

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2003
(Prepared in accordance with PRC Accounting Regulations)

1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES

Tianjin Capital Environmental Protection Company Limited (“the Company”) was established on 8th June 1993 in the People’s Republic of China (the “PRC”) as a joint stock limited company. Its current principal activities include sewage water processing, sewage water processing plants construction and road and toll stations operations. The principal businesses of the Company’s subsidiaries are set out in note 9(a).

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

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

(i) Sewage Water Processing Business

The sewage water processing business is conducted according to a Sewage Water Processing Agreement entered into on 10th October 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 for accepting the responsibility to construct the sewage plants. 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.

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 three Sewage Plant Construction Projects are set out below:

	Xiayanglu	Jizhuangzi	Beicang
	Sewage Water	Sewage Water	Sewage Water
	Processing Plant	Processing	Processing Plant
	Construction	Plant Expansion	Construction
	Project	Project	Project
Location	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC
Daily capacity (cubic meter) upon completion of construction	450,000	280,000	100,000
Estimated date of completion	End of 2004	End of 2004	End of 2005
Estimated total construction costs from 24th September 2001 (date of acquisition) 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 (excluded acquisition costs)			
— as at 31st December 2002	19.7%	45.1%	6.1%
— as at 31st December 2003	31.3%	53.9%	23.9%
Construction fees recognised by the Company (Rmb' million)			
— up to 31st December 2002	116	143	16
— up to 31st December 2003	185	171	63

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

(b) Road and Toll Station Business

The Company used to own the right to set up toll stations at the junctions between the city roads of Tianjin and expressways leading to the city, and to collect toll fees from all motor vehicles entering the city of Tianjin at such toll stations, other than vehicles which are registered in Tianjin or exempted from toll payments under the relevant PRC rules and regulations, for a term expiring on 28th February 2029.

During the year, 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 a Tianjin Toll Collection Office set up by TMEB. As a result of the 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) A one-off cash compensation 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 Rmb 32,563,000.
- (ii) TMEB agreed to compensate the Company for loss in revenue during the period from 31st May 2003 to the date of completion of construction of the new toll stations (section (iii) below), at amounts equivalent to the amounts of revenue received in the same period of last year. The Company has recognised a net compensation income of Rmb 5,538,000 in June 2003, representing toll fee revenue compensation of Rmb 8,000,000 received, net of expenses.
- (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 collection right of six new toll stations for a term from 1st July 2003 to 28th February 2029. The Company is not allowed to transfer, lease or pledge the right to other parties without the consent from TMEB.

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

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

- (iv) The Company entered into the Toll Fee Collection Subcontracting Agreement (the "Agreement") with Tianjin City Motor Vehicles Toll Fee Collection Office (the "Toll Collection Office") on 24th July 2003. The Toll Fee Collection Office is a new administration authority established by TMEB according to the "Notice of Reforming Tianjin City Motor Vehicles Toll Fee Collection Administrative Method in Relation to the Roads Constructed from Borrowings" issued by the Tianjin Municipal Government on 30th May 2003. The Fee Collection Office is responsible for collection of toll fees. The toll fee collection work is monitored by Tianjin City Motor Vehicles Toll Fee Collection Monitoring Bureau which is established by TMEB. According to the Agreement, the Company has engaged the Toll Collection Office to collect the toll fee of the six new toll stations on its behalf and will pay a management fee to the Toll Collection Office accordingly. The Company will be entitled to receive a minimum toll fee for each period/year based on the forecast traffic flow and toll fee for the corresponding period/year as stipulated in a traffic flow and toll fee forecast report for the six new toll stations issued by a professional consulting company in July 2003. The Toll Collection Office is required to pay to the Company the actual toll fee collected from the six new stations for the corresponding period/year. If the toll fee income of the six new stations for the corresponding period/year as stipulated in the forecast report is higher than the actual toll fee collected, the Toll Collection Office is required to pay the shortfall to the Company as toll fee income. If the toll fee income for the six new stations for the corresponding period/year as stipulated in the forecast report is lower than the actual toll fee collected, the Toll Collection Office is required to pay the actual toll fee collected to the Company.

(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" or "TMICL"), 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 Rmb 10,650,000.

On 29th April 2003, pursuant to the Termination Agreement regarding the Haihe Bridge Project Management, the Company and the controlling shareholder 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 CHANGES IN SIGNIFICANT ACCOUNTING POLICY

Effective from 1st July 2003, the Company has adopted the revised "Accounting Standard for Business Enterprises – Events Occurring After the Balance Sheet Date". Prior to the adoption of the revised standard, proposed cash dividend distribution was transferred out of shareholders' equity and recognised as payables in the period related to which the Board of Directors proposed the distribution plan. Subsequent to 1st July 2003, cash dividend distribution is recognised in the period when the distribution plan is approved at the general meeting of the shareholders. As a result of the adoption of the revised standard, the change in accounting policy has been adjusted retrospectively (note 22).

3 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 Central Government of the PRC.

(b) Financial year

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

(c) Reporting currency

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

(d) Basis of accounting

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

(e) Cash

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

3 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 losses 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.

3 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 amortisation/depreciation and accumulated impairment losses, if any.

Amortisation of land use rights, other than those in relation to the road and toll stations business, is calculated to write off their cost, 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.

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

(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 include interest cost on specific borrowings used to finance the capital assets, prior to the date of reaching the expected usable condition. Construction in progress is transferred to the fixed assets account when the asset has been substantially completed and reaches the expected usable condition.

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

(k) Borrowing costs

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

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.

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

(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.

(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.

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

(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 is calculated based on the percentage of completion during the construction period of the Haihe Bridge. The percentage of completion is determined with reference to the certification of qualified independent surveyors or engineers in the PRC.
- (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 29).

3 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.

4 CASH AND BANK BALANCES

	Group		Company	
	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>
Cash on hand	31	11	13	10
Cash in bank	450,043	537,918	400,050	515,497
Included: Special funds for construction in progress	<u>308,796</u>	<u>360,922</u>	<u>292,875</u>	<u>361,892</u>
Total	<u>450,074</u>	<u>537,929</u>	<u>400,063</u>	<u>515,507</u>

The special funds for construction in progress represent the unutilised bank deposit balances of the special loan accounts for sewage water processing projects and Tianjin Jizhuangzi Sewage Water Recycle Project.

5 ACCOUNTS RECEIVABLE

	Group		Company	
	31st December 2003 Rmb'000	31st December 2002 Rmb'000	31st December 2003 Rmb'000	31st December 2002 Rmb'000
Ageing analysis of accounts receivable is as follows:				
Within one year	107,737	28,704	107,737	28,232
Less: Provision for bad debts	—	—	—	—
Net accounts receivable	<u>107,737</u>	<u>28,704</u>	<u>107,737</u>	<u>28,232</u>
Details of the accounts receivable are set out as follows:				
Due from TSC				
– Revenue from sewage water processing services (note 1(a)(i))	52,103	27,201	52,103	27,201
– Revenue from sewage water processing plants construction services (note 1(a)(ii))	35,868	—	35,868	—
Due from Tianjin Toll Collection Office				
– Toll fee (note 1(b))	19,766	—	19,766	—
Due from controlling shareholder				
– Haihe Bridge project management fee income (note 1(c))	—	1,031	—	1,031
Others	—	472	—	—
Total	<u>107,737</u>	<u>28,704</u>	<u>107,737</u>	<u>28,232</u>

All accounts receivable were aged within one year, most of which were from related companies, therefore no provision for bad debts was made. Except for the amount due from controlling shareholder in respect of the management fee income for Haihe Bridge project at the end of 2002, there were no accounts receivable as at year end from any of the Company's shareholders who hold 5% or more of voting shares.

6 OTHER RECEIVABLES

	Group		Company	
	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>
Ageing analysis of other receivables is as follows:				
Within 1 year	2,854	1,419	5,401	1,078
Less: Provision for bad debts	—	—	—	—
Net other receivables	<u>2,854</u>	<u>1,419</u>	<u>5,401</u>	<u>1,078</u>

As at 31st December 2003, there were no other receivables from any of the Company's shareholders who hold 5% or more of voting shares.

7 PREPAYMENTS TO SUPPLIERS

	Group		Company	
	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>
Prepayment for purchase of a building	82,000	—	82,000	—
Others	2,295	1,871	932	253
Total	<u>84,295</u>	<u>1,871</u>	<u>82,932</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 building located at Nankai District of Tianjin.

The above prepayments were aged less than 1 year and therefore no provision for bad debts was made. As at 31st December 2003, there were no prepayments to any of the Company's shareholders who hold 5% or more of voting shares.

8 INVENTORIES

	Group and Company			
	31st December	31st December	31st December	31st December
	2003	2003	2002	2002
	Cost	Provision	Cost	Provision
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Raw materials	1,680	—	2,022	—
Spare parts and consumables	443	—	418	—
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Total	2,123	—	2,440	—
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9 LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	31st December	31st December	31st December	31st December
	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Investment in subsidiary companies (<i>note (a)</i>)	—	—	56,443	15,439
Investment in an associated company (<i>note (b)</i>)	9,000	—	9,000	—
Other long-term equity investments (<i>note (c)</i>)	4,000	4,000	4,000	4,000
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value	13,000	4,000	69,443	19,439
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9 LONG-TERM EQUITY INVESTMENTS (Cont'd)**(a) Investment in subsidiary companies**

Name	Registered capital <i>Rmb'000</i>	Interest held		Principal activities	Place of registration and operation	Type
		Directly %	Indirectly %			
Guizhou Capital Water Co., Ltd.	100,000	70%	—	Development and construction of municipal sewage water plants and water plants, and provision of related consulting services for water processing facilities	Guiyang, the PRC	Sino – foreign joint venture
Tianjin Water Recycling Co., Ltd.	20,000	90%	—	Production of recycled water, equipment development and technical consulting for water recycling business	Tianjin, the PRC	Limited liability company

In 2003, the Company and a foreign company invested jointly to establish Guizhou Capital Water Co., Ltd.. As at 31st December 2003, the Company had injected capital of Rmb 44,000,000. The subsidiary will commence production in early 2004.

(b) Investment in an associated company

Name of associated company	Group and Company	
	Percentage of interest in registered capital %	Cost <i>Rmb'000</i>
Tianjin Capital New Materials Co., Ltd.	45%	9,000
Less: Provision for diminution in value		—
Net book value		<u>9,000</u>

During 2003, the Company together with Tianjin Sewage Engineering Company and Tianjin Senyuan Technology Development Company Limited jointly invested and established Tianjin Capital New Materials Co., Ltd. Rmb 9,000,000, representing 45% of the registered capital of this company had been contributed by the Company. The principal activity of this company is the manufacture of new types of sewage pipes. This company had not commenced operation in 2003.

9 LONG-TERM EQUITY INVESTMENTS (Cont'd)

(c) 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>

10 FIXED ASSETS AND ACCUMULATED DEPRECIATION/AMORTISATION

	Group					Total Rmb'000
	Land use rights Rmb'000	Road Rmb'000	Buildings and structures Rmb'000	Plant,	Motor vehicles and others Rmb'000	
				machinery and equipment Rmb'000		
Cost						
At 1st January 2003	651,098	185,418	655,877	208,788	56,536	1,757,717
Additions	74	—	45,606	72,110	9,178	126,968
Disposals	(5,655)	—	(23,706)	(7,404)	(7,129)	(43,894)
At 31st December 2003	645,517	185,418	677,777	273,494	58,585	1,840,791
Accumulated depreciation/amortisation						
At 1st January 2003	42,341	35,052	259,411	126,122	30,095	493,021
Charge for the year	14,488	943	20,759	10,136	6,293	52,619
Disposals	(322)	—	(3,619)	(3,987)	(3,159)	(11,087)
At 31st December 2003	56,507	35,995	276,551	132,271	33,229	534,553
Net book value						
At 31st December 2003	589,010	149,423	401,226	141,223	25,356	1,306,238
At 31st December 2002	608,757	150,366	396,466	82,666	26,441	1,264,696

10 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,	Motor vehicles and others Rmb'000	
				machinery and equipment Rmb'000		
Cost						
At 1st January 2003	651,098	185,418	655,877	208,788	54,255	1,755,436
Additions	74	—	2,156	5,764	8,423	16,417
Disposals	(5,655)	—	(23,706)	(7,404)	(7,129)	(43,894)
At 31st December 2003	<u>645,517</u>	<u>185,418</u>	<u>634,327</u>	<u>207,148</u>	<u>55,549</u>	<u>1,727,959</u>
Accumulated depreciation/amortisation						
At 1st January 2003	42,341	35,052	259,411	126,122	29,845	492,771
Charge for the year	14,488	943	20,757	10,137	5,954	52,279
Disposals	(322)	—	(3,619)	(3,987)	(3,159)	(11,087)
At 31st December 2003	<u>56,507</u>	<u>35,995</u>	<u>276,549</u>	<u>132,272</u>	<u>32,640</u>	<u>533,963</u>
Net book value						
At 31st December 2003	<u><u>589,010</u></u>	<u><u>149,423</u></u>	<u><u>357,778</u></u>	<u><u>74,876</u></u>	<u><u>22,909</u></u>	<u><u>1,193,996</u></u>
At 31st December 2002	<u><u>608,757</u></u>	<u><u>150,366</u></u>	<u><u>396,466</u></u>	<u><u>82,666</u></u>	<u><u>24,410</u></u>	<u><u>1,262,665</u></u>

Notes:

- (i) All of the Group's land use rights, road, buildings and structures and plants are located in the PRC. As at 31st December 2003, fixed assets had no diminution in value, so no provision for impairment loss was made.
- (ii) 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. TMEB had made a 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.

11 CONSTRUCTION IN PROGRESS

Name of project	Budget costs	As at 1st		As at 31st		Source of funds	Incurred costs to budget costs ratio
	(acquisition consideration included)	January 2003	Additions	December 2003			
	Rmb'000	Rmb'000	Rmb'000	Rmb'000			
Xianyanglu Sewage Water Processing Plant Construction Project	1,199,720	281,677	132,209	413,886	Bank loans and self-raised fund	34.50%	
Jizhuangzi Sewage Water Processing Plant Expansion Project	1,054,722	518,147	87,767	605,914	Bank loans and self-raised fund	57.45%	
Beicang Sewage Water Processing Plant Construction Project	366,327	25,801	61,945	87,746	Bank loans and self-raised fund	23.95%	
R&D Centre Project	16,546	—	2,233	2,233	Self-raised fund	13.50%	
Jizhuangzi Office Building Project	5,226	—	1,242	1,242	Self-raised fund	23.77%	
Staff Dormitory Project	8,907	—	1,135	1,135	Self-raised fund	12.74%	
Others	—	—	1,008	1,008	Self-raised fund		
Total construction in progress (Company)	2,651,448	825,625	287,539	1,113,164			
Tianjin Jizhuangzi Sewage Water Recycling Project	143,416	90,324	17,137	107,461	Specific loans and self-raised fund	74.93%	
Total construction in progress (Group)	2,794,864	915,949	304,676	1,220,625			
Including: Capitalised borrowing costs							
– Company		6,328	10,421	16,749			
– Group		6,328	13,108	19,436			

As at 31st December 2003, construction in progress had no diminution in value, so no provision for impairment loss was made.

12 SHORT-TERM LOAN

	Group		Company	
	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>
Bank loan	<u>45,000</u>	<u>30,000</u>	<u>45,000</u>	<u>—</u>

The short-term loan as at 31st December 2003 was obtained from the Construction Bank of China, Tianjin Branch, and bore interest rate at 5.31% per annum. The short-term loan as at 31st December 2002 was obtained by the Group's subsidiary from the Shanghai Pudong Development Bank and bore interest rate at 5.76% per annum. These loans were guaranteed by the Company's controlling shareholder.

13 ACCOUNTS PAYABLE

There were no accounts payable to any of the Company's shareholders which hold 5% or more of voting shares as at 31st December 2003.

14 ADVANCES FROM CUSTOMERS

Pursuant to the Construction Fee Agreement (note 1(a)(ii)), TSC shall pay to the Company advances totalling Rmb 117,052,000, representing ten percent of the total construction fees in respect of the Sewage Plant Construction Projects. At the same time, the advances will be offset by ten percent of the construction fees charged by the Company to TSC in each period/year. At 31st December 2003, advances from customers represented mainly the remaining balance of the advances (after offsetting ten percent of accumulated construction fees recognised, Rmb 41,853,000, for the period from 24th September 2001 to 31st December 2003).

There were no advances from any of the Company's shareholders which hold 5% or more of voting shares as at 31st December 2003.

15 DIVIDEND PAYABLE

Pursuant to the 11th meeting of the shareholders held on 8th April 2003, it was approved to distribute a final dividend of Rmb 0.85 (tax included) for every ten shares held by shareholders, totalling Rmb 113,050,000, based on the total number of shares of 1,330,000,000 as at 31st December 2002. This profit appropriation was recorded in dividend payable account in 2003 (2002: Rmb 0.8 (tax included) for every ten shares held by shareholders, totalling Rmb 106,400,000 and had been retrospectively adjusted to dividend payable of 2002).

In addition, balance as at 31st December 2003 represents the dividend for year 2002 not yet paid to the legal person shareholders in China.

16 TAXES PAYABLE

	Group		Company	
	31st December 2003 Rmb'000	31st December 2002 Rmb'000	31st December 2003 Rmb'000	31st December 2002 Rmb'000
Income tax	36,623	9,225	36,623	9,225
Business tax and others	8,985	11,971	8,976	11,966
Total	<u>45,608</u>	<u>21,196</u>	<u>45,599</u>	<u>21,191</u>

17 OTHER PAYABLES

	Group		Company	
	31st December 2003 Rmb'000	31st December 2002 Rmb'000	31st December 2003 Rmb'000	31st December 2002 Rmb'000
Payable to the controlling shareholder (note (a))	—	4,737	—	4,737
Construction costs payable (note (b))	140,070	62,240	138,024	60,352
Payable to TSC (note (c))	—	105,565	—	105,565
Payable for purchase of fixed assets (note (d))	66,000	—	—	—
Others	1,473	3,981	2,855	3,981
Total	<u>207,543</u>	<u>176,523</u>	<u>140,879</u>	<u>174,635</u>

- (a) The payable to the controlling shareholder as at 31st December 2002 was unsecured, interest free and settled in 2003. There were no other payables to any of the Company's shareholders which hold 5% or more of voting shares as at 31st December 2003.
- (b) The construction costs payable represent the construction costs incurred in relation to the construction of the sewage water processing plants by the Company but remained outstanding (note 1(a)(ii)). The construction costs payable included amounts of Rmb 2,072,018 (2002: Rmb 22,781,000) payable to related companies.
- (c) The payable to TSC at the end of 2002 represented the net amount arising after offsetting various balances at 31st December 2002 for the acquisition of the Sewage Plant Construction Projects. The payable to TSC was interest free and settled in 2003.
- (d) The payable for purchase of fixed assets represents the balance payment for the purchase of a sewage water processing plant in 2003 by the Company's subsidiary, Guizhou Capital Water Co., Ltd.

18 LONG-TERM LOANS

Long-term bank loans include:

- (a) A long-term loan of Rmb 580,000,000 (2002: Rmb 500,000,000) obtained from the State Development Bank, of which Rmb 500,000,000 was transferred to the Company along with the acquisition of the three Sewage Plant Construction Projects in 2002. The loan has a total facility limit of Rmb 740,000,000 and is guaranteed by TMEB and secured by some of the fee collection rights of TMEB's business. The interest rate of this loan varies according to the interest rate of long-term loan as promulgated by the People bank of China. The prevailing interest rate is 5.76% (2002: 5.76%) per annum and the loan is repayable during the period from 2004 to 2011 by instalments.
- (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 interest rate is 5.76% per annum. The loan has a total facility limit of Rmb 700,000,000 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 financing of the installation of water pipes for recycled water. The interest rate is 5.02% per annum. The loan is guaranteed by the controlling shareholder of the Company.

The long term loans are repayable as follows:

	Group		Company	
	31st December 2003 Rmb'000	31st December 2002 Rmb'000	31st December 2003 Rmb'000	31st December 2002 Rmb'000
Payable within one year	50,000	—	50,000	—
Payable in the second year	55,000	50,000	55,000	50,000
Payable in the third year to fifth year	426,000	243,000	366,000	243,000
Payable after the fifth year	159,000	207,000	159,000	207,000
Subtotal	690,000	500,000	630,000	500,000
Less: Portion of long-term liabilities due within one year	(50,000)	—	(50,000)	—
Total	640,000	500,000	580,000	500,000

19 SPECIFIC PAYABLES

Specific payables include amounts totalling Rmb 81,000,000 (2002: Rmb 66,000,000) granted by TMEB to the Company's subsidiary, Tianjin Water Recycling Company Limited. The specific payables are granted for the construction of Tianjin Jizhuangzi Sewage Water Recycling Project. The remaining balance is obtained by the subsidiary from other authorities of Tianjin Municipal Government. These specific payables are interest free, 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.

20 SHARE CAPITAL

	Company	
	31st December 2003 <i>Rmb'000</i>	31st December 2002 <i>Rmb'000</i>
Registered share capital		
Par value of Rmb 1 per share:		
- 990,000,000 A shares	990,000	990,000
- 340,000,000 H shares	340,000	340,000
	<u>1,330,000</u>	<u>1,330,000</u>
Total		
Issued and paid up capital		
(1) A shares with par value Rmb 1		
Non-circulating shares		
State shares (839,020,000 shares)	839,020	839,020
Legal person shares (38,485,000 shares)	38,485	38,485
Circulating shares		
Social public shares (112,495,000 shares)	112,495	112,495
	<u>990,000</u>	<u>990,000</u>
Sub-total		
(2) H shares with par value Rmb 1		
Circulating shares outside China		
Social public shares (340,000,000 shares)	340,000	340,000
	<u>340,000</u>	<u>340,000</u>
Total	<u>1,330,000</u>	<u>1,330,000</u>

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

The Company established a Sponsored Level I American Depositary Receipts ("ADR") Program with The Bank of New York (as the Depositary Bank). The Securities and Exchange Commission of The United States declared that the registration statement of the ADR Program has become effective on 23rd December 2003. Each ADR under the ADR Program shall represent 20 H shares of the Company listed on The Stock Exchange of Hong Kong Limited. The Company did not and will not issue any new shares under such ADR Program. Trading of the Company's ADR will only be made in the over-the-counters markets in the United States.

21 CAPITAL RESERVE FUND AND GENERAL RESERVES

	Group and Company		
	Capital reserve fund <i>(note (a))</i> <i>Rmb'000</i>	Statutory common reserve <i>(note (b))</i> <i>Rmb'000</i>	Statutory provident fund <i>(note (b))</i> <i>Rmb'000</i>
At 1st January 2003	69,289	56,223	28,112
Transferred from profit appropriation			
– Transfer to statutory common reserve <i>(note (b))</i>	—	27,689	—
– Transfer to statutory provident fund <i>(note (b))</i>	—	—	13,845
	<hr/>	<hr/>	<hr/>
At 31st December 2003	<u>69,289</u>	<u>83,912</u>	<u>41,957</u>

(a) Capital reserve fund

Capital reserve fund comprises the following item:

	Group and Company	
	31st December 2003 <i>Rmb'000</i>	31st December 2002 <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.

21 CAPITAL RESERVE FUND AND GENERAL RESERVES *(Cont'd)*

(b) General reserves

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

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

The Company's directors have proposed to transfer 10% and 5% of the net profit of the Company for 2003 prepared under PRC accounting regulations to the statutory common reserve of Rmb 27,689,000 (2002: Rmb 28,723,000) and to the statutory provident fund of Rmb 13,845,000 (2002: Rmb 14,362,000), respectively.

The statutory common reserve shall only be used as follows:

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

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

The statutory provident fund shall only be used as follows:

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

22 UNDISTRIBUTED PROFITS

	Group and Company	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Original amount of undistributed profit at the beginning of the year	258,450	127,349
Add: Retroactive adjustment-distribution of cash dividend approved by the general meeting after the balance sheet date	113,050	106,400
	<hr/>	<hr/>
The undistributed profit at the beginning of the year after retrospective adjustment (<i>note 2</i>)	371,500	233,749
Add: Current year's profit	276,892	287,236
	<hr/>	<hr/>
	648,392	520,985
Less: Transfer to statutory common reserve (<i>note 21</i>)	(27,689)	(28,723)
Transfer to statutory provident fund (<i>note 21</i>)	(13,845)	(14,362)
Common share dividend payable- approved previous year cash dividend distribution by general shareholder meeting	(113,050)	(106,400)
	<hr/>	<hr/>
Undistributed profit at the end of the year	493,808	371,500
	<hr/> <hr/>	<hr/> <hr/>

As mentioned in note 2, as effective from 1st July 2003, the group adopted the revised "Accounting Standards for Business Enterprises – Events Occurring After the Balance Sheet Date". Distribution of cash dividends is recognised as a transfer from shareholders' equity to liability in the period when the profit appropriation plan is approved by the general meeting of the shareholders. As a result of the adoption of the revised standard, the change in accounting policy has been adjusted retrospectively, resulting in an increase of Rmb 113,050,000 and 106,400,000 in undistributed profits as at 31st December 2002 and 2001 respectively.

In addition, pursuant to the Board of Directors' meeting held on 12th February 2004, the Company proposed to distribute a final cash dividend of Rmb 0.8 (tax included) for every ten shares held by shareholders, totalling Rmb 106,400,000, based on the total number of shares of 1,330,000,000 as at 31st December 2003. As the proposal is subject to shareholders' approval, according to revised "Accounting Standards for Business Enterprises – Events Occurring After the Balance Sheet Date", such distribution of dividend has not been presented as a liability in the accounts. Upon approval by the shareholders in the forthcoming 2003 annual general meeting, the dividend distribution will be recorded as a payable in the 2004 accounts.

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

	Group	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Revenue from sewage water processing services	421,048	399,665
Revenue from sewage water processing plants construction services	143,982	183,536
Sub-total	565,030	583,201
Toll fee income	64,666	82,736
Haihe Bridge project management fee	—	4,812
	<u>629,696</u>	<u>670,749</u>

(b) Segment information

	Sewage water processing and sewage water plant construction	Road and toll stations	Haihe Bridge project management	Group
	2003	2003	2003	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
		<i>(note)</i>	<i>(note 1(c))</i>	
Income from principal operations	565,030	64,666	—	629,696
Costs for principal operations	(107,377)	(21,231)	—	(128,608)
Business tax and surcharges	(31,077)	(3,974)	—	(35,051)
Profit from principal operations	426,576	39,461	—	466,037
Less: Administrative expenses	(34,657)	(5,224)	—	(39,881)
Add: Financial (expense)/income – net	(19,168)	675	—	(18,493)
Others	(464)	5,739	—	5,275
Total profit	372,287	40,651	—	412,938
Less: Income tax	(123,953)	(12,426)	—	(136,379)
Net profit before minority interests	248,334	28,225	—	276,559
Minority interests	333	—	—	333
Net profit	<u>248,667</u>	<u>28,225</u>	<u>—</u>	<u>276,892</u>

23 INCOME FROM PRINCIPAL OPERATIONS AND SEGMENT INFORMATION (Cont'd)**(b) Segment information** (Cont'd)

Note:

As mentioned in note 1(b)(iv), according to Toll Fee Collection Subcontracting Agreement and based on the relevant traffic flow and toll fee forecast report for the six new toll stations, the Company was entitled to receive a minimum toll fee income of Rmb 33,977,000 for the period from 1st July to 31st December 2003. After deducting the actual toll fee of Rmb 27,170,000 collected at the six new toll stations, the Toll Fee Collection Office was required to pay Rmb 6,807,000, being the shortfall from the guaranteed toll fee income, to the Company. At the same time, the Company paid management fee of Rmb 3,560,000 to the Toll Fee Collection Office according to the subcontracting agreement.

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

24 BUSINESS TAX AND SURCHARGES

	Group		Company	
	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Business tax	31,885	33,537	31,885	33,537
City construction tax	2,216	2,348	2,216	2,348
Education surcharge	950	1,006	950	1,006
Total	<u>35,051</u>	<u>36,891</u>	<u>35,051</u>	<u>36,891</u>

25 PROFIT FROM OTHER OPERATIONS

Included in the profit from other operations was an amount of Rmb 5,538,000 which represented the compensation of Rmb 8,000,000 for the Company's road and toll station business in June 2003 received from TMEB after deducting related costs (note 1(b)(ii)).

26 FINANCIAL EXPENSES – NET

	Group		Company	
	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest expense	(32,450)	(20,899)	(29,763)	(20,899)
Less: Interest capitalised	<u>13,108</u>	<u>6,328</u>	<u>10,421</u>	<u>6,328</u>
Interest expense – net	(19,342)	(14,571)	(19,342)	(14,571)
Less: Interest income	993	2,158	930	2,073
Others	<u>(144)</u>	<u>(98)</u>	<u>(142)</u>	<u>(97)</u>
	<u>(18,493)</u>	<u>(12,511)</u>	<u>(18,554)</u>	<u>(12,595)</u>

27 INVESTMENT LOSS

	Group		Company	
	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Based on equity accounting				
Share of loss of subsidiary	<u>—</u>	<u>—</u>	<u>(2,996)</u>	<u>(1,579)</u>

28 COMMITMENTS**(a) Capital commitments**

	Group		Company	
	31st December 2003 Rmb'000	31st December 2002 Rmb'000	31st December 2003 Rmb'000	31st December 2002 Rmb'000
Contracted but not provided for (note (i))	190,725	146,710	184,209	134,968
Authorised but not contracted for (note (ii))	1,392,865	1,662,955	1,363,426	1,650,520
	<u>1,583,590</u>	<u>1,809,665</u>	<u>1,547,635</u>	<u>1,785,488</u>

- (i) The Group amount as at 31st December 2003 comprised mainly the capital commitments of the Company in respect of the Sewage Plant Construction Projects (note 1(a)(ii)) amounting to Rmb 166,209,000 and in respect of the purchase of Ningfa Building as office premises and investment properties of the Company amounting to Rmb 18,000,000, 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 Rmb 6,516,000.
- (ii) The Group amount as at 31st December 2003 mainly comprised the capital commitments of the Company in respect of the Sewage Plant Construction Projects from 1st January 2004 to completion date amounting to Rmb 1,337,357,000, and the capital commitments of the Company's subsidiary, Tianjin Water Recycling Co., Ltd., in respect of the Tianjin Jizhuangzi sewage water recycling project amounting to Rmb 29,439,000.

Furthermore, the Company's board of directors approved the following investment projects in 2003:

Investment project	Principal activities	Estimated investment amount Rmb'000	Amount invested as at year end Rmb'000
Invest to construct a sewage water processing plant	Sewage water processing	52,523	—
Invest to establish three joint venture companies	Operate water related business	322,000	44,000
Invest to establish one joint venture company	Manufacture of new materials for water pipes	9,000	9,000
		<u>383,523</u>	<u>53,000</u>

28 COMMITMENTS (Cont'd)**(b) Operating lease commitments**

At 31st December 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	
	31st December 2003 Rmb'000	31st December 2002 Rmb'000	31st December 2003 Rmb'000	31st December 2002 Rmb'000
Payable within one year	1,050	1,050	1,050	1,050
Payable in the second to fifth year	2,400	3,000	2,400	3,000
Payable after the fifth year	5,625	6,075	5,625	6,075
	<u>9,075</u>	<u>10,125</u>	<u>9,075</u>	<u>10,125</u>

29 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, constuction 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

29 RELATED PARTIES (Cont'd)**(b) Paid up capital of related parties that have controlling relationship and their movements**

Name of related party	As at	Additions	As at
	1st January		31st December
	2003		2003
	Rmb'000	Rmb'000	Rmb'000
Tianjin Municipal Investment Company Limited	1,724,278	—	1,724,278
Tianjin Water Recycling Co., Ltd	20,000	—	20,000
Guizhou Capital Water Co., Ltd.	—	100,000	100,000
	<u> </u>	<u> </u>	<u> </u>

(c) Share or equity of the Company held by a related party and its movements

Name of related party	As at 1st January 2003		Additions		As at 31st December 2003	
	Rmb'000	%	Rmb'000	%	Rmb'000	%
Tianjin Municipal Investment Company Limited	839,020	63.08	—	—	839,020	63.08
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

29 RELATED PARTIES (Cont'd)**(d) Major related parties that have no controlling relationship**

Name of related party	Relationship with the Company
Tianjin Sewage Company	State-owned company under the supervisory control of TMEB
Tianjin Municipal Road & Bridge Company Limited (<i>note e</i>)	State-owned company under the supervisory control of TMEB
Tianjin Urban Road & Bridge Construction Company ("TURBCC") (<i>note e</i>)	State-owned company under the supervisory control of TMEB
Tianjin Urban Road Construction No.1 Company Limited (<i>note e</i>)	State-owned company under the supervisory control of TMEB
Tianjin Urban Road Construction No.2 Company Limited (<i>note e</i>)	State-owned company under the supervisory control of TMEB
Tianjin Urban Road Construction No.3 Company Limited (<i>note e</i>)	State-owned company under the supervisory control of TMEB
Tianjin Urban Road Construction No.5 Company Limited (<i>note e</i>)	State-owned company under the supervisory control of TMEB
Tianjin City Construction Group (<i>note e</i>)	State-owned company under the supervisory control of TMEB
Tianjin Sewage Management Bureau	State-owned company under the supervisory control of TMEB
Tianjin Sewage Management Bureau No.2 Management Office	State-owned company under the supervisory control of TMEB
Tianjin Sewage Management Bureau No.4 Management Office	State-owned company under the supervisory control of TMEB
Tianjin Sewage 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 Company No.2 Company	State-owned company under the supervisory control of TMEB
Tianjin Road & Bridge Management Bureau	State-owned company under the supervisory control of TMEB
Tianjin Road & Bridge Management Bureau No.1 Road Management Office	State-owned company under the supervisory control of TMEB
Tianjin Road & Bridge Management Bureau No.3 Road Management Office	State-owned company under the supervisory control of TMEB
Tianjin Municipal Engineering Design Research Institute	State-owned company under the supervisory control of TMEB
Scott Willson (Tianjin) Consultancy Company	Associated Company of Tianjin Municipal Investment Co., Ltd

- (e) According to the approval by the Tianjin Municipal Government and Tianjin Finance Bureau, Tianjin Urban Road & Bridge Construction Company and other seven companies have been under the supervisory control of Tianjin Urban Construction Commission and therefore the related party relationship with the Company has been ceased effective from 1st July 2003.

30 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions with related companies during the year 2003, which were carried out in the normal course of operations of the Group.

Name of related party	Nature of transaction	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
<i>Income:</i>			
TSC	Revenue from sewage water processing services (<i>note (a)</i>)	421,048	399,665
TSC	Revenue from construction of sewage water processing plants (<i>note (b)</i>)	143,982	183,536
TMICL	Revenue from Haihe Bridge project management service (<i>note (c)</i>)	—	4,812
TMEB	Compensation for toll fee of June 2003 (<i>note (d)</i>)	<u>8,000</u>	<u>—</u>
<i>Expenses:</i>			
TURBCC	Road repair and maintenance for January to June 2003 (<i>note (e)</i>)	1,375	2,750
TMICL	Operating lease rental in respect of office premises (<i>note (f)</i>)	1,050	1,050
Scott Wilson (Tianjin) Consultancy Company	Consulting expenses for water processing and road project (<i>note (g)</i>)	<u>840</u>	<u>—</u>
<i>Others:</i>			
Construction of sewage water processing plants:			
Related contractors	Amounts payable for sewage water processing plants construction costs (<i>note (h)</i>)	35,623	344,010
Disposal of fixed assets:			
TMEB	Compensation received for toll station removal (<i>note(i)</i>)	<u>32,563</u>	<u>—</u>

Notes:

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

30 RELATED PARTY TRANSACTIONS (Cont'd)

- (d) This represents compensation from TMEB for toll fee revenue of June 2003 as a consequence of old toll stations being demolished.
- (e) According to a road repair and maintenance agreement, Tianjin Urban Road & Bridge Construction Company ("TURBCC"), shall provide road repair and maintenance services to the Company in relation to the South-eastern Half Ring Road for fees based on the rates prescribed in the Index For Estimation of Repair and Maintenance Costs For National Urban Construction (Jian She Bu Cheng [1993] No. 412) issued by the Ministry of Construction of the PRC, from time to time.
- (f) The operating lease rentals were paid to the controlling shareholder based on signed office premises leasing agreements. According to the agreements, the Company leases certain properties from the controlling shareholder as its office premises for a total annual rentals of Rmb 1,050,000 (2002: Rmb1,050,000), and such rentals will be adjusted every three years based on the then market rentals determined by an independent valuer.
- (g) This represents the consulting fees paid to Scott Wilson (Tianjin) Consultancy Company for the services of sewage water processing and toll station project provided.
- (h) This represents the construction costs incurred in respect of the sewage water processing plants for the year ended 31st December 2003 and payable to the following related contractors:

Name of related parties	2003 Rmb'000	2002 Rmb'000
Tianjin Urban Road & Bridge Co., Ltd. (January to June 2003)	160	—
Tianjin Urban Road Construction No.1 Co., Ltd. (January to June 2003)	—	1,654
Tianjin Urban Road Construction No.2 Co., Ltd. (January to June 2003)	5,601	63,125
Tianjin Urban Road Construction No.3 Co., Ltd. (January to June 2003)	2,584	8,992
Tianjin Urban Road Construction No.5 Co., Ltd. (January to June 2003)	944	47,827
Tianjin City Construction Group Co., Ltd. (January to June 2003)	10,116	195,820
Tianjin Sewage Management Bureau	—	300
Tianjin Sewage Management Bureau No.2 Management Office	—	1,300
Tianjin Sewage Management Bureau No.4 Management Office	—	1,000
Tianjin Sewage Management Bureau No.8 Management Office	1,724	—
Tianjin Sewage Engineering Company	4,716	8,767
Tianjin Sewage Engineering No.2 Company	—	750
Tianjin Road & Bridge Management Bureau	2,415	569
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	7,363	12,900
	<hr/>	<hr/>
Total	35,623	344,010
	<hr/> <hr/>	<hr/> <hr/>

- (i) This represents an amount received from TMEB by the Company as one-off compensation for demolishing the old toll stations based on their net book value as at 30th June 2003.
- (j) The toll station 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 with 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.

31 DIRECTORS' REMUNERATION

The Company and its subsidiaries have paid an aggregate remuneration (including salaries, housing allowance and other allowance) of Rmb 2,169,000 to the Company's directors and paid retirement benefits of Rmb 19,000 for the Company's directors, totalling Rmb 2,188,000 for the year ended 31st December 2003 (2002: Rmb 2,517,000). The total amount includes directors' fees of Rmb 689,000 (2002: Rmb 715,000) paid to independent non-executive directors during the year.

32 SIGNIFICANT EVENT

Pursuant to the 22nd meeting of the Second Board of Directors held on 28th February 2002, the Board of Directors proposed to issue "A Share" convertible bonds of total amount not more than Rmb 1,200 million at par value. The par value of each convertible bond is Rmb 100 and the bonds will mature in 5 years. The proposal was approved at the 10th annual general meeting by the shareholders held on 16th April 2002. At the Company's 11th annual general meeting of the shareholders held on 8th April 2003, it was resolved to extend the expiry period of the issuance of "A Share" convertible bonds. Currently, the Company is actively engaged in the preparation of the issuance of the convertible bonds.

33 AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

The accounts were authorised for issue by the Company's board of directors on 12th February 2004.