

IMPORTANT

The board (“Board”) of directors (the “Directors”) of Tianjin Capital Environmental Protection Company Limited (the “Company”) confirmed that the information in this report does not contain any false information, misleading statements or material omissions, and accept joint and several responsibility for the truthfulness, accuracy and completeness of the content.

Ms. Ma Baiyu, the Chairman, Mr. Gu Qifeng, the general manager, Mr. An Pindong, the financial controller, and Ms. Shi Zhenjuan, the manager of the financial department, have declared that they are responsible for the truthfulness and completeness of the financial statements contained in the 2004 interim report.

The financial statements in the interim report prepared in accordance with the Accounting Principles Generally Accepted in Hong Kong have been reviewed by the audit committee of the Company and PricewaterhouseCoopers but have not been audited.

I. COMPANY PROFILE

1. Company name

Chinese name	天津創業環保股份有限公司 (the “Company”)
Abbreviation of the Chinese name	創業環保
English name	Tianjin Capital Environmental Protection Company Limited
Abbreviation of the English Name	TCEPC

2. Information about the Company’s listed shares

Place for listing of A Shares	Shanghai Securities Exchange (“SSE”)
Short form	Tianjin Capital
Stock code	600874
Place for listing of convertible bonds	SSE
Short form	Tianjin Convertible Bonds
Convertible Bonds code	110874
Place for listing of H Shares	The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”)
Short form	Tianjin Capital
Stock code	1065

3. Company address

Registered and principal office address	No. 45 Guizhou Road Heping District Tianjin The People’s Republic of China (the “PRC”)
Postal code	300051
Website	http://www.tjcep.com
E-mail address	tjcep@tjcep.com

4. Legal representative

Ms. Ma Baiyu

I. COMPANY PROFILE

5. Secretary to the Company's Board of Directors and Secretary in Hong Kong

Secretary to the Board of Directors	Ms. Fu Yana
Correspondence address	No. 45 Guizhou Road Heping District Tianjin The PRC
Postal code	300051
Telephone number	86-22-2352 3036
Facsimile number	86-22-2352 3100
E-mail address	fu_yn@tjcep.com
Company Secretary in Hong Kong	Mr. Ip Pui Sum
Correspondence address	Flat A, E, F, 16/F Yardley Commercial Building No. 3 Connaught Road West Sheung Wan Hong Kong
Telephone number	852-2803 2373
Facsimile number	852-2540 6365
E-mail address	ip_ps@tjcep.com
Securities Affairs Representative	Mr. Gu Wenhui
Correspondence address	No. 45 Guizhou Road Heping District Tianjin The PRC
Postal code	300051
Telephone number	86-22-2352 3036
Facsimile number	86-22-2352 3100
E-mail address	gu_wh@tjcep.com

I. COMPANY PROFILE

6. Designated media for the Company's announcement

Newspapers for the Company's announcement	Shanghai Securities, Hong Kong Wen Wei Po and The Standard
(1) Website for the Company's interim report	
Website as required by the China Securities Regulatory Commission ("CSRC") for the Company's interim report	http://www.sse.com.cn
Website as required by Hong Kong Stock Exchange for the Company's interim report	http://www.hkex.com.hk
(2) Place where the Company's interim report is available for inspection	Office of the Secretary to the Board of Directors No. 45 Guizhou Road Heping District Tianjin the PRC Postal code: 300051

7. Other information

Place of initial business registration	No. 10 Hubei Road, Heping District, Tianjin, the PRC
Date of initial business registration	8th June 1993
Date of change in registration	26th August 1998, 8th January 2001, 23rd July 2001 and 25th February 2003
Place of change in registration	No. 45 Guizhou Road, Heping District, Tianjin, the PRC
Number of business licence of enterprise legal person	Qi Gu Jin Zong Zi No. 009079
State tax registration number	Guo Shui Jin Zi 120101103065501
Local tax registration number	Di Shui Jin Zi 120101103065501
Agent for custody of the Company's non-circulating shares	China Securities Registration Company Shanghai Branch
Auditors appointed by the Company	
(1) PRC auditors	PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd.
Correspondence address	11th Floor PricewaterhouseCoopers Center 202 Hu Bin Road Shanghai 200201 the PRC
(2) International auditors	PricewaterhouseCoopers Certified Public Accountants
Correspondence address	22/F, Prince's Building Central Hong Kong

II. ACCOUNTING DATA AND BUSINESS STATISTICS HIGHLIGHTS

1. In accordance with the Accounting Standards and the Accounting Regulations for Business Enterprises in the PRC (collectively “PRC GAAP”), the Company and its subsidiaries (the “Group”) achieved a net profit of Rmb144,138,000 during the reporting period. Details of the major financial indicators for the reporting period together with the comparative figures of the corresponding period and the last year are as follows:

	As at 30th June 2004	As at 31st December 2003	Percentage(%) Increase
	<i>Rmb'000</i>	<i>Rmb'000</i>	
Current assets	674,987	647,083	+4.31
Current liabilities	563,129	444,945	+26.56
Total assets	3,336,652	3,186,946	+4.70
Shareholders' equity (excluding minority interests)	2,056,704	2,018,966	+1.87
Net asset value per share	Rmb1.55	Rmb1.52	+1.97
Adjusted net asset value per share	Rmb1.55	Rmb1.52	+1.97
	Six months ended 30th June 2004	2003	Percentage(%) Increase(+) Decrease(-)
	<i>Rmb'000</i>	<i>Rmb'000</i>	
Net profit	144,138	116,409	+23.82
Net profit excluding extraordinary items (<i>note 1</i>)	147,358	116,519	+26.47
Earnings per share (weighted average)	Rmb0.11	Rmb0.09	+22.22
Earnings per share (diluted) (<i>note 2</i>)	Rmb0.11	Rmb0.09	+22.22
Return on net assets	7%	6%	+1.00
Net cash flows from operating activities	87,009	139,273	-37.53

Notes:

- (1) Extraordinary items include net non-operating expenses of Rmb3,220,000.
- (2) There is no change in the number of the issued share capital of the Company during the reporting period. As a result, the weighted average earnings per share is equal to fully diluted earnings per share.
2. During the reporting period, the net profit of the Group as prepared in accordance with the Accounting Principles Generally Accepted in Hong Kong (“HK GAAP”) was Rmb144,138,000. There was no difference in the amount of net profit and net assets between accounts prepared under PRC GAAP and HK GAAP.

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

1. STRUCTURE OF SHARE CAPITAL

There is no change in the structure of the Company's share capital and number of shares of the Company during the reporting period.

2. SHAREHOLDERS

- (1) Number of shareholders at the end of the period

As at 30th June 2004, the Company had 26,358 shareholders including 26,230 domestic shareholders and 128 foreign shareholders.

- (2) As at 30th June 2004, the following shareholders had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

Name of shareholder	Capacity	Number and class of shares (Note)	Approximate percentage of interest
Tianjin Municipal Investment Company Limited	Beneficial owner	839,020,000 state shares (L)	63.084%

Note: The Letter "L" represents the entity's interest in the shares of the Company.

- (3) As at 30th June 2004, the top ten shareholders of the Company are as follows:

Name of shareholders	Increase(+)/ Decrease(-) during the reporting period	Number of shares held at the end of the reporting period	Percentage to total share capital (%)	Class (listed/unlisted)	Number of shares pledged or frozen	Type of shares (State shares or foreign shares)
Tianjin Municipal Investment Company Limited	Nil	839,020,000	63.084	Unlisted	Nil	State shares
HKSCC Nominees Limited	+1,111,900	336,546,900	25.304	Listed	Unknown	Foreign shares
Bohai Securities	Individual shares	7,714,564 (including 7,614,564 individual shares and 100,000 legal person shares)	0.580	7,614,564 shares- listed/ 100,000 shares - unlisted	Unknown	Individual shares and legal person shares
Shen Tie Jing Fa	Nil	3,500,000	0.263	Unlisted	Unknown	Legal person shares
ICBC Guolian-an Desheng Focus Security Fund	Unknown	3,480,160	0.262	Listed	Unknown	Individual shares
China Southern Securities Co., Ltd.	Nil	2,725,000	0.205	Unlisted	2,725,000 shares frozen	Legal person shares
Shanghai Baoshan Iron & Steel Plant Equipment Inspection Co.	+1,011,530	2,076,762	0.156	Listed	Unknown	Individual shares
Galaxy Securities	Nil	1,500,000	0.113	Unlisted	Unknown	Legal person shares
Shanghai Enterprise Pension Development Center China Capital Balance Fund	Unknown	1,217,866	0.092	Listed	Unknown	Individual shares
Liaoning Shennong	Nil	1,000,000	0.075	Unlisted	Unknown	Legal person shares

Notes:

- Pursuant to the register of the shareholders of the Company as provided by the HKSCC Nominees Limited, H Shares were held on behalf of various clients' accounts. There was no client who was interested in 5% or more of the total issued share capital of the Company.
- The top ten shareholders were not strategic investors of the Company.
- There is no relationship and no parties acting in concert between the largest shareholder and the 2nd to 10th largest shareholders. However, it is not certain whether there are any such relationships among the 2nd to 10th largest shareholders.
- The securities of China Southern Securities Co., Ltd. have been withheld as collateral by China Securities Depository and Clearing Corporation Limited because of insufficient funds due for settlement.

III. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

2. SHAREHOLDERS (Cont'd)

(4) The top ten shareholders of the Company holding listed shares as at 30th June 2004 were as follows:

Name of shareholders	Number of listed shares held as at 30th June 2004	Type of shares (A, B, H shares or others)
HKSCC Nominees Limited	336,546,900	H Shares
Bohai Securities	7,614,564	A Shares
ICBC Guolian-an Desheng Focus Security Fund	3,480,160	A Shares
Shanghai Baoshan Iron & Steel Plant Equipment Inspection Co.	2,076,762	A Shares
Shanghai Enterprise Pension Development Center China Capital Balance Fund	1,217,866	A Shares
Shanghai Capital Investment Co., Ltd.	881,955	A Shares
AVSC	770,229	A Shares
Zeng Binhuang	695,000	A Shares
Wang Duanting	674,200	A Shares
HSBC Nominees (HK) Limited	656,000	H Shares

Notes:

- (1) Pursuant to the register of the shareholders of the Company as provided by the HKSCC Nominees Limited, H Shares were held on behalf of various clients' accounts. There was no client who was interested in 5% or more of the total issued share capital of the Company.
- (2) It is not certain whether there are any such relationships among the 1st to 10th largest shareholders holding listed shares.
- (3) It is not certain whether there are any such relationships among the top ten shareholders holding listed shares.

3. CONTROLLING SHAREHOLDER

Tianjin Municipal Investment Company Limited (the "TMICL") holds 839,020,000 shares in the Company, representing approximately 63.084% of the Company's share capital and is the Company's largest shareholder (the "Controlling Shareholder"). During the reporting period, there was no change in the controlling shareholder of the Company.

IV. DIRECTORS, SUPERVISORS AND MEMBERS OF THE SENIOR MANAGEMENT OF THE COMPANY

1. MOVEMENTS IN THE COMPANY'S SHARE CAPITAL HELD BY THE DIRECTORS, SUPERVISORS, MEMBERS OF SENIOR MANAGEMENT OFFICERS OF THE COMPANY DURING THE REPORTING PERIOD

Mr. Wang Zhanying, a Director, held shares of the Company. There was no change to his shareholding during the reporting period.

Mr. Nie Youzhuang, a supervisor, held shares of the Company. There was no change to his shareholding during the reporting period.

Other Directors, supervisors and members of the senior management of the Company do not hold any shares of the Company.

As at 30 June 2004, so far as is known to the Directors, none of the Directors, chief executives and supervisors of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company and any associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules (the "Listing Rules") Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited to be notified to the Company and Hong Kong Stock Exchange.

2. APPOINTMENT OR REMOVAL OF DIRECTORS, SUPERVISORS, MEMBERS OF THE SENIOR MANAGEMENT OFFICERS DURING THE REPORTING PERIOD

In the Fourth Meeting of the Third Board held on 25th March 2004, the resolutions in respect of appointment of Mr. Chan Yuk Hiu as the qualified accountant of the Company. The relevant announcement was published in Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 26th March 2004.

During the reporting period, there is no change of other Directors, supervisors and members of the senior management of the Company.

V. MANAGEMENT DISCUSSION AND ANALYSIS

1. ANALYSIS ON THE MAJOR OPERATING RESULTS AND FINANCIAL CONDITIONS OF THE GROUP

During the reporting period, development for various businesses of the Company remained steady. The existing sewage water processing plant continued to operate safely and efficiently. Construction works for three sewage water processing plants in operation proceeded smoothly in accordance with the plans as determined earlier this year. With respect to the Company's research centre, staff has reported their duties and equipment were installed with activities commenced. The application for the issue of A Share Convertible Bond of Rmb1.2 billion was approved in the seventeenth working meeting of the Issue Review Committee of CSRC held on 5th April 2004 and the bond was listed on Shanghai Stock Exchange on 19th July 2004.

During the reporting period, income from principal operations, profit from principal operations, net profit, total assets and shareholders' equity increased as compared with the same period last year, with the percentage set out in Table 1 and Table 2:

Table 1 Comparison on the operating results of the Company between the reporting period and the corresponding period last year

Item	Six months ended 30th June		Percentage (%) increase(+)/decrease(-)
	2004 Rmb'000	2003 Rmb'000	
Income from principal operations	333,837	274,846	+21.46
Profit from principal operations	251,658	193,662	+29.95
Net profit	144,138	116,409	+23.82
Net decrease in cash and cash equivalents	(61,335)	(7,422)	-726.39

Table 2 Comparison on the assets and shareholders' equity of the Company between the reporting period and the same period last year

Item	As at	As at	Percentage (%) increase
	30th June 2004 Rmb'000	31st December 2003 Rmb'000	
Total assets	3,336,652	3,186,946	+4.70
Shareholders' equity	2,056,704	2,018,966	+1.87

Explanatory reasons:

- (1) Growth in profit was mainly derived from the contribution of increase in income.
- (2) Growth in income was mainly attributable to the official commissioning of Guizhou Capital Water Company Limited, a subsidiary of the Company acquired in 2004, where income from the processing of sewage water increased by a certain percentage as compared with the same period last year. Moreover, as the completion of the expansion works for Xianyanglu Sewage Water Processing Plant and Jizhuangzi Sewage Water Processing Plant will be substantially completed by the end of 2004, income from the construction of sewage water processing plant will definitely be higher than that in the last year, as a result of the acceleration in the progress for the construction of the sewage water processing plant.
- (3) A decrease in cash and cash equivalents was recorded, which was mainly attributable to the reduction in bank borrowings by the Company.
- (4) An increase in total assets was recorded, which was mainly attributable to the increase in construction under progress with respect to the Company's sewage water processing plant.

V. MANAGEMENT DISCUSSION AND ANALYSIS

2. SCOPE OF THE PRINCIPAL BUSINESSES OF THE GROUP AND ITS OPERATING CONDITION

The principal businesses of the Group are (i) the design, management, operation, technological consultation of Dongjiao Sewage Water Processing Plant and Jizhuangzi Sewage Water Processing Plant, Beicang Sewage Water Processing Plant and Xianyanglu Sewage Water Processing Plant in Tianjin, the PRC, and their related infrastructure facilities and auxiliary services; (ii) the design, toll collection, repair and maintenance, management, technological consultation of toll roads and auxiliary services in relation to the operation of the Southeastern Half Ring Road of the Middle Ring of Tianjin; and (iii) the development and operation of environmental protection technology and products.

(1) Operations of the sewage water processing and construction of sewage water processing plants

The income for sewage water processing is derived from the “Sewage Water Processing Agreement” entered into between the Company and Tianjin Sewage Company (“Sewage Company”). During the reporting period, the two sewage water processing plants in Tianjin processed a total of 115,083,210 cubic meters in total of sewage water, slightly increase as compared with 114,622,879 cubic meters of sewage water processed during the corresponding period in last year. During the reporting period, the Company received an income of Rmb222,110,595 from the business of sewage water processing in accordance with the “Sewage Water Processing Agreement”.

During the reporting period, a river sewage water processing plant under Guizhou Capital Water Company Limited, a subsidiary of the Company, processed sewage water of 12,957,954 cubic metres, and received sewage water processing fee of Rmb10,884,681.

The income of sewage water processing plant business was generated from the Agreement on the Construction Fee for the Expansion Project of the Sewage Water Processing Plant entered into between Sewage Company and the Company on 24th September 2001. During the reporting period, the construction in progress for the three expansion works having completed amounted to Rmb132,815,440 and the Company recognised income of Rmb68,697,501 in accordance with project progress. As at the end of the reporting period, invitation of tenders for the purchase and installation of equipment financed by loans from foreign banks with respect to the expansion of Jizhaungzi Sewage Water Processing Plant and Xianyanglu Sewage Water Processing Plant were all completed. The equipment were delivered successively and it is now arranging for the installation of equipment in accordance with the schedule.

(2) Operations of toll business

During the reporting period, Rmb32,144,000 was recorded as income from the Company’s toll road business. Since the Company’s toll collection arrangement has changed from direct toll collection at toll stations to subcontracting of toll collection, there is no material change on its toll station business.

V. MANAGEMENT DISCUSSION AND ANALYSIS

3. BUSINESSES OR PRODUCTS ACCOUNTING FOR MORE THAN 10% OF THE PRINCIPAL BUSINESS

During the reporting period, income from the processing of sewage water and construction of sewage water processing plant of the Company accounted for 90.37% and 9.63% of the total income from its principal operations. Income, costs and gross profit margin of such businesses as compared with the same period last year were set out in Table 3:

Table 3 Description of the Principal Operations of the Company

Business	Principal operating income <i>Rmb'000</i>	Principal operating costs <i>Rmb'000</i>	Gross profit margin %	Percentage increment(+) reduction(-) of principal operating income as compared with the previous year %	Percentage increment(+) reduction(-) of principal operating costs as compared with the previous year %	Percentage increment(+) reduction(-) of gross profit margin as compared with the previous year %
Sewage water processing and construction of sewage water processing plants	301,693	57,001	81.11	+23.57	+6.06	+4.00
Road and toll stations	32,144	7,393	77.00	+4.74	-37.79	+25.65
Of which: Connected Transactions	290,808	51,115	82.42	+19.11	-4.89	+5.68

Basis for determination of pricing for connected transactions: Pricing was determined in accordance with normal commercial terms

Explanatory reasons:

- (1) During the reporting period, increase was recorded in the income from the sewage water processing business of the Company which was mainly attributable to the official commissioning of Guizhou Capital Water Company Limited in 2004. Turnover from sewage water processing for the first half of 2004 amounted to Rmb10,884,681.
- (2) After the reform on toll collection, operating costs were reduced as a result of implementing toll collection by way of subcontracting for new toll stations. This in turn increased the gross profit margin for the toll road business. However, there is no significant effect on the net income of such business.

4. THE DESCRIPTION OF SINGLE INVESTEE COMPANY ATTRIBUTING TO 10% OR MORE OF THE COMPANY'S NET PROFIT

The companies in which the Company has controlling interests include Tianjin Water Recycling Company Limited, Tianjin Capital New Materials Company Limited and Guizhou Capital Water Co., Ltd. The companies in which the Company has non-controlling interests include Tianjin Beifang Rencaigang Company Limited and Tianjin Baotong Light Mass Materials Company Limited. There is no single investee company in which the Company has non-controlling investment interests attributing to 10% or more of the Company's net profit.

V. MANAGEMENT DISCUSSION AND ANALYSIS

5. PROBLEMS AND DIFFICULTIES OCCURRED DURING THE COURSE OF OPERATION

Faced with the intensive competition of the water business market at present, a strategy seminar was held by the Company in June this year with themes of “understanding the position, unifying the thoughts and expanding proactively”. The purpose of the seminar was to gain an in-depth understanding as to the existing state and features of the water business market in the PRC, to analyze on the advantages and shortfalls of the Company and to cultivate core competitiveness. At the same time, the Company will devote more efforts in the development of markets. Whilst emphasis will be placed on the expansion of scale for sewage water treatment by the Company, by leveraging on the advantages in the operation and management of sewage water treatment, endeavours will be used to establish a company for water operation. Quality and stable operation and management services will be provided to customers under a professional and standardized model. Operating efficiency for the water facilities will be enhanced, which will in turn secure unique market niche and room of development for the Company, and create new profit centres.

6. INVESTMENTS

(1) Use of proceeds

During the reporting period, the Company did not raise any funds, or no balance of funds raised in the previous years was brought forward to the reporting period.

(2) Actual progress and revenue of major investment made out of funds other than proceeds from subscriptions

During the reporting period, the Company’s major investments made out of funds other than proceeds from subscriptions were: the construction in progress for the three construction works of Jizhuangzi Sewage Water Processing Plant, Xianyanglu Sewage Water Processing Plant and Beicang Sewage Water Processing Plant. During the reporting period, actual work completed amounted to Rmb132,815,440. An income of Rmb68,697,501 was recognised by the Company in accordance with the project progress. As at 30th June 2004, the stage of completion for these three expansion works (including those completed prior to acquisition) were as follows:

58.33% for Jizhuangzi Sewage Water Treatment Plant, 44.15% for Xianyanglu Sewage Water Treatment Plant, 26.06% for Beicang Sewage Water Treatment Plant.

7. STATUS OF COMPLETION AGAINST THE FORECASTED OR PLANNED SCHEDULE

Installation of equipment, trial commissioning and commissioning with respect to the expansion of Jizhuangzi Sewage Water Treatment Plant and the construction of Xianyanglu Sewage Water Treatment Plant of the Company are expected to be completed before the end of this year.

VI. MAJOR EVENTS

1. Conditions of corporate governance

In compliance with the relevant laws, rules and regulations of both the PRC and Hong Kong, the Company devotes a lot of efforts to improve the corporate governance structure of the Company under the system of legal person, so as to achieve standardisation on the operations of the Company, enhancement of information disclosure and outstanding investor relations management.

Pursuant to the recently amendments to the Listing Rules, the Board employed a full-time certified public accountant on 25th March 2004 to ensure that the relevant financial statements and other accounting issues were in compliance with the requirements of the Hong Kong Stock Exchange, and to advise on financial management and internal control, enhancing governance on the operations.

In respect of the regulatory documents regarding listed companies issued by the CSRC, during the reporting period, the Company completed self-inspection on internal control system and shareholdings of the substantial shareholders, and reported to the regulatory department within its jurisdiction.

2. Adoption and implementation of the profit distribution plan during the reporting period

The profit distribution plan for 2003 was approved in the 2003 Annual General Meeting. On the basis of 1,330,000,000 shares comprising the total share capital as at 31st December 2003, cash dividend of Rmb0.08 (including tax) per share was paid to the shareholders of Domestic Shares, and Rmb0.08 (including tax) representing HK\$ 0.07535 (including tax) per share was paid to the shareholders of H Shares. The Company announced the payment of dividend on 14th May 2004. Ex-dividend date was 19th April 2004. The Company published an announcement of dividend distribution of H Shares on 7th June 2004 in Hong Kong. The registration of entitlement was on 23rd June 2004. The dividends of Domestic Shares and H Shares have completed distribution on 28th May 2004 and 6th July 2004, respectively.

3. The Company did not declare any profit distribution and the transfer of welfare funds to share capital for the reporting period.
4. There was no litigation and arbitration which was material to the Company that occurred during the reporting period or occurred in the previous period and subsisting during the period.
5. During the reporting period, there was no acquisition and disposal of major assets, and reorganization of assets by the Company that commenced in the previous period and subsisting during the period.
6. Significant connected transactions during the reporting period

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

- (1) The sewage water processing business of the Company in the Tianjin district has been conducted in accordance with a Sewage Water Processing Agreement entered into on 10th October 2000. Pursuant to that agreement, Dongjiao Sewage Water Processing Plant and Jizhuangzi Sewage Water Processing Plant provided sewage water processing services to Tianjin Sewage Company ("TSC") at prices to be determined in accordance with a pricing formula stipulated in the agreement. TSC is a state-owned enterprise established in the PRC, and is under the supervisory control of Tianjin Municipal Engineering Bureau ("TMEB"). 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, income from the sewage water processing business obtained by the Company in accordance with the Sewage Water Processing Agreement entered into with TSC was Rmb222,110,595.

VI. MAJOR EVENTS

- (2) The Company entered into a Sewage Water Plants Construction Fee Agreement (“Construction Fee Agreement”) with TSC on 24th September 2001, pursuant to which 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 fee payable to the Company is calculated from the sum, 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. On this basis, the aggregate construction fees payable to the Company for the above Sewage Plant Construction Projects amount to approximately Rmb 1,170 million. Pursuant to the Construction Fee Agreement, 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. At the same time, pursuant to the Construction Fee 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. During the reporting period, income received by the Company from the Sewage Plant Construction Projects was Rmb68,697,501.
- (3) During the reporting period, the Company entered into the Office Leasing Agreement with Tianjin Municipal Investment Company Limited. Office leasing fees payable to controlling shareholders of the Company was Rmb525,000.

The independent non-executive Directors have confirmed that the above transactions were entered in the ordinary and usual course of business of the Group and conducted on normal commercial terms and/or in accordance with the terms of the agreements governing such transactions.

7. Significant contracts and status of implementation

- (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 had neither entered into any guarantees nor had guarantees that occurred in the previous period and subsisting during the period.
- (3) During the reporting period, the Company had neither entered into any trust arrangement with any third party for cash and asset management nor had any such arrangement that occurred in the previous period and subsisting during the period.

8. During the reporting period, the Company or shareholders who are interested in more than 5% of the total issued capital of the Company neither had published any matters of commitments in the designated newspapers and websites that may be material nor had such commitments that occurred in the previous period and subsisting during the period.

9. Financial assistance provided by the Company to the controlling shareholder and their subsidiaries.

As at 30th June 2004, there is no financial assistance provided by the Company to the controlling shareholder and their subsidiaries.

10. Explanation and independent opinions of independent non-executive Directors in respect of accumulated and current external guarantees granted by the Company, guarantee not complying with relevant regulations, and execution of relevant provisions under Notice No. 56

The opinion of the independent non-executive Directors were as follows: Upon our careful examination, we did not find that the Company has provided any guarantee to its controlling shareholder and other connected parties as at the end of the reporting period. There is no guarantee that are not complying with relevant regulations and no situation that renders the breach of relevant provisions under Notice No. 56.

VI. MAJOR EVENTS

11. Other major events

- (1) During the reporting period, the application of the issue of A Share Convertible Bonds of the Company of Rmb1.2 billion was considered and approved by the Department of Public Offering Supervision of CSRC in the 17th work meeting, and was publicly offered on 1st July 2004. "Capital Convertible Bonds" (Convertible Bonds Code: 110874) was listed on the Shanghai Stock Exchange on 19th July 2004.
- (2) During the reporting period, the Company applied to the Hong Kong Stock Exchange for renewal of waiver of the ongoing connected transactions as stated in the announcement of the Company dated 8th April 2004. The new cap amount of the waiver was approved in the Second Extraordinary General Meeting on 15th June 2004. The waiver will expire on 31st December 2006.
- (3) During the reporting period, the Company entered into a cooperative framework agreement with Chibi Municipal Construction Bureau on 18th May 2004 and intended to finance, construct and operate Chibi Sewage Treatment Plant by way of BOT (Build-Operate-Transfer) model, and acquire and operate No. 1 Water Plant, No. 2 Water Plant and Pufang Water Plant from Chibi Water Supply Corporation by way of TOT (Transfer-Operate-Transfer) model. The parties thereto shall commence further studies on the substance of such agreement and the Company will issue further announcement in compliance with the relevant requirements.

12. Index on material information disclosed

- (1) The Company announced the resolutions passed in the Third Meeting of the Third Board, resolutions passed in the Second Meeting of the Third Supervisory Committee and notice for the 2003 Annual General Meeting on 13th February 2004. The announcements were published on page 21 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, where it can be searched by inputting the Company's stock code in "Listed companies information search" (same as below), page A20 of Wen Wei Po in Hong Kong and page B14 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (2) The Company announced the resolutions passed in the Fourth Meeting of the Third Board on 26th March 2004. The announcements were published on page 21 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page B20 of Wen Wei Po in Hong Kong and page N39 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (3) The Company announced the resolutions passed in the 2003 Annual General Meeting and the 12th Shareholders' General Meeting on 31st March 2004. The announcements were published on page 52 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page A26 of Wen Wei Po in Hong Kong and page N26 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (4) The Company announced the results on the review of application to issue A Share Convertible Bond on 6th April 2004. The announcements were published on page 52 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page A9 of Wen Wei Po in Hong Kong and page B34 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (5) The Company announced the renewal of ongoing connected transactions waiver on 13th April 2004. The announcements were published on page 44 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page A10 of Wen Wei Po in Hong Kong and page B30 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.

VI. MAJOR EVENTS

- (6) The Company announced the resolutions passed in the Fifth Meeting of the Third Board on 15th April 2004, which were related to the convening of the Extraordinary General Meeting for 2004 and the amendment of certain terms of the issue of the Company's A Share Convertible Bonds. The announcements were published on page 48 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page A36 of Wen Wei Po in Hong Kong and page B19 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (7) The Company announced the resolutions passed in the Sixth Meeting of the Third Board on 30th April 2004 and published the notice relating to the convening of the Second Extraordinary General Meeting of the Company in 2004. The announcements were published on page 56 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page E4 of Wen Wei Po in Hong Kong and page B32 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (8) The Company announced the implementation of profit appropriation plan for Domestic Shares of the Company and the resolutions passed in the Seventh Meeting of the Third Board on 14th May 2004. The announcements were published on page 21 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page B8 of Wen Wei Po in Hong Kong and page B26 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (9) The Company announced the Cooperative Framework Agreement entered into between the Company and Chibi Municipal Construction Bureau on 19th May 2004. The announcements were published on page 29 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page B4 of Wen Wei Po in Hong Kong and page B26 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (10) The Company announced the resolutions passed at the 2004 Extraordinary General Meeting and the Class Meetings for the holders of Domestic Shares and H Shares on 1st June 2004. The announcements were published on page 22 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page B4 of Wen Wei Po in Hong Kong and page B18 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (11) The Company announced the implementation plan for the distribution of final dividends of H Shares on 8th June 2004. The announcements were published on page A25 of Wen Wei Po in Hong Kong and page B11 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.
- (12) The Company announced the poll results of the Second Extraordinary General Meeting in 2004 on 16th June 2004. The announcements were published on page 32 of Shanghai Securities, the website of the Shanghai Stock Exchange at www.sse.com.cn, page B4 of Wen Wei Po in Hong Kong and page A329 of The Standard and the website of the Hong Kong Stock Exchange at www.hkex.com.hk.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

BALANCE SHEETS

AS AT 30TH JUNE 2004

	Notes	Group		Company	
		Unaudited 30th June 2004 <i>Rmb'000</i>	Audited 31st December 2003 <i>Rmb'000</i>	Unaudited 30th June 2004 <i>Rmb'000</i>	Audited 31st December 2003 <i>Rmb'000</i>
ASSETS					
CURRENT ASSETS					
Cash and bank balances	3	388,739	450,074	346,843	400,063
Accounts receivable	4	173,038	107,737	169,366	107,737
Other receivables	5	2,596	2,854	2,530	5,401
Prepayments to suppliers	6	108,196	84,295	108,051	82,932
Inventories	7	2,418	2,123	2,410	2,123
Total current assets		<u>674,987</u>	<u>647,083</u>	<u>629,200</u>	<u>598,256</u>
LONG-TERM INVESTMENTS					
Long-term equity investments	8	<u>13,000</u>	<u>13,000</u>	<u>74,613</u>	<u>69,443</u>
FIXED ASSETS AND CONSTRUCTION IN PROGRESS					
Fixed assets - cost		1,841,262	1,840,791	1,726,633	1,727,959
Less: Accumulated depreciation		<u>(560,685)</u>	<u>(534,553)</u>	<u>(555,749)</u>	<u>(533,963)</u>
Fixed assets - net book value	9	1,280,577	1,306,238	1,170,884	1,193,996
Construction in progress	10	<u>1,368,088</u>	<u>1,220,625</u>	<u>1,253,681</u>	<u>1,113,164</u>
Total fixed assets and construction in progress		<u>2,648,665</u>	<u>2,526,863</u>	<u>2,424,565</u>	<u>2,307,160</u>
TOTAL ASSETS		<u><u>3,336,652</u></u>	<u><u>3,186,946</u></u>	<u><u>3,128,378</u></u>	<u><u>2,974,859</u></u>

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

BALANCE SHEETS (Cont'd)

AS AT 30TH JUNE 2004

	Notes	Group		Company	
		Unaudited 30th June 2004 Rmb'000	Audited 31st December 2003 Rmb'000	Unaudited 30th June 2004 Rmb'000	Audited 31st December 2003 Rmb'000
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term loans	11	145,000	45,000	145,000	45,000
Accounts payable	12	6,857	5,779	2,354	4,116
Advances from customers	13	69,018	75,577	68,344	75,199
Welfare payable		7,866	6,834	7,685	6,505
Dividend payable	14	1,385	1,647	1,385	1,647
Taxes payable	15	30,941	45,608	30,932	45,599
Other accruals		214	711	204	702
Other payables	16	248,814	207,543	182,736	140,879
Accrued expenses		3,034	6,246	3,034	6,246
Portion of long-term liabilities due within one year	17	50,000	50,000	50,000	50,000
Total current liabilities		563,129	444,945	491,674	375,893
LONG-TERM LIABILITIES					
Long-term loans	17	630,000	640,000	580,000	580,000
Specific payables	18	84,406	81,652	—	—
Total long-term liabilities		714,406	721,652	580,000	580,000
TOTAL LIABILITIES		1,277,535	1,166,597	1,071,674	955,893
MINORITY INTERESTS		2,413	1,383	—	—
SHAREHOLDERS' EQUITY					
Share capital	19	1,330,000	1,330,000	1,330,000	1,330,000
Capital reserve fund	20	69,289	69,289	69,289	69,289
General reserves	20	125,869	125,869	125,869	125,869
Including:					
Statutory common reserve		83,912	83,912	83,912	83,912
Statutory provident fund		41,957	41,957	41,957	41,957
Undistributed profits	21	531,546	493,808	531,546	493,808
Total shareholders' equity		2,056,704	2,018,966	2,056,704	2,018,966
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		3,336,652	3,186,946	3,128,378	2,974,859

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

PROFIT AND LOSS ACCOUNTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Notes	Group		Company	
		Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>
INCOME FROM PRINCIPAL OPERATIONS	22	333,837	274,846	322,953	274,846
Less: Costs for principal operations	22	(64,394)	(65,628)	(58,508)	(65,628)
Business tax and surcharges	22	(17,785)	(15,556)	(17,785)	(15,556)
PROFIT FROM PRINCIPAL OPERATIONS		251,658	193,662	246,660	193,662
Add: Profit from other operations	23	1,402	5,811	118	5,602
Less: Administrative expenses		(27,310)	(16,607)	(24,173)	(15,203)
Financial expenses - net	24	(7,844)	(9,129)	(7,899)	(9,147)
OPERATING PROFIT		217,906	173,737	214,706	174,914
Less: Investment gain/(loss)	25	—	—	2,170	(1,059)
Add: Non-operating income		80	—	80	—
Less: Non-operating expenses	26	(3,300)	(110)	(3,300)	(110)
TOTAL PROFIT		214,686	173,627	213,656	173,745
Less: Income tax	2(s)	(69,518)	(57,336)	(69,518)	(57,336)
Minority interests		(1,030)	118	—	—
NET PROFIT		144,138	116,409	144,138	116,409

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

PROFIT APPROPRIATION STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Notes	Group		Company	
		Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>
NET PROFIT		144,138	116,409	144,138	116,409
Add: Undistributed profits at beginning of the period		493,808	371,500	493,808	371,500
PROFITS AVAILABLE FOR APPROPRIATION		637,946	487,909	637,946	487,909
Less: Transfer to statutory common reserve	20(b)	—	—	—	—
Transfer to statutory provident fund	20(b)	—	—	—	—
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		637,946	487,909	637,946	487,909
Less: Dividend payable		(106,400)	(113,050)	(106,400)	(113,050)
UNDISTRIBUTED PROFITS AT THE END OF THE PERIOD	21	531,546	374,859	531,546	374,859

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

CASH FLOW STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Group		Company	
	Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash inflows:				
Cash received from rendering of services	256,421	255,383	248,914	254,831
Other cash received relating to operating activities	2,217	21,755	198	21,584
Sub-total of cash inflows	<u>258,638</u>	<u>277,138</u>	<u>249,112</u>	<u>276,415</u>
Cash outflows:				
Cash paid for goods and services	(30,635)	(31,963)	(29,232)	(32,030)
Cash paid to and on behalf of employees	(17,619)	(16,920)	(16,152)	(16,959)
Taxes paid	(104,586)	(78,311)	(104,582)	(78,314)
Other cash paid relating to operating activities	(18,789)	(10,671)	(12,896)	(9,015)
Sub-total of cash outflows	<u>(171,629)</u>	<u>(137,865)</u>	<u>(162,862)</u>	<u>(136,318)</u>
Net cash flows from operating activities	<u>87,009</u>	<u>139,273</u>	<u>86,250</u>	<u>140,097</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash inflows:				
Other cash received relating to investing activities	466	522	410	504
Cash outflows:				
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(115,280)	(156,747)	(112,430)	(148,587)
Cash paid to invest in a subsidiary company	—	—	(3,000)	—
Sub-total of cash outflows	<u>(115,280)</u>	<u>(156,747)</u>	<u>(115,430)</u>	<u>(148,587)</u>
Net cash flows from investing activities	<u>(114,814)</u>	<u>(156,225)</u>	<u>(115,020)</u>	<u>(148,083)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash inflows:				
Cash received from borrowings	100,000	150,000	100,000	90,000
Cash received relating to other financing activities	2,754	14,984	—	—
Sub-total of cash inflows	<u>102,754</u>	<u>164,984</u>	<u>100,000</u>	<u>90,000</u>
Cash outflows:				
Cash repayments of amounts borrowed	(10,000)	(30,000)	—	—
Cash payments for distribution of dividends or profits	(105,122)	(111,403)	(105,122)	(111,403)
Cash payments for interest expenses	(21,162)	(14,051)	(19,328)	(14,051)
Sub-total of cash outflows	<u>(136,284)</u>	<u>(155,454)</u>	<u>(124,450)</u>	<u>(125,454)</u>
Net cash flows from financing activities	<u>(33,530)</u>	<u>9,530</u>	<u>(24,450)</u>	<u>(35,454)</u>
NET DECREASE IN CASH	<u>(61,335)</u>	<u>(7,422)</u>	<u>(53,220)</u>	<u>(43,440)</u>

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

CASH FLOW STATEMENTS (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

Supplementary Information

	Group		Company	
	Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>
(i) Reconciliation of net profit to net cash flows from operating activities				
Net profit	144,138	116,409	144,138	116,409
Add/(Less):				
Minority interests	1,030	(118)	—	—
Depreciation and amortisation of fixed assets	28,938	28,441	24,592	28,299
Losses on disposal of fixed assets	3,300	91	3,300	91
Interest expense - net	8,258	9,651	8,258	9,651
(Gain)/loss on investments	—	—	(2,170)	1,059
(Increase)/decrease in inventories	(295)	264	(287)	264
Increase in operating receivables	(65,510)	(17,691)	(59,169)	(18,189)
(Decrease)/increase in operating payables	(32,850)	2,226	(32,412)	2,513
Net cash flows from operating activities	<u>87,009</u>	<u>139,273</u>	<u>86,250</u>	<u>140,097</u>
(ii) Net decrease in cash				
Cash at end of the period	388,739	530,507	346,843	472,067
Less: Cash at beginning of the period	(450,074)	(537,929)	(400,063)	(515,507)
Net decrease in cash	<u>(61,335)</u>	<u>(7,422)</u>	<u>(53,220)</u>	<u>(43,440)</u>

The accompanying notes form an integral part of these accounts.

Ma Baiyu
Company Representative

An Pindong
Chief Accountant

Shi Zhenjuan
Accounts Preparer

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

NOTES TO THE ACCOUNTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

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 8(a).

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

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

(i) Sewage Water Processing Business

The Company

The sewage water processing business of the Company 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.

The subsidiary

The sewage water processing business of the Company’s subsidiary, Guizhou Capital Water Co., Ltd. (“Guizhou Capital”) is conducted according to a Sewage Water Processing Agreement entered into on 16th September 2004, pursuant to which the sewage water processing services are rendered by Guizhou Capital to Guiyang City Administration Bureau, at prices to be determined in accordance with a pricing formula stipulated in the agreement. The initial price is Rmb0.84 per cubic meter for the first two years and the price after two years will be determined by a pricing formula which will effectively allow the sewage water processing business to fully recover the actual business costs, including operating cost, depreciation, income tax and a return of 8% on net assets. The price might be revised after considering the factors of renovation of equipment, additional investment, power and energy and labour force etc.

(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 Rmb1,170 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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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 2003	31.3%	53.9%	23.9%
— as at 30th June 2004	41.5%	54.9%	26.1%
Construction fees recognised by the Company (Rmb' million)			
— up to 31st December 2003	185	171	63
— up to 30th June 2004	244	174	69

(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 2003, 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 followings:

- (i) A one-off cash compensation was 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 Rmb32,563,000.
- (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 Rmb5,538,000 in June 2003, representing toll fee revenue compensation of Rmb8,000,000 received, net of expenses.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

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

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

- (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.
- (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 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.

2 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. These accounts represent the interim accounts of year 2004 and therefore are prepared only up to the period ended 30th June.

(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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS

(Cont'd)

(f) Receivables and provision for doubtful debts

Receivables comprise accounts receivable and other receivables.

The Group adopts the provision method to account for the loss in bad debts.

Provision for doubtful 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 and net off the corresponding amounts of provision for doubtful 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, 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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2 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 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 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	10-40 years
Motor vehicles and others	5-15 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.

(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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS

(Cont'd)

(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 financial 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.

(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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS

(Cont'd)

(q) Foreign currency translation

Transactions denominated in foreign currencies are translated into Rmbat 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 Rmbat 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.

(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) 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) *Business tax surcharges*

Business tax 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 28).

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

2 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.

3 CASH AND BANK BALANCES

	Group		Company	
	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Cash on hand	54	31	33	13
Cash in bank	388,685	450,043	346,810	400,050
Included: Special funds for construction in progress	<u>206,769</u>	<u>308,796</u>	<u>203,142</u>	<u>292,875</u>
Total	<u>388,739</u>	<u>450,074</u>	<u>346,843</u>	<u>400,063</u>

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

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

4 ACCOUNTS RECEIVABLE

	Group		Company	
	30th June 2004	31st December 2003	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Ageing analysis of accounts receivable is as follows:				
Within one year	173,038	107,737	169,366	107,737
Less: Provision for doubtful debts	—	—	—	—
Net accounts receivable	<u>173,038</u>	<u>107,737</u>	<u>169,366</u>	<u>107,737</u>
Details of the accounts receivable are set out as follows:				
Due from Guiyang City Administration Bureau				
— Revenue from sewage water processing services (note 1(a)(i))	3,672	—	—	—
Due from TSC				
— Revenue from sewage water processing services (note 1(a)(i))	55,610	52,103	55,610	52,103
— Revenue from sewage water processing plants construction services (note 1(a)(ii))	97,683	35,868	97,683	35,868
Due from Tianjin Toll Collection Office				
— Toll fee (note 1(b))	16,073	19,766	16,073	19,766
Total	<u>173,038</u>	<u>107,737</u>	<u>169,366</u>	<u>107,737</u>

All accounts receivable were aged within one year, most of which were from one related company, TSC, therefore no provision for bad debts were made. There were no accounts receivable as at 30th June 2004 from any of the Company's shareholders who hold 5% or more of voting shares.

5 OTHER RECEIVABLES

	Group		Company	
	30th June 2004	31st December 2003	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Ageing analysis of other receivables is as follows:				
Within 1 year	2,596	2,854	2,530	5,401
Less: Provision for doubtful debts	—	—	—	—
Net other receivables	<u>2,596</u>	<u>2,854</u>	<u>2,530</u>	<u>5,401</u>

As at 30th June 2004, there were no other receivables from any of the Company's shareholders who hold 5% or more of voting shares.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

6 PREPAYMENTS TO SUPPLIERS

	Group		Company	
	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Prepayment for purchase of a building	105,411	82,000	105,411	82,000
Others	2,785	2,295	2,640	932
Total	<u>108,196</u>	<u>84,295</u>	<u>108,051</u>	<u>82,932</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.

Prepayment of Rmb60,000,000 for purchasing the new office building was aged over one year, however, the Directors of the Company believed the new office building would be put into use in second half of this year, hence, no provision for doubtful debts was made. As at 30th June 2004, there were no prepayments to any of the Company's shareholders which hold 5% or more of the voting shares.

7 INVENTORIES

	Group		Company	
	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Raw materials	2,150	1,680	2,150	1,680
Spare parts and consumables	268	443	260	443
Less: Provision for loss on net realisable value	—	—	—	—
Net book value	<u>2,418</u>	<u>2,123</u>	<u>2,410</u>	<u>2,123</u>

8 LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Investment in subsidiary companies (note (a))	—	—	61,613	56,443
Investment in an associated company (note (b))	9,000	9,000	9,000	9,000
Other long-term equity investments (note (c))	4,000	4,000	4,000	4,000
Net book value	<u>13,000</u>	<u>13,000</u>	<u>74,613</u>	<u>69,443</u>

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

8 LONG-TERM EQUITY INVESTMENTS (Cont'd)

(a) Investment in subsidiary companies

Name	Registered capital Rmb'000	Interest held		Principal activities	Place of registration and operation	Type
		Directly %	Indirectly %			
Guizhou Capital Water Co., Ltd. ("Guizhou Capital")	100,000	70%	—	Development and construction of municipal sewage water plant and water plants, and provide 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

During 2003, the Company and a foreign company invested jointly to establish Guizhou Capital Water Company Limited ("Guizhou Capital"). As at 30th June 2004, the Company has injected capital of Rmb47,000,000. Guizhou Capital has commenced production in early 2004.

Pursuant to the approval by the Board of Directors of the Company on 8 July 2004, the Company agreed with this foreign company to transfer 25% of its 30% equity interest in Guizhou Capital to the Company in accordance with the articles of association of the Guizhou Capital and the provisions of the relevant laws and regulations. The equity interest of the Company in Guizhou Capital will be increased from 70% to 95% accordingly. The relevant transfer procedures are still in process.

(b) Investment in an associated company

Name of associated company	Group and Company	
	Percentage of interest in registered capital %	Cost Rmb'000
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 Company Limited and Rmb9,000,000, 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 has already commenced its operation since May 2004 .

Pursuant to the approval by the Board of Directors of the Company on 8 July 2004, the Company entered in the Capital Increase Agreement with Tianjin Sewage Engineering and Senyuan Technology in respect of the increase of registered capital in Tianjin Capital New Materials Co., Limited. Pursuant to the Capital Increase Agreement, the registered capital of Tianjin Capital New Materials Co., Limited would be increased from Rmb20,000,000 to Rmb40,000,000. According to the agreement, the Company agreed to make additional capital contributions as registered capital of this company in the amount of Rmb17,500,000. After the injection of capital, the Company's accumulated contributions to the registered capital of Tianjin Capital New Materials Co., Limited will be increased to Rmb26,500,000 and representing 66.25% of the registered capital of this company.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

8 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>

9 FIXED ASSETS AND ACCUMULATED DEPRECIATION/AMORTISATION

	Group					Total Rmb'000
	Land use rights Rmb'000	Road Rmb'000	Buildings and structures Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and others Rmb'000	
Cost						
At 31st December 2003	645,517	185,418	677,777	273,494	58,585	1,840,791
Additions	235	—	1,060	511	4,771	6,577
Disposals	—	—	(6,106)	—	—	(6,106)
At 30th June 2004	<u>645,752</u>	<u>185,418</u>	<u>672,731</u>	<u>274,005</u>	<u>63,356</u>	<u>1,841,262</u>
Accumulated depreciation/ amortisation						
At 31st December 2003	56,507	35,995	276,551	132,271	33,229	534,553
Charge for the period	7,301	1,726	9,095	8,650	2,166	28,938
Disposals	—	—	(2,806)	—	—	(2,806)
At 30th June 2004	<u>63,808</u>	<u>37,721</u>	<u>282,840</u>	<u>140,921</u>	<u>35,395</u>	<u>560,685</u>
Net book value						
At 30th June 2004	<u>581,944</u>	<u>147,697</u>	<u>389,891</u>	<u>133,084</u>	<u>27,961</u>	<u>1,280,577</u>
At 31st December 2003	<u>589,010</u>	<u>149,423</u>	<u>401,226</u>	<u>141,223</u>	<u>25,356</u>	<u>1,306,238</u>

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

9 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, machinery and equipment Rmb'000	Motor vehicles and others Rmb'000	
Cost						
At 31st December 2003	645,517	185,418	634,327	207,148	55,549	1,727,959
Additions	235	—	1,060	496	2,989	4,780
Disposals	—	—	(6,106)	—	—	(6,106)
At 30th June 2004	<u>645,752</u>	<u>185,418</u>	<u>629,281</u>	<u>207,644</u>	<u>58,538</u>	<u>1,726,633</u>
Accumulated depreciation/ amortisation						
At 31st December 2003	56,507	35,995	276,549	132,272	32,640	533,963
Charge for the period	7,301	1,726	8,249	5,333	1,983	24,592
Disposals	—	—	(2,806)	—	—	(2,806)
At 30th June 2004	<u>63,808</u>	<u>37,721</u>	<u>281,992</u>	<u>137,605</u>	<u>34,623</u>	<u>555,749</u>
Net book value						
At 30th June 2004	<u><u>581,944</u></u>	<u><u>147,697</u></u>	<u><u>347,289</u></u>	<u><u>70,039</u></u>	<u><u>23,915</u></u>	<u><u>1,170,884</u></u>
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>

All of the Group's land use rights, road, buildings and structures are located in the PRC. As at 30th June 2004, fixed assets had no diminution in value, so no provision for impairment loss was made.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

10 CONSTRUCTION IN PROGRESS

Name of project	Budget costs (acquisition consideration included) <i>Rmb'000</i>	As at 1st January 2004 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	As at 30th June 2004 <i>Rmb'000</i>	Source of funds	Incurred costs to budget costs ratio
Xianyanglu Sewage Water Processing Plant Construction Project	1,199,720	413,886	115,740	529,626	Bank loans and self-raised fund	44.15%
Jizhuangzi Sewage Water Processing Plant Expansion Project	1,054,722	605,914	9,351	615,265	Bank loans and self-raised fund	58.33%
Beicang Sewage Water Processing Plant Construction Project	366,327	87,746	7,724	95,470	Bank loans and self-raised fund	26.06%
R&D Centre Project	16,546	2,233	1,530	3,763	Self-raised fund	22.74%
Jizhuangzi Office Building Project	5,226	1,242	1,720	2,962	Self-raised fund	56.68%
Staff Dormitory Project	8,907	1,135	1,392	2,527	Self-raised fund	28.37%
Others	—	1,008	3,060	4,068	Self-raised fund	
Total construction in progress (Company)	2,651,448	1,113,164	140,517	1,253,681		
Jizhuangzi Sewage Water Recycling Project	143,416	107,461	6,946	114,407	Specific loans, bank loans and self-raised fund	79.77%
Total construction in progress (Group)	<u>2,794,864</u>	<u>1,220,625</u>	<u>147,463</u>	<u>1,368,088</u>		
Including: Capitalised borrowing cost						
- Company		16,749	11,070	27,819		
- Group		19,436	12,904	32,340		

As at 30th June 2004, construction in progress had no diminution in value, so no provision for impairment loss was made.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

11 SHORT-TERM LOANS

	Group		Company	
	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Bank loans	<u>145,000</u>	<u>45,000</u>	<u>145,000</u>	<u>45,000</u>

The short-term loans as at 30th June 2004 comprise the unsecured loan of Rmb100,000,000 (2003: Nil) obtained from Shanghai Pudong Development Bank Tianjin Branch bearing interest rate at 5.31% per annum; and the loan of Rmb45,000,000(2003: Rmb45,000,000) obtained form Construction Bank of China Tianjin Branch and guaranteed by the Company's controlling shareholder, bearing interest rate at 5.31% (2003: 5.31%) per annum.

12 ACCOUNTS PAYABLE

As at 30th June 2004, there were no accounts payable to any of the Company's shareholders which hold 5% or more of the voting shares.

13 ADVANCES FROM CUSTOMERS

Pursuant to the Construction Fee Agreement (Note 1(a)(ii)), TSC shall pay to the Company advances totalling of Rmb117,052,000, 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 30th June 2004, advances from customers represented mainly the remaining balance of the advances (after offsetting ten percent of accumulated construction fees recognised, Rmb48,708,000, from the period from 24th September 2001 to 30th June 2004).

As at 30th June 2004, there were no advances from any of the Company's shareholders which hold 5% or more of the voting shares.

14 DIVIDEND PAYABLE

Pursuant to the 12th meeting of the Board of Directors held on 30th March 2004, the Board of Directors proposed to distribute a final dividend of Rmb0.80 (tax included) for every ten shares held by shareholders, totalling Rmb106,400,000, based on the total number of shares of 1,330,000,000 as at 31st December 2003. The final dividend of 2003 was distributed in the first half year of 2004, and was booked in the account of Dividend Payable (2003: Rmb0.85(tax included) for every ten shares held by shareholders, totalling Rmb113,050,000).

In addition, balance as at 30th June 2004 represents the dividend for prior years not yet paid to the legal person shareholders in China.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

15 TAXES PAYABLE

	Group		Company	
	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Income tax	25,436	36,623	25,436	36,623
Business tax and others	5,505	8,985	5,496	8,976
Total	<u>30,941</u>	<u>45,608</u>	<u>30,932</u>	<u>45,599</u>

16 OTHER PAYABLES

	Group		Company	
	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Construction costs payable (<i>note (a)</i>)	180,484	140,070	180,454	138,024
Payable for purchased fixed assets (<i>note (b)</i>)	66,000	66,000	—	—
Others	2,330	1,473	2,282	2,855
Total	<u>248,814</u>	<u>207,543</u>	<u>182,736</u>	<u>140,879</u>

- (a) 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 as at end of the period (Note 1(a) (ii)). As at the end of 2003, the construction costs payable included amounts of Rmb2,072,000 payable to related companies.
- (b) 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..
- (c) As at 30th June 2004, there was no other payables to the Company's shareholders which hold 5% or more of the voting shares.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

17 LONG-TERM LOANS

Long-term bank loans include:

- (a) A long-term loan of Rmb580,000,000 (2003: Rmb580,000,000) obtained from the State Development Bank, of which Rmb500,000,000 was transferred to the Company along with the acquisition of the three Sewage Plant Construction Projects. The loan has a total facility limit of Rmb740,000,000 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% (2003: 5.76%) per annum and the loan is repayable during the period from 2004 to 2011 by instalments.
- (b) A long-term loan of Rmb50,000,000 (2003: Rmb50,000,000) obtained from China Everbright Bank for the purpose of financing the construction of the Sewage Plant Construction Projects. The interest rate is 5.76%(2003: 5.76%) per annum. The loan has a total facility limit of Rmb700,000,000 and is secured by the right to receive sewage water processing fees of TSC.
- (c) A long-term loan of Rmb50,000,000 (2003: Rmb60,000,000) 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% (2003: 5.02%) per annum. The loan is guaranteed by Tianjin Municipal Investment Company Limited ("TMICL"), the controlling shareholder of the Company.

The long-term loans are repayable as follows:

	Group		Company	
	30th June 2004	31st December 2003	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable within one year	50,000	50,000	50,000	50,000
Payable in the second year	55,000	55,000	55,000	55,000
Payable in the third year to fifth year	415,000	426,000	365,000	366,000
Payable after the fifth year	160,000	159,000	160,000	159,000
Subtotal	680,000	690,000	630,000	630,000
Less: Portion of long-term liabilities due within one year	(50,000)	(50,000)	(50,000)	(50,000)
Total	<u>630,000</u>	<u>640,000</u>	<u>580,000</u>	<u>580,000</u>

18 SPECIFIC PAYABLES

Specific payables mainly include amounts totalling Rmb81,000,000 (at the end of 2003: Rmb81,000,000), 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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

19 SHARE CAPITAL

	Company	
	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered share capital		
Par value of Rmb1 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 per value Rmb1		
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 per value Rmb1		
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). 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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

20 CAPITAL RESERVE FUND AND GENERAL RESERVES

	Capital reserve fund <i>(note (a))</i> <i>Rmb'000</i>	Group and Company Statutory common reserve <i>(note (b))</i> <i>Rmb'000</i>	Statutory provident fund <i>(note (b))</i> <i>Rmb'000</i>
At 31st December 2003 and 30th June 2004	<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 30th June 2004 <i>Rmb'000</i>	Group and Company 31st December 2003 <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.

(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 decided not to make the appropriation of net profit for the six months ended 30 June 2004. The profit appropriation scheme will be decided after the 2004 annual accounts being audited.

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.

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

21 UNDISTRIBUTED PROFITS

	Group and Company <i>Rmb'000</i>
At 1st January 2004	493,808
Add: Net profit for the period	144,138
Less: Common share dividend payable- approved previous year cash dividend distribution by general shareholder meeting (<i>note 14</i>)	<u>(106,400)</u>
At 30th June 2004	<u><u>531,546</u></u>

22 INCOME FROM PRINCIPAL OPERATIONS AND SEGMENT INFORMATION

(a) Income from principal operations

	Group	
	Six months ended 30th June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Revenue from sewage water processing services	232,995	218,930
Revenue from sewage water processing plants construction services	68,698	25,226
	<u>301,693</u>	<u>244,156</u>
Sub-total	301,693	244,156
Toll fee income	32,144	30,690
	<u><u>333,837</u></u>	<u><u>274,846</u></u>

(b) Segment information

	Sewage water processing and sewage water processing plants construction	Road and toll stations	Group
	Six months ended 30th June 2004		
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Income from principal operations	301,693	32,144	333,837
Costs for principal operations	(57,001)	(7,393)	(64,394)
Business tax and surcharges	(15,994)	(1,791)	(17,785)
	<u>228,698</u>	<u>22,960</u>	<u>251,658</u>
Profit from principal operations	228,698	22,960	251,658
Less: Administrative expenses	(24,049)	(3,261)	(27,310)
Add: Financial expense - net	(6,980)	(864)	(7,844)
Others	(1,936)	118	(1,818)
	<u>195,733</u>	<u>18,953</u>	<u>214,686</u>
Total profit	195,733	18,953	214,686
Less: Income tax	(63,264)	(6,254)	(69,518)
	<u>132,469</u>	<u>12,699</u>	<u>145,168</u>
Net profit before minority interests	132,469	12,699	145,168
Minority interests	(1,030)	—	(1,030)
	<u><u>131,439</u></u>	<u><u>12,699</u></u>	<u><u>144,138</u></u>
Net profit	131,439	12,699	144,138

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

22 INCOME FROM PRINCIPAL OPERATIONS AND SEGMENT INFORMATION (Cont'd)

(b) Segment information (Cont'd)

	Sewage water processing and sewage water processing plants construction	Road and toll stations	Group
	Six months ended 30th June 2003		
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Income from principal operations	244,156	30,690	274,846
Costs for principal operations	(53,745)	(11,883)	(65,628)
Business tax and surcharges	(13,428)	(2,128)	(15,556)
Profit from principal operations	176,983	16,679	193,662
Less: Administrative expenses	(13,063)	(3,544)	(16,607)
Add: Financial (expense)/income - net	(9,204)	75	(9,129)
Others	185	5,516	5,701
Total profit	154,901	18,726	173,627
Less: Income tax	(51,156)	(6,180)	(57,336)
Net profit before minority interests	103,745	12,546	116,291
Minority interests	118	—	118
Net profit	103,863	12,546	116,409

23 PROFIT FROM OTHER OPERATIONS

Included in the profit from other operations for the six months period ended 30th June 2003 was an amount of Rmb5,538,000 which represented the compensation of Rmb8,000,000 for the Company's road and toll station business in June 2003 received from TMEB after deducting related costs (note 1(b)(ii)).

24 FINANCIAL EXPENSES - NET

	Group		Company	
	Six months ended 30th June		Six months ended 30th June	
	2004	2003	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest expense	21,162	15,717	19,328	14,675
Less: Interest capitalised	(12,904)	(6,066)	(11,070)	(5,024)
Interest expense-net	8,258	9,651	8,258	9,651
Less: Interest income	(466)	(657)	(410)	(637)
Others	52	135	51	133
	7,844	9,129	7,899	9,147

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

25 INVESTMENT INCOME/(LOSS)

	Group		Company	
	Six months ended 30th June 2004	Six months ended 30th June 2003	Six months ended 30th June 2004	Six months ended 30th June 2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Based on equity accounting share of net profit/(loss) of subsidiaries	—	—	2,170	(1,059)

26 NON-OPERATING EXPENSES

The non-operating expenses were losses on disposal of fixed assets.

27 COMMITMENTS

(a) Capital Commitments

	Group		Company	
	30th June 2004	31st December 2003	30th June 2004	31st December 2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted but not provided for (note i)	182,363	190,725	179,410	184,209
Authorised but not contracted for (note ii)	1,323,468	1,392,865	1,297,425	1,363,426
	<u>1,505,831</u>	<u>1,583,590</u>	<u>1,476,835</u>	<u>1,547,635</u>

(i) The Group amount as at 30th June 2004 comprised mainly the capital commitments of the Company in respect of the Sewage Plant Construction Projects (note1(a)(ii)) amounting to Rmb124,410,000 and in respect of the purchase of Ningfa Building as office premises and investment properties of the Company amounting to Rmb55,000,000, 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 Rmb2,953,000.

(ii) The Group amount as at 30th June 2004 comprised the capital commitments of the Company in respect of the Sewage Plant Construction Projects from 1st July 2004 to completion date amounting to Rmb1,255,998,000, 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 Rmb26,044,000, and the capital commitments of the Company in respect of the additional capital investment in Ningfa Building amounting to Rmb20,000,000.

Furthermore, the Company's Board of Directors approved the following investment project:

Project item	Principal activities	Estimated investment amount Rmb'000	Amount invested as at period end Rmb'000
Invest to construct a sewage water processing plant	Sewage water processing	52,523	—
Invest to establish two joint venture companies	Operate water related business	252,000	—
Invest in Guizhou Capital Water Co., Ltd.	Sewage water processing	95,000	47,000
Invest in Tianjin Capital New Materials Co., Ltd.	Manufacture of new materials for water pipes	26,500	9,000
		<u>426,023</u>	<u>56,000</u>

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

27 COMMITMENTS (Cont'd)

(b) Operating lease commitments

At 30th June 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises leased from TMICL as follows:

	Group		Company	
	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Payable within one year	1,050	1,050	1,050	1,050
Payable in the second to fifth year	4,200	2,400	4,200	2,400
Payable after the fifth year	3,125	5,625	3,125	5,625
	<u>8,375</u>	<u>9,075</u>	<u>8,375</u>	<u>9,075</u>

28 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	Guizhou Capital Water Co., Ltd
Place of registration:	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC	Guiyang, the PRC
Principal businesses:	Development, construction and management of municipal infrastructures	Supervisory management of the infrastructure and road construction in Tianjin	Production and sales of recycled water and equipment development	Development and construction of municipal sewage water processing plant, and provision of related consulting services for water processing facilities
Relationship with the Company:	The controlling shareholder of the Company	Supervisory controller of the Group's businesses	A subsidiary of the Company	A subsidiary of the Company
Type of enterprise:	Limited company	Government authority	Limited company	Limited Company
Legal representative:	Sun Zengyin	Sun Zengyin	Zhang Wenhui	Gu Qifeng

(b) Paid up capital of related parties that has controlling relationship and their movements

Name of enterprise	As at 1st January 2004 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	As at 30th June 2004 <i>Rmb'000</i>
	Tianjin Municipal Investment Company Limited	1,724,278	—
Tianjin Water Recycling Co., Ltd	20,000	—	20,000
Guizhou Capital Water Co., Ltd	100,000	—	100,000

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

28 RELATED PARTIES (Cont'd)

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

Name of enterprise	As at 1st January 2004		Additions		As at 30th June 2004	
	Rmb'000	%	Rmb'000	%	Rmb'000	%
Tianjin Municipal Investment Company Limited	839,020	63.08	—	—	839,020	63.08

(d) Major related parties that have no controlling relationship

<u>Name of enterprise</u>	<u>Relationship with the Company</u>
Tianjin Sewage Company	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 Road & Bridge Management Bureau	State-owned company under the supervisory control of TMEB
Tianjin Municipal Engineering Design Research Institute	State-owned company under the supervisory control of TMEB

29 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions with related companies during the six months ended 30th June 2004, which were carried out in the normal course of operations of the Group.

Name of enterprise	Nature of transaction	Six months ended 30th June	
		2004	2003
		Rmb'000	Rmb'000
Income:			
TSC	Revenue from sewage water processing services (note (a))	222,111	218,930
TSC	Revenue from construction of sewage water processing plants (note (b))	68,698	25,226
Expenses:			
Tianjin Urban Road & Bridge Construction Company	Road repair and maintenance (note (c)/(f))	—	1,375
TMICL	Operating lease rental in respect of office premises (note (d))	525	525
Others:			
Related contractors	Amounts payable for sewage water processing plants construction costs (note (e))	—	22,365

Notes:

- (a) This represents revenue derived from the sewage water processing services rendered by the Company to TSC according to the 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 Plant Construction Projects services rendered by the Company to TSC according to the Sewage Water Plants Construction Fee Agreement, details of which are set out in note 1(a)(ii).

VII. ACCOUNTS PREPARED IN ACCORDANCE WITH PRC GAAP

29 RELATED PARTY TRANSACTIONS (Cont'd)

Notes: (Cont'd)

- (c) 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 Tianjin 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 before 1st July 2003.
- (d) The operating lease rentals were paid to the controlling shareholder based on two office premises leasing agreements signed on 10th October 2000 and 7th April 2002. According to the agreements, the Company lease certain properties from the controlling shareholder as its office premises for a total annual rentals of Rmb1,050,000 (2003: Rmb1,050,000), and such rentals will be adjusted every three years based on the then market rentals determined by an independent valuer.
- (e) This represents the construction costs incurred in respect of the sewage water processing plants for the six months ended 30th June 2003 (2004: Nil) and payable to the following related contractors:

Name of related parties	Six months ended 30th June	
	2004	2003
	Rmb'000	Rmb'000
Tianjin Urban Road Construction No.2 Co., Ltd. (note(f))	—	5,601
Tianjin Urban Road Construction No.3 Co., Ltd. (note(f))	—	2,584
Tianjin Urban Road Construction No.5 Co., Ltd. (note(f))	—	944
Tianjin City Construction Group Co., Ltd. (note(f))	—	10,116
Tianjin Municipal Road & Bridge Company Limited. (note(f))	—	160
Tianjin Sewage Management Bureau No.8 Management Office	—	224
Tianjin Sewage Engineering Company	—	2,023
Tianjin Road & Bridge Management Bureau	—	629
Tianjin Municipal Engineering Design Research Institute	—	84
	<hr/>	<hr/>
Total	—	22,365
	<hr/> <hr/>	<hr/> <hr/>

- (f) According to the approval by the Tianjin Municipal Government and Tianjin Finance Bureau, Tianjin Urban Road & Bridge Construction Company and other several companies, which were previously under the supervisory control of TMEB, 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 DIRECTORS' REMUNERATION

The Company and its subsidiaries have paid an aggregate remuneration (including salaries, housing allowance and other allowance) of Rmb795,182 to the Company's directors and paid retirement benefits of Rmb9,360 for the Company's directors, totalling Rmb804,542 for the six months ended 30th June 2004 (2003: Rmb1,104,354). The total amount includes director fees of Rmb318,006 (2003: Rmb344,502) paid to independent non-executive directors during the period.

31 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 Rmb1,200 million at par value. The par value of each convertible bond is Rmb100 and the bonds will be mature in 5 years. The proposal was approved at the tenth annual general meeting by the shareholders held on 16th April 2002. The proposal of issuing "A Share" convertible bonds was approved by Committee of Examination on Application for Public Offerings (CEAPO) of China Securities Regulatory Commission (CSRC) on 5th April 2004. The "A Share" convertible bonds amounting to Rmb1,200 million were subscribed commencing on 1st July 2004 and were completed on 8th July 2004. The issuing of the bonds was according to the listing regulations issued by the relevant authorities. Upon approval, the bond was listed on Shanghai Stock Exchange on 19th July 2004.

The controlling shareholder of the Company (TMICL) sold 4,903,890 units of the bonds on 19th July 2004. Hence, TMICL currently holds remaining 1,388,760 units of the bonds, representing 11.57% of the total units of the bonds issued by the Company.

32 AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

The accounts were authorised for issue by the Company's board of directors on 19th August 2004.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF TIANJIN CAPITAL ENVIRONMENTAL PROTECTION COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have been instructed by the company to review the interim financial report set out on pages 49 to 64.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKSA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June 2004.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19th August 2004

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Note	Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>
TURNOVER	3	316,052	259,290
Cost of sales		<u>(64,394)</u>	<u>(65,628)</u>
Gross profit		251,658	193,662
Other revenues		1,868	6,468
Administrative expenses		(27,310)	(16,607)
Other operating expenses, net		<u>(3,272)</u>	<u>(245)</u>
Operating profit	4	222,944	183,278
Finance costs	5	<u>(8,258)</u>	<u>(9,651)</u>
Profit before taxation		214,686	173,627
Taxation	6	<u>(69,518)</u>	<u>(57,336)</u>
Profit after taxation		145,168	116,291
Minority interests		<u>(1,030)</u>	<u>118</u>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>144,138</u>	<u>116,409</u>
		<i>Rmb</i>	<i>Rmb</i>
EARNINGS PER SHARE	8	<u>0.11</u>	<u>0.09</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2004

	Note	Unaudited 30th June 2004 <i>Rmb'000</i>	Audited 31st December 2003 <i>Rmb'000</i>
FIXED ASSETS	9	2,648,665	2,526,863
INTEREST IN AN ASSOCIATED COMPANY		9,000	9,000
INVESTMENT SECURITIES		4,000	4,000
CURRENT ASSETS			
Inventories		2,418	2,123
Accounts receivable	10	173,038	107,737
Other receivables and prepayments	11	110,792	87,149
Bank balances and cash		388,739	450,074
		<u>674,987</u>	<u>647,083</u>
CURRENT LIABILITIES			
Accounts payable		6,857	5,779
Advances from customers		69,018	75,577
Other payables	12	266,818	231,966
Taxation payable		25,436	36,623
Current portion of long-term liabilities	14	50,000	50,000
Short term bank loans, unsecured		145,000	45,000
		<u>563,129</u>	<u>444,945</u>
NET CURRENT ASSETS		<u>111,858</u>	<u>202,138</u>
		<u>2,773,523</u>	<u>2,742,001</u>
Financed by:			
SHARE CAPITAL	13	1,330,000	1,330,000
CAPITAL RESERVE		69,289	69,289
GENERAL RESERVES		125,869	125,869
RETAINED EARNINGS		531,546	387,408
PROPOSED FINAL DIVIDEND		—	106,400
SHAREHOLDERS' FUNDS		2,056,704	2,018,966
MINORITY INTERESTS		2,413	1,383
LONG-TERM LIABILITIES	14	714,406	721,652
		<u>2,773,523</u>	<u>2,742,001</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited Six months ended 30th June 2004	Unaudited Six months ended 30th June 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
TOTAL EQUITY AS AT 1ST JANUARY	2,018,966	1,855,124
Profit for the period	144,138	116,409
Dividend	(106,400)	(113,050)
TOTAL EQUITY AS AT 30TH JUNE	<u>2,056,704</u>	<u>1,858,483</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited Six months ended 30th June 2004 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2003 <i>Rmb'000</i>
Net cash from operating activities	87,009	139,273
Net cash used in investing activities	(114,814)	(156,225)
Net cash (used in)/from financing activities	(33,530)	9,530
	<hr/>	<hr/>
Net decrease in bank balances and cash	(61,335)	(7,422)
Bank balances and cash at 1st January	450,074	537,929
	<hr/>	<hr/>
Bank balances and cash at 30th June	<u>388,739</u>	<u>530,507</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

NOTES TO THE INTERIM REPORT

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 principal activities include sewage water processing, sewage water processing plants construction and road and toll stations. The Company has two subsidiaries which are engaged in the business of production of recycled water and in sewage water processing respectively. By end of 30th June 2004, the subsidiary for production of recycled water is still in trial production and the one engaged in sewage water processing has commenced its operation since January 2004.

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

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

(i) Sewage Water Processing Business

The Company

The sewage water processing business of the Company 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.

The subsidiary

The sewage water processing business of the Company’s subsidiary, Guizhou Capital Water Co., Ltd. (“Guizhou Capital”) is conducted according to a Sewage Water Processing Agreement entered into on 16th September 2004, pursuant to which the sewage water processing services are rendered by Guizhou Capital to Guiyang City Administration Bureau, at prices to be determined in accordance with a pricing formula stipulated in the agreement. The Initial price is Rmb0.84 per cubic meter for the first two years and the price after two years will be determined by a pricing formula which will effectively allow the sewage water processing business to fully recover the actual business costs, including operating cost, depreciation, income tax and a return of 8% on net assets. The price might be revised after considering the factors of renovation of equipment, additional investment, power and energy and labour force etc.

(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 Rmb1,170 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

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 2003	31.3%	53.9%	23.9%
— as at 30th June 2004	41.5%	54.9%	26.1%
Construction fees recognised by the Company (Rmb' million)			
— up to 31st December 2003	185	171	63
— up to 30th June 2004	244	174	69

(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 2003, 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 followings:

- (i) A one-off cash compensation was 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 Rmb32,563,000.
- (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 Rmb5,538,000 in June 2003, representing toll fee revenue compensation of Rmb8,000,000 received, net of expenses.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

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

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

- (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.
- (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 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.

2 ACCOUNTING POLICIES

The unaudited condensed interim financial report is prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No.25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited.

This condensed interim financial report should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of the condensed interim financial report are consistent with those used in the annual accounts for the year ended 31st December 2003.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

3 TURNOVER AND SEGMENT INFORMATION

An analysis of the turnover and contributions to operating profit for the period by principal activities is as follows:

	Sewage water processing and sewage water processing plant construction	Road and toll stations	Group
	Six months ended 30th June 2004		
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	285,699	30,353	316,052
Segment results	195,733	18,953	214,686
Taxation	(63,264)	(6,254)	(69,518)
Profit after taxation	132,469	12,699	145,168
Minority interests	(1,030)	—	(1,030)
Profit attributable to shareholders	131,439	12,699	144,138

	Sewage water processing and sewage water plant construction	Road and toll stations	Group
	Six months ended 30th June 2003		
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	230,728	28,562	259,290
Segment results	154,901	18,726	173,627
Taxation	(51,156)	(6,180)	(57,336)
Profit after taxation	103,745	12,546	116,291
Minority interests	118	—	118
Profit attributable to shareholders	103,863	12,546	116,409

Pursuant to the PRC tax rules, the Group is subject to PRC business tax levied at 5% of operating revenue and government surcharges levied at 10% of the amount of business tax. The business tax and government surcharges related to revenues derived from the Group during the six months ended 30th June 2004 amounted to Rmb17,785,000 (2003: Rmb15,556,000) and has been deducted from the operating revenue to arrive at the turnover of the Group.

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

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Crediting:		
Compensation for road and toll stations operations, net of expenses (<i>note 1(b)(ii)</i>)	—	5,538
Charging:		
Depreciation and amortisation	28,938	28,441
Staff costs	18,064	17,932
Repair and maintenance expenses	3,032	4,573
Loss on disposal of fixed assets	3,300	91
	<u>28,938</u>	<u>28,441</u>

5 FINANCE COSTS

	Six months ended 30th June	
	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest on bank loans and overdrafts	21,162	15,717
Less: Interest capitalised in construction in progress	(12,904)	(6,066)
	<u>8,258</u>	<u>9,651</u>

6 TAXATION

No Hong Kong profits tax has been provided as the Group has no assessable profits in Hong Kong (2003: Nil). PRC income tax has been charged at 33% (2003: 33%) on the assessable profits of the Group.

7 DIVIDEND

No dividend was proposed by the Board of Directors of the Company for the six months ended 30th June 2004 (2003: Nil).

8 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of Rmb144,138,000 (2003: Rmb116,409,000) and 1,330,000,000 shares (2003: 1,330,000,000 shares) in issue during the period.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

9 FIXED ASSETS

	<i>Rmb'000</i>
As at 1st January 2004	2,526,863
Additions in construction in progress in respect of	
— Sewage Plant Construction Projects (<i>note 1(a)(iii)</i>)	132,815
— Sewage Water Recycling Project of the subsidiary	6,946
— Others	7,702
Additions of other fixed assets	6,577
Disposals	(3,300)
Depreciation and amortisation for the period	(28,938)
	<hr/>
As at 30th June 2004	<u>2,648,665</u>

10 ACCOUNTS RECEIVABLES

All accounts receivable were aged within one year.

Details of the accounts receivable are set out as follows:

	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Due from Guiyang City Administrative Bureau		
— Revenue from sewage water processing service (<i>note (a)(i)</i>)	3,672	—
Due from TSC		
— Revenue from sewage water processing services (<i>note 1(a)(i)</i>)	55,610	52,103
— Revenue from sewage water processing plant construction services (<i>note 1(a)(ii)</i>)	97,683	35,868
Due from Tianjin Toll Collection Office		
— Toll fee (<i>note 1(b)</i>)	16,073	19,766
	<hr/>	<hr/>
Total	<u>173,038</u>	<u>107,737</u>

11 OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments as at 30th June 2004 included a prepayment of Rmb105,411,000 (2003: Rmb82,000,000) to a property developer in respect of the acquisition of the Company's office premises and investment properties (*note 15*).

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

12 OTHER PAYABLES

	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Construction costs payable (<i>note (a)</i>)	180,484	140,070
Payable for purchase of fixed assets (<i>note (b)</i>)	66,000	66,000
Others	20,334	25,896
	<hr/>	<hr/>
Total	<u>266,818</u>	<u>231,966</u>

- (a) The construction costs payable represent construction costs incurred in relation to the construction of the sewage water processing plants by the Company but remained outstanding as at end of the period (note(1(a)(ii)). As at the end of 2003, the construction costs payable included amounts of Rmb2,072,000 payable to related companies.
- (b) The payable for purchase of fixed assets was the remaining balance of the Company's subsidiary-Guizhou Capital Water Co., Ltd for a sewage water processing plant purchased in 2003.

13 SHARE CAPITAL

	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered, issued and fully paid capital of Rmb1 each:		
990,000,000 A shares	990,000	990,000
340,000,000 H shares	340,000	340,000
	<hr/>	<hr/>
	<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). 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

14 LONG-TERM LIABILITIES

	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Long-term bank loans (<i>note (a)</i>)	680,000	690,000
Specific payables (<i>note (b)</i>)	84,406	81,652
	<hr/>	<hr/>
	764,406	771,652
Less: Long-term bank loans repayable within one year included under current liabilities	(50,000)	(50,000)
	<hr/>	<hr/>
	<u>714,406</u>	<u>721,652</u>

(a) Long-term bank loans include:

- (i) A long-term loan of Rmb580,000,000 (2003: Rmb580,000,000) obtained from the State Development Bank, of which Rmb500,000,000 was transferred to the Company along with the acquisition of the three Sewage Plant Construction Projects. The loan has a total facility limit of Rmb740,000,000 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's Bank of China. The prevailing interest rate is 5.76% (2003: 5.76%) per annum and the loan is repayable during the period from 2004 to 2011 by instalments.
- (ii) A long-term loan of Rmb50,000,000 (2003: Rmb50,000,000) obtained from China Everbright Bank for the purpose of financing the construction of the Sewage Plant Construction Projects. The interest rate is 5.76% (2003: 5.76%) per annum. The loan has a total facility limit of Rmb700,000,000 and is secured by the right to receive sewage water processing fees of TSC.
- (iii) A long-term loan of Rmb50,000,000 (2003: Rmb60,000,000) obtained by the Company's subsidiary, Tianjin Water Recycling Co., Ltd, from China Everbright Bank, for the purpose of financing of the installation of water pipes for recycled water. The interest rate is 5.02% (2003: 5.02%) per annum. The loan is guaranteed by Tianjin Municipal Investment Company Limited ("TMICL"), the controlling shareholder of the Company.

The long-term bank loans are repayable as follows:

	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Payable within one year	50,000	50,000
Payable in the second year	55,000	55,000
Payable in the third year to fifth year	415,000	426,000
Payable after the fifth year	160,000	159,000
	<hr/>	<hr/>
Total	<u>680,000</u>	<u>690,000</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

14 LONG-TERM LIABILITIES (Cont'd)

(b) Specific payables

Specific payables mainly include amounts totalling Rmb81,000,000 (2003: Rmb81,000,000), 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.

15 COMMITMENTS

(a) Capital commitments

	30th June 2004	31st December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracted but not provided for (note (i))	182,363	190,725
Authorised but not contracted for (note (ii))	1,323,468	1,392,865
	<u>1,505,831</u>	<u>1,583,590</u>

(i) The Group amount as at 30th June 2004 comprised mainly the capital commitments of the Company in respect of the Sewage Plant Construction Projects (note 1(a)(ii)) amounting to Rmb124,410,000 and in respect of the purchase of Ningfa Building as office premises and investment properties of the Company amounting to Rmb55,000,000, 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 Rmb2,953,000.

(ii) The Group amount as at 30th June 2004 mainly comprised the capital commitments of the Company in respect of the Sewage Plant Construction Projects from 1st July 2004 to completion date amounting to Rmb1,255,998,000, 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 Rmb26,044,000 and the capital commitments of the Company in respect of the additional capital investment in Ningfa Building amounting to Rmb20,000,000.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

15 COMMITMENTS (Cont'd)

(a) Capital commitments (Cont'd)

Furthermore, the Company's Board of Directors approved the following investment projects in 2003:

Project item	Principal activates	Estimated investment amount <i>Rmb'000</i>	Amount invested as at period end <i>Rmb'000</i>
Invest to construct a sewage water processing plant	Sewage water processing	52,523	—
Invest to establish two joint venture companies	Operate water related business	252,000	—
Invest in Guizhou Capital Water Co., Ltd.	Sewage water processing	95,000	47,000
Invest in Tianjin Capital New Materials Co., Ltd.	Manufacture of new materials for water pipes	26,500	9,000
		<u>426,023</u>	<u>56,000</u>

(b) Operating lease commitments

At 30th June 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises leased from TMICL as follows:

	30th June 2004 <i>Rmb'000</i>	31st December 2003 <i>Rmb'000</i>
Payable within one year	1,050	1,050
Payable in the second to fifth year	4,200	2,400
Payable after the fifth year	3,125	5,625
	<u>8,375</u>	<u>9,075</u>

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

16 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions with related companies during the six months ended 30th June 2004, which were carried out in the normal course of operations of the Group.

Name of enterprise	Nature of transaction	Six months ended 30th June	
		2004 Rmb'000	2003 Rmb'000
Income:			
TSC	Revenue from sewage water processing services (note (a))	222,111	218,930
TSC	Revenue from construction of sewage water processing plants (note (b))	68,698	25,226
Expenses:			
Tianjin Urban Road & Bridge Construction Company	Road repair and maintenance (note (c)/(f))	—	1,375
TMICL	Operating lease rental in respect of office premises (note (d))	525	525
Others:			
Related contractors	Amounts payable for sewage water processing plants construction costs (note (e))	—	22,365

- (a) This represents revenue derived from the sewage water processing services rendered by the Company to TSC according to the 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 Plant Construction Projects services rendered by the Company to TSC according to the Sewage Water Plants Construction Fee Agreement, details of which are set out in note 1(a)(ii).
- (c) 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 Tianjin 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 before 1st July 2003.
- (d) The operating lease rentals were paid to TMICL based on two office premises leasing agreements signed on 10th October 2000 and 7th April 2002. According to the agreements, the Company leases the buildings from TMICL as its office premises for a total annual rentals of Rmb1,050,000 (2003: Rmb1,050,000), and such rentals will be adjusted every three years based on the then market rentals as determined by an independent valuer.
- (e) This represents the construction costs incurred in respect of the sewage water processing plants for the six months ended 30th June 2003 (2004: Nil) and payable to the following related contractors:

Name of related parties	Six months ended 30th June	
	2004 Rmb'000	2003 Rmb'000
Tianjin Urban Road Construction No.2 Co., Ltd.(note (f))	—	5,601
Tianjin Urban Road Construction No.3 Co., Ltd.(note (f))	—	2,584
Tianjin Urban Road Construction No.5 Co., Ltd.(note (f))	—	944
Tianjin City Construction Group Co., Ltd.(note (f))	—	10,116
Tianjin Municipal Road & Bridge Company Limited.(note (f))	—	160
Tianjin Sewage Management Bureau No.8 Management Office	—	224
Tianjin Sewage Engineering Company	—	2,023
Tianjin Road & Bridge Management Bureau	—	629
Tianjin Municipal Engineering Design Research Institute	—	84
Total	—	22,365

- (f) According to the approval by the Tianjin Municipal Government and Tianjin Finance Bureau, Tianjin Urban Road & Bridge Construction Company and other several companies, which were previously under the supervisory control of TMEB, 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.

VIII. ACCOUNTS PREPARED IN ACCORDANCE WITH HK GAAP

17 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 Rmb1,200 million at par value. The par value of each convertible bond is Rmb100 and the bonds will mature in 5 years. The proposal was approved at the tenth annual general meeting by the shareholders held on 16th April 2002. The proposal of issuing "A Share" convertible bonds was approved by Committee of Examination on Application for Public Offerings (CEAPO) of China Securities Regulatory Commission (CSRC) on 5th April 2004. The "A Share" convertible bonds amounting to Rmb1,200 million were subscribed commencing on 1st July 2004 and were completed on 8th July 2004. The issuing of the bonds was according to the listing regulations issued by the relevant authorities. Upon approval, the bond was listed on Shanghai Stock Exchange on 19th July 2004.

The controlling shareholders of the Company (TMICL) sold 4,903,890 units of the bonds on 19th July 2004. Hence, TMICL currently holds remaining 1,388,760 units of the bonds, representing 11.57% of the total units of the bonds issued by the Company.

IX. SUPPLEMENTARY INFORMATION PROVIDED BY MANAGEMENT

(1) RETURN ON NET ASSETS AND EARNINGS PER SHARE CALCULATED ON A FULLY DILUTED BASIS AND ON A WEIGHTED AVERAGE BASIS

Items	Profit for the reporting period <i>Rmb'000</i>	Return on net assets (%)		Earnings per share (Rmb/Share)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	251,658	12.24	12.35	0.19	0.19
Operating profit	217,906	10.59	10.69	0.16	0.16
Net profit	144,138	7.01	7.07	0.11	0.11
Net profit, net of extraordinary gains or loss	147,358	7.16	7.23	0.11	0.11

Formula of the above financial indicators:

Formula of return on net assets and earnings per share on a fully diluted basis is as follows:

Return on net assets on a fully diluted basis = Profit during the reporting period ÷ Net assets at the end of period

Earnings per share on a fully diluted basis = Profit for the reporting period ÷ Total number of shares at the end of period

Formula of return on net assets on a weighted average basis (ROE) is as follows:

$$ROE = \frac{P}{E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0}$$

of which: P represents profit for the reporting period; NP represents the net profit for the reporting period; E₀ represents the net assets at the beginning of the period; E_i represents increase in net assets from issue of new shares or convertible bonds for the reporting period; E_j represents decrease of net assets as a result of repurchase or declaration of cash dividends for the reporting period; M₀ represents the number of months during the reporting period; M_i represents the number of months between the period after occurrence of an increase in net assets and the end of reporting period; M_j represents the number of months between the period after occurrence of a reduction in net assets and the end of reporting period.

Formula of earnings per share (EPS) on a weighted average basis is as follows:

$$EPS = \frac{P}{S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0}$$

of which: P represents profit for the reporting period; S₀ represents total number of shares at the beginning of period; S₁ represents the increase of shares due to transfer from common reserve to share capital or appropriation of dividends during the reporting period; S_i represents the increase of shares due to issue of new shares or convertible bonds during the reporting period; S_j represents reduced shares due to repurchase or share reduction during the reporting period; M₀ represents the number of months during the reporting period; M_i represents the number of months between the period after occurrence of an increase in shares and the end of reporting period; M_j represents the number of months between the period after occurrence of a reduction in shares and the end of reporting period.

IX. SUPPLEMENTARY INFORMATION PROVIDED BY MANAGEMENT

(2) THE ANALYSIS ON THE ITEMS IN THE ACCOUNTS WITH CHANGES ABOVE AND INCLUDING 30%, AND ACCOUNTING FOR AND INCLUDING 5% OF TOTAL ASSETS AT THE BALANCE SHEET DATE OR ABOVE AND INCLUDING 10% OF TOTAL PROFIT DURING THE REPORTING PERIOD

	30th June	31st December	Difference and change		Notes
	2004	2003	in amounts	and range	
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	%	
Accounts receivable	173,038	107,737	65,301	60.61	1
Short-term loans	145,000	45,000	100,000	222.22	2
	January	January			
	to June	to June			
	2004	2003			
	<i>Rmb'000</i>	<i>Rmb'000</i>			
Administrative expenses	27,310	16,607	10,703	64.45	3

Notes:

1. The increase in accounts receivable was mainly attributable to receivables from Tianjin Sewage Company in respect of sewage water processing fee and construction fee for sewage water processing plants increased by Rmb 65,301,000 from the previous year, and the age of these receivables are all within one year at the balance sheet date.
2. Short-term loans for this period increased by Rmb 100 million, which was mainly attributable to the increase in loan borrowing of Rmb 100 million from Shanghai Pudong Development Bank. This loan is used for the working capital of the Company.

The increase in portion of long-term liabilities due within one year was mainly attributable to the fact that the repayment period for long-term loan received from The State Development Bank of China has commenced since 2004, and the loan repayable in 2004 was Rmb 50 million.

3. During the reporting period, administrative expenses increased by Rmb10,703,000, which was mainly attributable to the addition of administrative expenses from Guizhou Capital Water Company Limited, a new subsidiary, as well as the increase in administrative expenses for the Company's staff, professional fees, road show expenses, information disclosure fees, advertising and promotion expenses, and depreciation expenses.

X. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries have not purchased or sold or redeemed any of the listed securities of the Company during the period.

XI. EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2004, the Company employed 424 employees in the mainland China and Hong Kong. Total salaries paid for all employees during the reporting period was Rmb9,156,000. There have been no material changes in respect of employee remuneration, remuneration policies and staff development as disclosed in Annual Report 2003.

XII. AUDIT COMMITTEE

The Audit Committee is composed of three independent non-executive Directors including Messrs Ko Po Ming, Wang Xiang Fei and Gao Zong Ze. The Audit Committee has reviewed with the management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the interim report of the Company prepared in accordance with the HK GAAP.

XIII. CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or was not, for any part of the period, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

For the six months ended 30 June 2004, the Company has adopted a code of conduct regarding Directors' securities transactions on terms exactly the same as the required standard set out in the Model Code for Securities Transactions by Directors of the Listed Issuers. The Company having made specific enquiry of all Directors and supervisors, its Directors and supervisors have complied with its code of conduct regarding Directors' securities transactions.

XIV. DOCUMENTS AVAILABLE FOR INSPECTION

1. Interim report for 2004 signed by the Chairman;
2. Statement of accounts, undersigned and sealed by the legal representative, the officer in charge of the accounting works (Chief Financial Accountant) and the officer in charge of the accounting department;
3. Original copies of documents and announcements of the Company which were publicly disclosed on newspapers and magazines specified by CSRC during the period covered by this report; and
4. Interim report for 2004 as published for Hong Kong securities market (available on or before 3rd September 2004).

By order of the Board

Ma Baiyu

Chairman

Tianjin, the PRC

19th August 2004