director) expired and they did not serve as directors in the next term. Mr. Wang Zhanying, Mr. Tan Zhaofu, Ms. Fu Yana and Mr. Ko Po Ming were elected as the Directors (of whom Mr. Ko Po Ming was the Independent Director).
2. During the reporting period, the Company convened a EGM on 20th December 2003. The term of office of Ms. Yu Ruihua, Mr. Chen Baosen and Mr. Shi Chunhua expired and they did not serve in the next term as the Supervisors of the Company. Mr. Wang Zhanying resigned as the Supervisor of the Company due to work related reasons. Mr. Zhang Wenhui, Ms. Hou Xiaojian, Mr. Wen Qiuli and Mr. Nie Youzhuang were elected as the Supervisors of the Company.
3. During the reporting period, the term of office of Ms. Ma Baiyu expired. She also did not serve in the next term as the General Manager of the Company due to work related reasons.
4. During the reporting period, Mr. Gu Qifeng resigned as the Chief Engineer of the Company due to work related reasons on 20th February 2003. Mr. Deng Bao was appointed as the Chief Engineer. Mr. Gu Qifeng was appointed as the Deputy General Manager on 24th July 2003.
5. During the reporting period, the Company held the First Meeting of the Third Board on 20th December 2003. Ms. Ma Baiyu was elected as the Chairman of the third Board of Directors of the Company, which was effective from 20th December 2003 for a term of three years. She was eligible to serve consecutive term upon re-election. Mr. Gu Qifeng was appointed as the General Manager of the Company, which was effective from 20th December 2003 for a term of three years. Mr. Luo Lianfang, Mr. Lin Wenbo, Mr. Liu Wenya, Mr. Wang Hongren and Ms. Fu Yana were appointed as the Deputy General Managers of the Company. Mr. An Pindong was appointed as the Chief Accountant of the Company. The above appointments were effective from 20th December 2003 for a term of three years. The terms of office of Mr. Zhu Yanbo and Mr. Deng Biao have not yet expired, and they will continue to serve as the Deputy General Manager and Chief Engineer of the Company. Their terms were from 20th December 2003 to 19th December 2006 as revised. Ms. Fu Yana was appointed as the Secretary to the Board of Directors. Mr. Gu Wenhui was appointed as the Security Affairs Representative. Mr. Ip Pui Sum was appointed as the Hong Kong Company Secretary of the Company. All of the above appointments were effective from 20th December 2003 for a term of three years.

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

4. An overview of the Company's staff

As at the end of 2003, the number of staff of the Company was 447 which did not include any staff resigned or retired. Among the Company's staff, 151 of which have professional qualifications, and accounted for 33.78% of the total number of staff; 27 of them have senior titles; 73 of them have intermediate titles; 51 of them of junior titles; The Company has senior expertise in the field of international management and investment, environmental engineering, roads and bridges construction, and engineering management. The expertise portfolio at each segment was managed reasonably.

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

Administration	99	(22.15%)
Finance	16	(3.58%)
Technical	169	(37.81%)
Operating staff at sewage treatment plants and others	163	(36.46%)

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

Postgraduate	10	(2.23%)
University	115	(25.73%)
Post-secondary	166	(37.14%)
Secondary or below	156	(34.90%)

5. Arrangements to purchase shares or debentures

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

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

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

CONNECTED TRANSACTIONS

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

- (1) 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 Treatment Plant and Jizhuangzi Sewage Water Treatment Plant to Tianjin Sewage Company ("TSC"), a State-owned enterprise under the supervisory control of the 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. During the reporting period, the Company processed 218,160,000 cubic meters of sewage water. In accordance with the Sewage Water Processing Agreement entered into with TSC, the Company received a sewage processing fee of Rmb 421,048,000.

- (2) 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 Treatment Plant, Jizhuangzi (Expansion) Sewage Water Treatment Plant and Beicang Sewage Water Treatment 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 1,170,000,000, 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 treatment plants. The construction fees will be payable by TSC to the Company in advance on a monthly basis based on the amounts calculated according to the percentage of completion of the respective construction projects estimated by the management. The percentage of completion of each project will be adjusted on a quarterly basis according to the certifications issued by the qualified independent surveyors or engineers. Pursuant to the agreement, upon the commencement of operation of the three sewage water treatment plants, the rights and obligations between the Company and TSC will follow the terms as specified in the Sewage Water Processing Agreement. Pursuant to the agreement referred to above, during the reporting period, the construction work completed for the construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant amounted to approximately Rmb 282,000,000. The Company recognised a construction fee of Rmb 143,982,000 in accordance with the Sewage Water Plants Construction Fee Agreement.

CONNECTED TRANSACTIONS *(Cont'd)*

- (3) On 24th September 2001, the Company entered into the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring with Tianjin Municipal Investment Company Limited, the controlling shareholder of the Company. The controlling shareholder is presently the owner of the Haihe Bridge Construction Project. According to the agreement, the Company provided project management services to the controlling shareholder and was entitled to a total sum of project management fee amounting to Rmb 10,650,000. Pursuant to the Termination Agreement regarding the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring entered into by the Company and the controlling shareholder on 29th April 2003, both parties agreed to terminate the project management agreement from 1st January 2003, where the construction of Haihe Bridge project was suspended since the same date. Up to 31st December 2002, 70.8% of the construction work for Haihe Bridge was completed and the Company recognised a management fee income for Haihe Bridge in a total of Rmb 7,542,000.
- (4) During the reporting period, the Company received a compensation from TMEB for the toll income as a result of the demolition of the former toll stations in an amount of Rmb 8,000,000.
- (5) Pursuant to the Road Repair and Maintenance Agreement, Tianjin Urban Road and Bridge Construction Company ("TURBCC") provides maintenance and repair service of the Southeastern Half Ring Road for the Company and charges the Company for fees based on the rates prescribed under the Index for Estimation of Repair and Maintenance Costs for National Urban Construction (Jian She Bu Cheng [1993] No.412) issued by the Ministry of Construction from time to time.
- (6) Between 1st January 2003 and 31st December 2003, the sewage processing infrastructure cost incurred by the Company and payable to the related parties amounted to Rmb 35,623,000.
- (7) During the reporting period, the Company received a one-off cash compensation from TMEB in an amount equivalent to the net book value of the assets of the demolished toll stations as at 30th June 2003 of Rmb 32,563,000.
- (8) During the reporting period, the Company contributed Rmb 9,000,000, and jointly established Tianjin Capital New Materials Company Limited with Tianjin Sewage Engineering Company and Tianjin Senyuan Technology Development Company Limited. The capital contributed represented 45% of its registered capital. Tianjin Sewage Engineering Company was an enterprise under Tianjin Sewage Management Bureau. As Tianjin Sewage Management Bureau and Tianjin Municipal Investment Company Limited, the controlling shareholder of the Company, are both under supervisory control of the TMEB, this transaction constitutes a connected transaction of the Company. For details, please refer to the relevant announcements published on Shanghai Securities and Hong Kong Wen Wei Po on 25th July 2003.

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

MANAGEMENT CONTRACTS

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

FIXED ASSETS

Details of the movement in fixed assets during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 80 and 81 and pages 121 to 123 of the annual report, respectively.

RESERVES

Details of movements in reserves during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 87 and 88 and pages 129 to 131 of the annual report, respectively.

EMPLOYEES' RETIREMENT BENEFIT SCHEME

Particulars of the employees' retirement benefit scheme operated by the Company are set out on pages 72 and 114 of the annual report.

MAJOR SUPPLIERS AND CUSTOMERS

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

	2003	2002
	%	%
Percentage of purchases attributable to the Group's largest supplier	37	21
Percentage of purchases attributable to the Group's five largest suppliers	55	69
Percentage of sales attributable to the Group's largest customer	90	87
Percentage of sales attributable to the Group's five largest customers	90	88

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

PRE-EMPTIVE RIGHTS

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

SALE AND PURCHASE OR REPURCHASE OF SHARES OF THE COMPANY

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

CODE OF BEST PRACTICE

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

MAJOR LITIGATION

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

AUDITORS

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

By order of the Board

Ma Baiyu

Chairman

Tianjin, the PRC

12th February 2004