

Major Events

1. During the year 2003, there is no litigation or arbitration that is material to the Company.
2. Summary and progress of the Company's acquisitions and sale of assets, merger and combination during the reporting period:

During the reporting period, the Company established a 70% subsidiary – Guizhou Capital Water Co., Ltd. in October 2003. The company entered into the "Asset Transfer Agreement of Guiyang Xiaohe Sewage Water Treatment Plant" with Guiyang State-owned Asset Management Company on 10th December 2003. At present, the transition of work of the sewage treatment plant has been completed. The relevant transfer of accounts was underway. The Xiaohe Sewage Water Treatment Plant commenced trial operation on 1st January 2004.

3. Significant connected transactions
 - (1) The sewage water processing business is conducted according to a Sewage Water Processing Agreement entered into on 10th October 2002, 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 TMEB, at prices to be determined in accordance with a pricing formula stipulated in the agreement. The pricing formula effectively allows the sewage water processing business to fully recover the actual operating costs, including depreciation and amortisation of fixed assets but excluding interest expenses and foreign exchange gains or losses, and to earn a return of 15% per annum of the average balance of the monthly net book value of fixed assets (as defined in the agreement) of the sewage water processing operations, and incentive pricing adjustments for cost saving and/or when actual processing volume exceeds the minimum processing volume stipulated in the agreement. During the reporting period, the Company processed 218,160,000 cubic meters of sewage water. In accordance with the Sewage Water Processing Agreement entered into with TSC, the Company received sewage processing fee of Rmb 421,048,000.

3. Significant connected transactions (*Cont'd*)

- (2) Pursuant to a Sewage Water Plants Construction Fee Agreement (“Construction Fee Agreement”) entered into between the Company and TSC on 24th September 2001, the Company provides sewage water processing plant construction services to TSC in respect of the construction, including the funding requirements, of the Xianyanglu Sewage Water Processing Plant, Jizhuangzi (Expansion) Sewage Water Processing Plant and Beicang Sewage Water Processing Plant (the “Sewage Plant Construction Projects”). According to the Construction Fee Agreement, TSC will pay and the Company will charge a fee during the construction period of the Sewage Plant Construction Projects, as a reward to remunerate the Company. The aggregate construction fees payable to the Company for the above Sewage Plant Construction Projects amount to approximately Rmb 1,170,000,000, which represents 23.7% of the simple yearly/period average of the estimated construction costs to be incurred during the construction period from 24th September 2001 to the respective dates of completion and commissioning of operations of each of the sewage water 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. Pursuant to the agreement referred to above, during the reporting period, the construction work completed for the construction-in-progress of Beicang Sewage Water Treatment Plant, Xianyanglu Sewage Water Treatment Plant and the expansion project of the Jizhuangzi Sewage Water Treatment Plant amounted to approximately Rmb 282,000,000. The company recognized construction fee of Rmb 143,982,000 in accordance with Sewage Water Plants Construction Fee Agreement.
- (3) On 24th September 2001, the Company entered into the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring with Tianjin Municipal Investment Company Limited, the controlling shareholder of the Company. The controlling shareholder is the owner of the Haihe Bridge Construction Project at present. According to the agreement, the Company provided project management services to the controlling shareholder and was entitled to a total sum of project management fee amounting to Rmb 10,650,000. Pursuant to the Termination Agreement regarding the Haihe Bridge Management Agreement in respect of the Southeastern Half Ring entered into by the Company and the controlling shareholder on 29th April 2003, both parties agreed to terminate the project management agreement from 1st January 2003, where the construction of Haihe Bridge project was suspended since the same date. Up to 31st December 2002, 70.8% of the construction work for Haihe Bridge was completed and the Company recognized management fee income for Haihe Bridge in a total of Rmb 7,542,000.
- (4) During the reporting period, the Company received a compensation made by TMEB for the toll income from the demolished former toll stations in June of Rmb 8,000,000.

3. Significant connected transactions (*Cont'd*)

- (5) Pursuant to the Road Repair and Maintenance Agreement, Tianjin Urban Road and Bridge Construction Company ("TURBCC") provides maintenance and repair service of the Southeastern Half Ring Road for the Company and charges the Company for fees based on the rates prescribed under the Index for Estimation of Repair and Maintenance Costs for National Urban Construction (Jian She Bu Cheng [1993] No.412) issued by the Ministry of Construction from time to time.
- (6) Between 1st January 2003 and 31st December 2003, the sewage processing infrastructure cost incurred by the Company and payable to the related parties amounted to Rmb 35,623,000.
- (7) During the reporting period, the Company received a one-off cash compensation made by TMEB in an amount equivalent to the net book value of the assets of the demolished toll stations as at 30th June 2003 of Rmb 32,563,000.
- (8) During the reporting period, the Company contributed Rmb 9,000,000, and jointly established Tianjin Capital New Materials Company Limited with Tianjin Sewage Engineering Company and Tianjin Senyuan Technology Development Company Limited. The capital contributed represented 45% of its registered capital. Tianjin Sewage Engineering Company was an enterprise under Tianjin Sewage Management Bureau. As Tianjin Sewage Management Bureau and Tianjin Municipal Investment Company Limited, the controlling shareholder of the Company, are both under supervisory control of the TMEB, this transaction constitutes a connected transaction. For details, please refer to the relevant announcements published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 25th July 2003.

The independent directors of the Company confirm that the above transactions are entered into in accordance with normal commercial terms.

4. Significant contracts and status of implementation

During the reporting period, the Company properly complied with the terms of various business contracts and there was no significant dispute arising from these contracts.

- (1) During the reporting period, the Company did not hold in custody, hire or lease any assets, and there is no company that hold in custody, hire or lease any assets of the Company.
 - (2) During the reporting period, the Company did not enter into any guarantees.
 - (3) During the reporting period, the Company did not enter into any trust arrangement with any third party for financial management matters. There is no future planning for trust arrangement relating to the financial management matters.
5. During the reporting period or remaining effective up to the reporting period, the Company or shareholders who are interested in more than 5% of the total issued share capital of the Company had not published any matters of commitments in the designated newspapers and websites.

6. During the reporting period, the Company re-appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers, Certified Public Accountants, as auditors of the Company. Up to the end of the reporting period, PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. has provided auditing services for the Company for nine consecutive years. Pursuant to the requirements under the "Provision concerning regular switch of certified public accountant in charge providing audit services for securities and futures" (Zheng Jian Hui Ji Zi [2003] No. 13), the Company has switched the certified public accountant in charge of its audit work in 2003 in compliance with the relevant provisions. Remunerations paid to the auditors during recent two years are as follows:

	2003	2002	Notes
	<i>Rmb</i>	<i>Rmb</i>	
Audit and financial services fees	3,050,000	4,138,000	The amount does not include other expenses such as the trip expenses mentioned below
Other fees	20,990	35,900	For the year ended 31st December 2003, the Company paid other fees of Rmb 20,990 to the auditors of the Company, which represent the reimbursement of accommodation and traveling expenses incurred during the course of audit works carried out by the auditors of the Company in Tianjin. The directors of the Company confirm that the payment of such fees will not impair the independence of the auditors of the Company

7. During the reporting period, the Company, the Company's board of directors, directors and senior management were not subject to any review by the CSRC, administrative penalty and criticism through written notice from the CSRC, criticism through reprimandment in public by the stock exchanges.
8. There were no sale of the Company's shares by the directors, supervisors and senior management of the Company during the period. Details of the shareholding of the directors, supervisors and senior management of the Company are set out on pages 45 and 46 of the annual report.
9. Other significant events:
- (1) The 2001 annual general meeting of the Company, and class meeting for holders of Company's domestic shares and H Shares were held on 16th April 2002 respectively. The resolutions for the issue of A Shares Convertible Bonds amounting to not more than Rmb 1,200,000,000 and the specific terms for the issue of A Shares Convertible Bonds were approved in the meetings (please refer to the announcement published on 17th April 2002 in Shanghai Securities, Hong Kong Wen Wei Po and The Standard). The proposal on the extension of the maturity period for the issue of A Shares Convertible Bonds of the Company was considered and approved in the 29th Meeting of the Second Board held on 26th February 2003. As at the end of the reporting period, the Company has actively arranged for the approval procedure of the CSRC.

9. Other significant events: *(Cont'd)*

- (2) During the reporting period, after the Company was successful in integrating its management systems and obtained the certification of ISO9001, ISO14001, OHSAS18001 in 2002, the Company was awarded the Quality Certification on the Operating Assets of Environmental Protection Facilities as reviewed by National Environmental Protection Bureau in September 2003. It becomes a good model on management for other large State-owned enterprises and listed companies in Tianjin after the entrance into WTO and establishes a sound foundation of the Company's expansion and provision of services for the market nationwide.
- (3) During the reporting period, the Company has established a Sponsored Level I American Depository Receipts (the "ADR") Program with the Bank of New York (as the Depository Bank) on 23rd December 2003 (New York Time). For details, please refer to the announcements published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard dated 27th October 2003.