

Notes to the Accounts

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

1 COMPANY PROFILE AND OPERATION MODE OF PRINCIPAL ACTIVITIES

Tianjin Capital Environmental Protection Company Limited (“the Company”) was established on 8th June 1993 in the People’s Republic of China (the “PRC”) as a joint stock limited company. Its 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 12.

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:

	Xianyanglu Sewage Water Processing Plant Construction Project	Jizhuangzi Sewage Water Processing Plant Expansion Project	Beicang Sewage Water Processing Plant Construction Project
Location	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC
Daily capacity (cubic meter) upon completion of construction	450,000	280,000	100,000
Estimated date of completion	End of 2004	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 "TMICL"), the owner of the Haihe Bridge Construction Project. According to the agreement, the Company provides project management services to TMICL for the construction of Haihe Bridge and is entitled to a total sum of project management fee amounting to Rmb 10,650,000.

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

2 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). The accounts are prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2003:

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

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

The principal accounting policies adopted in the preparation of 2003 accounts are as follows:

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(b) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

In the Company’s balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(c) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation/amortisation and accumulated impairment losses, if any.

Amortisation of land use rights, other than those in relation to the road and toll stations business, is calculated to write-off their cost less accumulated impairment losses, if any, on a straight line basis over the period of land use rights of 50 years.

Depreciation of the road and amortisation of land use rights in relation to the road and toll stations business are calculated to write off their cost, less accumulated impairment losses, if any, on a units-of-usage basis whereby the depreciation and amortisation are provided based on the share of actual traffic volume for a particular period over the projected total traffic volume throughout the period of 30 years for which the right to operate the road is granted. It is the policy of the road and toll stations business to review regularly the projected total traffic volume throughout the operating periods of the road. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustments will be made should there be a material change in the projected total traffic volume.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Fixed assets (Cont'd)

Depreciation of leasehold buildings and structures is calculated to write-off their cost less accumulated impairment losses, if any, on a straight-line basis over the unexpired periods of the leases, the unexpired periods of the rights to operate the road and the toll stations or their expected useful lives, whichever is shorter. The periods adopted for depreciation range from 10 to 50 years.

Other tangible fixed assets are depreciated at rates sufficient to write-off the cost less accumulated impairment losses, if any, of the assets and less estimated residual value, over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

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

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

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

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. Any revaluation reserve balance being attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(f) Inventories

Inventories comprise raw materials, spare parts and consumables.

Raw materials are stated at the lower of cost and net realisable value and spare parts and consumables are stated at cost less provision for obsolescence. Cost is determined on the weighted average basis.

(g) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Revenue recognition

Revenue from sewage water processing 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 a qualified independent surveyor or engineers in the PRC.

Toll fee income is recognised on a receipt basis.

Haihe Bridge project management fee income is recognised based on the percentage of completion during the construction period of the Haihe Bridge. The percentage of completion is determined with reference to the certification of a qualified independent surveyor or engineers in the PRC.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

2 PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(i) Repair and maintenance expenses

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

(j) Borrowing costs

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

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

(k) Retirement benefits

The Group participates in a defined contribution pension scheme organised by the Tianjin Municipal Government whereby the Group is required to make contributions at 20% of the salaries of employees for the year. According to the scheme, the local municipal government has undertaken to assume the retirement benefits obligations of all existing and future retired employees of the Group. The Group's contributions under the scheme are charged to the profit and loss account as incurred.

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

2 PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(n) Translation of foreign currencies

The Group maintains its books and records in Renminbi.

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

All exchange differences are dealt with in the profit and loss account.

3 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is currently engaged in sewage water processing, sewage water processing plants construction and road and toll stations operations.

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

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Turnover		
Revenue from sewage water processing services	397,890	377,684
Revenue from sewage water processing plants construction services	136,063	173,442
	<u>533,953</u>	<u>551,126</u>
Toll fee income	60,692	78,185
Haihe Bridge project management fees	—	4,547
	<u>594,645</u>	<u>633,858</u>
Other revenues		
Compensation income <i>(note 1 (b)(ii))</i>	5,538	—
Interest income	993	2,158
	<u>6,531</u>	<u>2,158</u>
Total revenues	<u><u>601,176</u></u>	<u><u>636,016</u></u>

Pursuant to the PRC tax rules, the business of the Group is subject to PRC business tax levied at 5% of the operating revenue and government surcharges levied at 10% of the amount of business tax. The business tax and government surcharges related to revenue derived from the business of the Group during the year ended 31st December 2003 amounted to Rmb 35,051,000 (2002: Rmb 36,891,000), and has been deducted from the operating revenue to arrive at the turnover of the Group.

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

	Sewage water processing and sewage water processing plant construction 2003 Rmb'000	Road and toll stations 2003 Rmb'000 (note)	Group 2003 Rmb'000
Turnover	<u>533,953</u>	<u>60,692</u>	<u>594,645</u>
Segment results	<u>372,287</u>	<u>40,651</u>	412,938
Taxation			<u>(136,379)</u>
Profit after taxation			276,559
Minority interests			<u>333</u>
Profit attributable to shareholders			<u>276,892</u>
Segment assets	2,588,738	585,208	3,173,946
Interest in an associated company			9,000
Investment securities			<u>4,000</u>
Total assets			<u>3,186,946</u>
Segment liabilities	1,064,957	88,263	1,153,220
Unallocated liabilities			<u>13,377</u>
Total liabilities			<u>1,166,597</u>
Capital expenditure	426,430	5,214	<u>431,644</u>
Depreciation and amortisation	42,774	9,845	<u>52,619</u>

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.

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

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

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

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Crediting:		
Compensation for road and toll stations operations, net of expenses (<i>note 1(b)(ii)</i>)	<u>5,538</u>	<u>—</u>
Charging:		
Depreciation and amortisation	52,619	50,874
Staff costs, including retirement benefit costs of Rmb 2,641,000 (2002: Rmb 3,366,000)	29,550	40,360
Repair and maintenance expenses	14,705	28,014
Management fee to Toll Fee Collection Office	3,560	—
Operating lease rentals for land and buildings	1,050	1,070
Auditors' remuneration	3,050	4,138
Loss on disposal of fixed assets	<u>498</u>	<u>1,088</u>

5 FINANCE COSTS

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Interest on bank loans and overdrafts	32,450	20,899
Less: Interest capitalised in construction-in-progress	<u>(13,108)</u>	<u>(6,328)</u>
	<u>19,342</u>	<u>14,571</u>

6 TAXATION

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

There is no unprovided deferred taxation of the Group for the year (2002: Nil).

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of Rmb 279,888,000 (2002: Rmb 288,815,000), which is dealt with in the accounts of the Company.

8 DIVIDEND

	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Final, proposed of Rmb 0.8 (2002: Rmb 0.85) per ten share	<u>106,400</u>	<u>113,050</u>

Pursuant to the Board of Directors meeting held on 12th February 2004, the Board of Directors proposed to distribute a final dividend of Rmb 0.8 (tax included) per ten shares held by shareholders, totalling Rmb 106,400,000 (2002: Rmb 0.85 (tax included) per 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 2003. The proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

9 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of Rmb 276,892,000 (2002: Rmb 287,236,000) and 1,330,000,000 shares (2002: 1,330,000,000 shares) in issue during the year.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Fees	689	715
Salaries and other emoluments	1,480	1,780
Contribution to retirement benefit scheme	19	22
	<u>2,188</u>	<u>2,517</u>

Emoluments paid to independent non-executive directors amounted to Rmb 689,000 during the year (2002: Rmb 715,000) have been included in the above balance.

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

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include 4 (2002: 3) directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2002: 2) individuals during the year are as follows:

	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Salaries and other emoluments	300	715
Contribution to retirement benefit scheme	9	14
	<u> </u>	<u> </u>
	309	729
	<u> </u>	<u> </u>

11 FIXED ASSETS**(a) Group**

	Land use rights <i>Rmb'000</i>	Road <i>Rmb'000</i>	Buildings and structures <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and others <i>Rmb'000</i>	Construction in progress <i>Rmb'000</i> <i>(note (iii))</i>	Total <i>Rmb'000</i>
Cost							
At 1st January 2003	651,098	185,418	655,877	208,788	56,536	915,949	2,673,666
Additions	74	—	45,606	72,110	9,178	304,676	431,644
Disposals	(5,655)	—	(23,706)	(7,404)	(7,129)	—	(43,894)
At 31st December 2003	<u>645,517</u>	<u>185,418</u>	<u>677,777</u>	<u>273,494</u>	<u>58,585</u>	<u>1,220,625</u>	<u>3,061,416</u>
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	<u>56,507</u>	<u>35,995</u>	<u>276,551</u>	<u>132,271</u>	<u>33,229</u>	<u>—</u>	<u>534,553</u>
Net book value							
At 31st December 2003	<u><u>589,010</u></u>	<u><u>149,423</u></u>	<u><u>401,226</u></u>	<u><u>141,223</u></u>	<u><u>25,356</u></u>	<u><u>1,220,625</u></u>	<u><u>2,526,863</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>26,441</u></u>	<u><u>915,949</u></u>	<u><u>2,180,645</u></u>

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

	Land use rights <i>Rmb'000</i>	Road <i>Rmb'000</i>	Buildings and structures <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and others <i>Rmb'000</i>	Construction in progress <i>Rmb'000</i> <i>(note (iii))</i>	Total <i>Rmb'000</i>
Cost							
At 1st January 2003	651,098	185,418	655,877	208,788	54,255	825,625	2,581,061
Additions	74	—	2,156	5,764	8,423	287,539	303,956
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>1,113,164</u>	<u>2,841,123</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>—</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>1,113,164</u></u>	<u><u>2,307,160</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>825,625</u></u>	<u><u>2,088,290</u></u>

11 FIXED ASSETS (Cont'd)

Notes:

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

	Group		Company	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Company:				
Xianyanglu Sewage Water Processing				
Plant Construction Project	413,886	281,677	413,886	281,677
Jizhuangzi Sewage Water Processing				
Plant Expansion Project	605,914	518,147	605,914	518,147
Beicang Sewage Water Processing				
Plant Construction Project	87,746	25,801	87,746	25,801
Research and Development Center Project	2,233	—	2,233	—
Jizhuangzi Office Building Project	1,242	—	1,242	—
Staff Dormitory Project	1,135	—	1,135	—
Others	1,008	—	1,008	—
	<u>1,113,164</u>	<u>825,625</u>	<u>1,113,164</u>	<u>825,625</u>
Subsidiary:				
Tianjin Jizhuangzi Sewage Water				
Recycling Project	107,461	90,324	—	—
	<u>1,220,625</u>	<u>915,949</u>	<u>1,113,164</u>	<u>825,625</u>
Borrowing cost capitalised	<u>19,436</u>	<u>6,328</u>	<u>16,749</u>	<u>6,328</u>

12 SUBSIDIARIES

	Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Unlisted investments in the PRC, at cost	<u>62,000</u>	<u>18,000</u>

Particulars of the subsidiaries at 31st December 2003 are as follows:

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

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.

13 INTEREST IN AN ASSOCIATED COMPANY

	Group		Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Share of net assets	9,000	—	—	—
Unlisted investment in the PRC, at cost	9,000	—	9,000	—

Particulars of the associated company as at 31st December 2003 are as follows:

Name	Place of incorporation and operation	Principal activities	Registered capital <i>Rmb'000</i>	Interest held directly
Tianjin Capital New Materials Co., Ltd.	Tianjin, the PRC	Manufacture of new types of sewage pipes	20,000	45%

The associated company had not commenced operation in 2003.

14 INVESTMENT SECURITIES

	Group and Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Unlisted investments in the PRC, at cost	4,000	4,000

15 INVENTORIES

	Group and Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Raw materials	1,680	2,022
Spare parts and consumables	443	418
	<u>2,123</u>	<u>2,440</u>

16 ACCOUNTS RECEIVABLE

Details of the accounts receivable are set out as follows:

	Group		Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Due from TSC				
- Revenue from sewage water processing services (<i>note 1(a)(i)</i>)	52,103	27,201	52,103	27,201
- Revenue from sewage water processing plants construction services (<i>note 1(a)(ii)</i>)	35,868	—	35,868	—
Due from Tianjin Toll Collection Office				
- Toll fee (<i>note 1(b)</i>)	19,766	—	19,766	—
Due from controlling shareholder				
- Haihe Bridge project management fee income (<i>note 1(c)</i>)	—	1,031	—	1,031
Others	—	472	—	—
	<u>107,737</u>	<u>28,704</u>	<u>107,737</u>	<u>28,232</u>

All accounts receivable are aged within one year.

17 BANK BALANCES AND CASH

	Group		Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Cash on hand and in bank	450,074	537,929	400,063	515,507
Included: Special funds for construction-in-progress	308,796	360,922	292,875	361,892

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

18 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).

19 OTHER PAYABLES

	Group		Company	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Payable to TMICL (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	25,896	30,266	26,931	30,225
	<u>231,966</u>	<u>202,808</u>	<u>164,955</u>	<u>200,879</u>

- (a) The payable to TMICL as at 31st December 2002 was unsecured, interest free and settled in 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.

20 SHORT-TERM BANK LOAN, UNSECURED

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 TMICL.

21 SHARE CAPITAL

	Company	
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered, issued and fully paid:		
990,000,000 A shares of Rmb 1 each	990,000	990,000
340,000,000 H shares of Rmb 1 each	340,000	340,000
	<u>1,330,000</u>	<u>1,330,000</u>

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

The Company established a Sponsored Level 1 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.

22 RESERVES**(a) Group**

	Capital reserve fund	General reserves	Retained earnings	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>(note (i))</i>	<i>(note (ii))</i>		
At 1st January 2002	69,289	41,250	233,749	344,288
Profit for the year	—	—	287,236	287,236
Transferred from profit and loss account to:				
- statutory common reserve <i>(note (ii))</i>	—	28,723	(28,723)	—
- statutory provident fund <i>(note (ii))</i>	—	14,362	(14,362)	—
- Dividend payable	—	—	(106,400)	(106,400)
	<u>69,289</u>	<u>84,335</u>	<u>371,500</u>	<u>525,124</u>
At 31st December 2002				
Representing:				
Retained earnings at 31st December 2002			258,450	
2002 proposed final dividend			113,050	
			<u>371,500</u>	
At 31st December 2002				
At 1st January 2003	69,289	84,335	371,500	525,124
Profit for the year	—	—	276,892	276,892
Transferred from profit and loss account to:				
- statutory common reserve <i>(note (ii))</i>	—	27,689	(27,689)	—
- statutory provident fund <i>(note (ii))</i>	—	13,845	(13,845)	—
- dividend payable	—	—	(113,050)	(113,050)
	<u>69,289</u>	<u>125,869</u>	<u>493,808</u>	<u>688,966</u>
At 31st December 2003				
Representing:				
Retained earnings at 31st December 2003			387,408	
2003 proposed final dividend			106,400	
			<u>493,808</u>	
At 31st December 2003				

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

	Capital reserve fund	General reserves	Retained earnings	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>(note (i))</i>	<i>(note (ii))</i>		
At 1st January 2002	69,289	41,250	234,731	345,270
Profit for the year	—	—	288,815	288,815
Transferred from profit and loss account to:				
- statutory common reserve <i>(note (ii))</i>	—	28,723	(28,723)	—
- statutory provident fund <i>(note (ii))</i>	—	14,362	(14,362)	—
- dividend payable	—	—	(106,400)	(106,400)
	<u>69,289</u>	<u>84,335</u>	<u>374,061</u>	<u>527,685</u>
At 31st December 2002				
Representing:				
Retained earnings at 31st December 2002			261,011	
2002 proposed final dividend			113,050	
			<u>374,061</u>	
At 31st December 2002				
At 1st January 2003	69,289	84,335	374,061	527,685
Profit for the year	—	—	279,888	279,888
Transferred from profit and loss account to:				
- statutory common reserve <i>(note (ii))</i>	—	27,689	(27,689)	—
- statutory provident fund <i>(note (ii))</i>	—	13,845	(13,845)	—
- dividend payable	—	—	(113,050)	(113,050)
	<u>69,289</u>	<u>125,869</u>	<u>499,365</u>	<u>694,523</u>
At 31st December 2003				
Representing:				
Retained earnings at 31st December 2003			392,965	
2003 proposed final dividend			106,400	
			<u>499,365</u>	
At 31st December 2003				

22 RESERVES (Cont'd)

Note:

- (i) Capital reserve fund comprises share premium arising from the issuance of shares. Amounts in capital reserve fund can be utilised to offset prior years' losses or for issuance of bonus shares.
- (ii) The general reserves comprise the statutory common reserve and the statutory provident fund.

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

The Company's directors have proposed to transfer 10% and 5% of the net profit of the Company for 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.

- (iii) The distributable reserve available to the Company as at 31st December 2003 amounted to Rmb 499,365,000 (2002: Rmb 374,061,000) before the proposed final dividend for the year ended 31st December 2003.

23 LONG-TERM LIABILITIES

	Group		Company	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Bank loans (note (a))	690,000	500,000	630,000	500,000
Specific payables (note (b))	81,652	66,676	—	—
	<u>771,652</u>	<u>566,676</u>	<u>630,000</u>	<u>500,000</u>
Less: Long-term bank loans repayable within one year included under current liabilities	(50,000)	—	(50,000)	—
	<u>721,652</u>	<u>566,676</u>	<u>580,000</u>	<u>500,000</u>

(a) Long-term bank loans include:

- (i) 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.

23 LONG-TERM LIABILITIES (Cont'd)

(a) Long-term bank loans include: (Cont'd)

- (ii) A long-term loan of Rmb 50,000,000 (2002: Nil) obtained from China Everbright Bank for the purpose of financing the construction of the Sewage Plant Construction Projects. The 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.
- (iii) A long-term loan of Rmb 60,000,000 (2002: Nil) obtained by the Company's subsidiary, Tianjin Water Recycling Co., Ltd, from China Everbright Bank, for the financing of the installation of water pipes for recycled water. The interest rate is 5.02% per annum. The loan is guaranteed by TMICL.

The long-term loans are repayable as follows:

	Group		Company	
	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	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
	<u>690,000</u>	<u>500,000</u>	<u>630,000</u>	<u>500,000</u>

- (b) 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.

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

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Profit before taxation	412,938	428,536
Depreciation and amortisation	52,619	50,874
Loss on disposal of fixed assets	498	1,088
Interest income	(993)	(2,158)
Interest expense	19,342	14,571
	<hr/>	<hr/>
Operating profit before working capital changes	484,404	492,911
Decrease in inventories	317	74
(Increase)/decrease in accounts receivable and other receivables and prepayments	(82,671)	100,327
Decrease in accounts payable, advances from customers and other payables	(12,744)	(75,120)
	<hr/>	<hr/>
Net cash inflow generated from operations	<u>389,306</u>	<u>518,192</u>

(b) Analysis of changes in financing during the year

	Minority interests		Short-term bank loan and long-term liabilities	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
At 1st January	1,716	1,891	596,676	36,200
New short-term bank loans	—	—	50,000	30,000
New long-term bank loans	—	—	200,000	—
Increase in specific payables	—	—	—	30,476
Repayment of a short-term bank loan	—	—	(30,000)	—
Share of loss of a subsidiary	(333)	(175)	—	—
Transfer of bank loan upon completion of the acquisition of construction-in-progress projects	—	—	—	500,000
Others	—	—	(24)	—
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December	<u>1,383</u>	<u>1,716</u>	<u>816,652</u>	<u>596,676</u>

25 COMMITMENTS

(a) Capital commitments

	Group		Company	
	2003	2002	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for (<i>note (i)</i>)	190,725	146,710	184,209	134,968
Authorised but not contracted for (<i>note (ii)</i>)	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 <i>Rmb'000</i>	Amount invested as at year end <i>Rmb'000</i>
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>

25 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 leased from the controlling shareholder as follows:

	Group		Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	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>

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

26 RELATED PARTY TRANSACTIONS (Cont'd)

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 TMICL, details of which are set out in note 1(c). TMICL is the controlling shareholder of the Company and is under the supervisory control of TMEB.
- (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. TURBCC was under the supervisory control of TMEB up to 30th June 2003.
- (f) The operating lease rentals were paid to the controlling shareholder pursuant to the terms of the office premises leasing agreements. According to the agreements, the Company leases certain properties from TMICL as its office premises for a total annual rentals of Rmb 1,050,000 (2002: Rmb 1,050,000), 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. Scott Wilson (Tianjin) Consultancy Company is an associated company of TMICL.
- (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, which are all under the supervisory control of TMEB:

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
	<u>35,623</u>	<u>344,010</u>

26 RELATED PARTY TRANSACTIONS *(Cont'd)*

- (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.

27 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.

28 ULTIMATE HOLDING COMPANY

The directors of the Company regard Tianjin Municipal Investment Company Limited as being the ultimate holding company.

29 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 12th February 2004.