

Directors' Report

PRINCIPAL ACTIVITIES

Prior to the asset exchange took place on 20th December 2000, the principal activity of the Group was the manufacturing of chemical raw materials. Following the completion of asset exchange, the principal activities of the Company have been changed to environmental protection and urban infrastructure construction. The Company is the only company in the Tianjin City engaged in environmental protection and urban infrastructure construction that is listed overseas. The net profit of the Group for 2004, as prepared in accordance with PRC GAAP and HK GAAP, is approximately RMB323,197,000. The accounts for these operations are set out in the appropriate sections of this annual report.

RESULTS AND APPROPRIATIONS

The results and profit appropriation of the Group for the year ended 31st December 2004 as prepared in accordance with PRC GAAP and HK GAAP are set out in the profit and loss account and the profit appropriation statement on pages 76 and 77, and the consolidated profit and loss account on page 121 of this annual report, respectively.

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

	Turnover		Operating profit before taxation (including finance costs)	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Sewage water processing and construction of sewage water treatment plants	647,517	533,953	441,662	372,287
Road and toll stations	63,646	60,692	44,057	40,651
Construction materials	2,574	—	(2,908)	—
Total	<u>713,737</u>	<u>594,645</u>	<u>482,811</u>	<u>412,938</u>

DIVIDENDS

The Directors did not declare an interim dividend (2003: nil). They recommend the payment of a final dividend (tax included) of RMB1.0 per 10 Shares for the year ended 31st December 2004 (2003: RMB0.8 per 10 Shares).

CAPITAL STRUCTURE

(1) Table of changes in share capital and number of Shares in issue in the Company:

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

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

DETAILS OF SHARE CAPITAL (Cont'd)

(2) Issue and listing of Shares:

1. Issue of Shares in the recent past three years

For the three years preceding the end of this reporting period, the Company had no Share issued such as additional issue of new Shares and placing of Shares.

2. Changes in the total number and structure of Shares

There was no change in the total number and structure of Shares during the reporting period.

3. Existing internal employee Shares

There was no internal employee Shares during the reporting period.

(3) Issued and listing of A Shares Convertible Bonds:

As approved by CSRC under document Zheng Jian Fa Xing Zi [2004] No. 100, The Company issued 12,000,000 A Shares Convertible Bonds on 1st July 2004, The par value of each convertible bond is RMB 100 with total amounted RMB1,200,000,000. After deducting the handling fee RMB34,608,000, total amounted issued by the Company was RMB1,165,392,000.

For details, please refer to the "Prospectus for the issue of the A Shares Convertible Bonds of the Company". The related announcements were published on the China Securities Journal, Shanghai Securities journal and the website of SSE on 26th June 2004. The Company successfully issued RMB1,200,000,000 of A Shares Convertible Bonds, which was listed on SSE on 19th July 2004 (short form: Tianjin Convertible Bonds; code: 110874).

As at 31st December 2004, A Shares Convertible Bonds did not allow any conversion of Shares and these is no recall, redemption and cancel of.

DETAILS OF SHAREHOLDERS

(1) The total number of Shareholders as at 31st December 2004 is 26,548, among which there are 126 Shareholders of H Shares.

(2) As at 31st December 2004, the Shareholders who had interests in more than 5% (5% inclusive) of the total issued share capital and the top ten Shareholders were as follows:

1. Only TMICL, who has interests in more than 5% (5% inclusive) of the total issued share capital of the Company holding 839,020,000 Shares, representing approximately 63.08% of the Company's issued share capital and is the Controlling Shareholder. During the reporting period, TMICL had not pledged or frozen any of the Shares.

DETAILS OF SHAREHOLDERS (Cont'd)

2. The top ten Shareholders were as follows:

No.	Name of Shareholders	Increase(+)/ Decrease (-) during the year	Number of Shares held at the end of the year (Shares)	Percentage to total share capital of the Company (%)	Class (circulating/ non-circulating)	Number of Shares pledged or frozen (Shares)	Type of Shareholders
1	Tianjin Municipal Investment Company Limited	Nil	839,020,000	63.084	Non-circulating	0	State Shares
2	HKSCC Nominees Limited	+1,139,900	336,574,900	25.306	Circulating	Unknown	Foreign Shares
3	Bohai Securities Co., Ltd.	Public Shares -5,984,965	4,322,040 (including 4,222,040 public Shares and 100,000 legal person Shares)	0.325	Public Shares- circulating/ legal person Shares- non-circulating	Unknown	Public Shares and legal person Shares
4	Shen Tie Jing Fa	Nil	3,500,000	0.263	Non-circulating	Unknown	Legal person Shares
5	China Huadian Power Plant Equipment Engineering Co., Ltd.	Unknown	1,847,858	0.139	Circulating	Unknown	Public Shares
6	Galaxy Securities	Nil	1,500,000	0.113	Non-circulating	Unknown	Legal person Shares
7	Industrial and Commercial Bank of China-Penghua Industry Development Securities Investment Fund.	Unknown	1,207,739	0.091	Circulating	Unknown	Public Shares
8	Liaoning Shennong	Nil	1,000,000	0.075	Non-circulating	Unknown	Legal person Shares
9	China Air Clearing Center	Nil	1,000,000	0.075	Non-circulating	Unknown	Legal person Shares
10	Guotai Tian Zheng	Nil	1,000,000	0.075	Non-circulating	Unknown	Legal person Shares

Notes: 1. Pursuant to the register of the Shareholders as provided by the HKSCC Nominees Limited, H Shares were held on behalf of various clients' accounts. So far as is known to the Directors, as at 31st December 2004, there was no person who had interests in 5% or more than 5% of the total issued share capital of the Company.

2. The top ten Shareholders were not strategic investors of the Company.

3. The relationship of top ten Shareholders

There is no relationship and no parties acting in concert between the largest Shareholder and the 2nd to 10th largest Shareholders. However, it is not certain whether there are any such relationships among the 2nd to 10th largest Shareholders.

DETAILS OF SHAREHOLDERS (Cont'd)

(3) Controlling Shareholder

1. Description of the Controlling Shareholder

Name:	TMICL
Legal representative:	Ms. Ma Baiyu
Registered Capital:	RMB1,820,000,000
Date of incorporation:	20th January 1998
Scope of operation:	The development, construction and management of city infrastructure projects and auxiliary services, development and operation of city infrastructure, import of technology and equipment for city construction works, promotion for capital investment and project development and construction management (in accordance with the State regulations for specific projects and operations) in city road infrastructure.

2. Description of the supervisor of the Controlling Shareholder

Name:	Urban Construction Bureau of the Tianjin Municipality ("Urban Construction Bureau")
Legal representative:	Mr. Sun Zhengyin
Principal operations or management activities:	Business involving roads, highways, bridges, sewage, subway trains, construction design, sewage water treatment, real estate and services industry, etc.

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

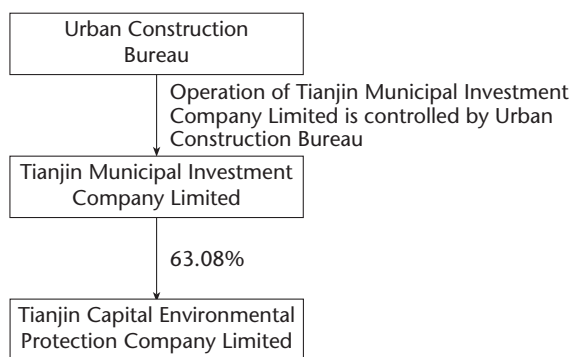
3. Change in Controlling Shareholder and its supervisor

During the reporting period, there was no change in the Controlling Shareholder and its supervisor.

DETAILS OF SHAREHOLDERS (Cont'd)

(3) Controlling Shareholder (Cont'd)

4. Flowchart on the shareholding interests and relationship of control between the Company and its supervisor



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

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

(5) As at 31st December 2004, the top ten circulating Shares' Shareholders were as follows:

No.	Name of Shareholders	Number of circulating Shares held at the end of the year	Type of Shares
1	HKSCC Nominees Limited	336,574,900	H Shares
2	Bohai Securities Co., Ltd.	4,222,040	A Shares
3	China Huadian Power Equipment Engineering Co., Ltd.	1,847,858	A Shares
4	Industrial and Commercial Bank of China-Penghua Industry Development Securities Investment Fund	1,207,739	A Shares
5	Shanxi Taiyuan Rixing Industry Company Limited	711,790	A Shares
6	HSBC Nominees (HK) Limited	656,000	H Shares
7	Yang Shan	640,900	A Shares
8	Wang Yu	516,400	A Shares
9	Liao Zhan Gang	435,947	A Shares
10	Zeng Aiqin	419,910	A Shares

Notes:

1. It is not certain whether there are any such relationships among the 1st to 10th largest Shareholders holding circulating Shares.
2. It is not certain whether there are any such relationships among the top ten Shareholders holding circulating Shares and the top ten shareholders.

DETAILS OF SHAREHOLDERS (Cont'd)

(6) Public float

On the basis of public available information and to the best knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

(7) Directors', Supervisors' and the Company's chief executives' interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations.

As at 31st December 2004, the interests and short positions of each Director, Supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which would have 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 which were required, pursuant to Appendix 10 to the Listing Rules, to be notified to the Company and Hong Kong Stock Exchange were as follows:

Name	The Company/ name of associated corporations	Capacity	Number and class of securities (Note)	Approximate percentage in the entire issued share capital of the Company/ associated corporations
Director				
Wang Zhanying	The Company	Beneficial owner	5,000 domestic Shares (L)	0.0038%
Supervisor				
Nie Youzhuang	The Company	Beneficial owner	700 domestic Shares (L)	0.00053%

Note: The letter "L" represents the interests in the share and underlying shares of the Company or its associated corporations.

Save as disclosed above, none of the Directors, Supervisors or chief executives of the Company, who, as at 31st December 2004, had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which would have 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 which were required, pursuant to Appendix 10 to the Listing Rules, to be notified to the Company and Hong Kong Stock Exchange.

(8) Substantial Shareholders' and other persons' interests and short positions in the shares and underlying shares of the Company

As at 31st December 2004, the following persons and entities, other than a Director, Supervisor or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity	Number and class of securities (Note 1)	Approximate percentage in the relevant class of securities	Approximate percentage in the entire issued share capital of the Company
TMICL	Beneficial owner	839,020,000 State Shares(L)	84.75%	63.08%

Notes:

- The letter "L" represents the entity's interest in the shares of the Company.

Save as disclosed above, there is no other person (other than a Director, Supervisor or chief executive of the Company) who, as at 31st December 2004, 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 SFO.

A SHARES CONVERTIBLE BONDS

(1) Issue of the A Shares Convertible Bonds

As approved by CSRC under document Zheng Jian Fa Xing Zi [2004] No. 100, the Company issued 1,200 million A Shares Convertible Bonds on 1st July 2004, which were listed and commenced dealings on the SSE on 19th July 2004. The A Shares Convertible Bonds have a convertible term of 5 years from 1st July 2005 to 30th June 2009. The "Prospectus of the Convertible Bonds", the "Notice of Issue" and the "Notice of Listing" have been published on the China Securities Journal, Shanghai Securities Journal and the website of the SSE on 26th June 2004 and 10th July 2004, respectively.

(2) Holders of the A Shares Convertible Bonds during the reporting period

Number of holders of the A Shares Convertible Bonds as at the end of the period: 2,824

Top ten holders of the A Shares Convertible Bonds:

Holders of the A Shares Convertible Bonds	Amounts held at the end of the period RMB	Holding proportion %
Ping An Insurance (Group) Company of China, Ltd.	127,556,000	10.630
Industrial and Commercial Bank of China Industrial Convertible Bond Composed Security Investment Fund	118,308,000	9.859
Shen Yin Wan Guo Securities Co., Ltd. - CITI-UBS Limited	87,364,000	7.280
Bank of China - Fortis Haitong Yield Growth Security Investment Fund	83,344,000	6.945
International Finance - Standard Chartered - CITIGROUP GLOBAL MARKETS LIMITED	56,058,000	4.672
China Merchants Securities Co., Ltd.	38,878,000	3.240
Bank of Communications - China Bonds Investment Fund	34,488,000	2.874
Bank of Communication - Fortis Haitong Focus Security Fund	30,966,000	2.581
Bank of China - Jiashi Service Increment Industries Security Investment Fund	30,814,000	2.568
China Merchants Bank Co., Ltd. - CITIC Classic Securities Investment Fund	29,155,000	2.430

A SHARES CONVERTIBLE BONDS (Cont'd)

(3) Changes in the A Shares Convertible Bonds during the reporting period

	Prior to the current changes	converted	Increase/reduction in the current changes		After the current changes
			redeemed	resold	
A Shares Convertible Bonds	1,200,000,000	0	0	0	1,200,000,000

(4) Aggregated conversion of the A Shares Convertible Bonds during the reporting period

The terms of the A Shares Convertible Bonds did not allow any conversion of Shares during the reporting period.

(5) Adjustments in the conversion prices

As at the end of the reporting period, the latest conversion price of the A Shares Convertible Bonds was RMB7.70.

(6) The guarantor and issuer of the A Shares Convertible Bonds

The guarantor of the A Shares Convertible Bonds was the Tianjin Branch of China Construction Bank. The issuer of the A Shares Convertible Bonds was the Company.

(7) Other situation of the A Shares Convertible Bonds

1. The terms of A Shares Convertible Bonds did not allow any conversion of Shares during the reporting period.
2. Liabilities and changes in the credibility of the issuer

As at the end of the reporting period, the Company had total liability of RMB2,405,414,000 and a gearing ratio of 51.6%, with good credibility, and has strong repayment capability.

3. Cash arrangement for repayment

The A Shares Convertible Bonds issued by the Company have a term of five years, from 1st July 2004 to 30th June 2009. Upon the satisfaction of the resale and redemption terms and maturing period for principal and interests as disclosed in the prospectus for the issue of the A Shares Convertible Bonds, payment of the principal and interests to the holders of the Bonds can be financed through the internal funds or bank credit funds. For details, please refer to the "Prospectus for the issue of the A Shares Convertible Bonds of the Company". The related announcements were published on the China Securities Journal, Shanghai Securities Journal and the website of SSE on 26th June 2004.

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION

(1) Directors, Supervisors and senior management of the Company

1. Details of Directors, Supervisors and senior management of the Company

Name	Gender	Position	Age	Term	Shareholding at the beginning of the year	Shareholding at the end of the year
Ma Baiyu	F	Chairman	43	2003.12.20-2006.12.19	0	0
An Pindong	M	Director Financial Controller	37	2003.12.20-2006.12.19 2003.12.20-2005.2.22	0 0	0 0
Gu Qifeng	M	Director and General Manager	39	2003.12.20-2006.12.19	0	0
Wang Zhanying	M	Director	50	2003.12.20-2006.12.19	5,000	5,000
Tan Zhaofu	M	Director	50	2003.12.20-2006.12.19	0	0
Fu Yana	F	Director, Deputy General Manager and Company Secretary	34	2003.12.20-2006.12.19	0	0
Wang Xiangfei	M	Independent non-executive Director	54	2002.04.16-2005.04.15	0	0
Gao Zongze	M	Independent non-executive Director	66	2002.04.16-2005.04.15	0	0
Ko Po Ming	M	Independent non-executive Director	47	2003.12.20-2006.12.19	0	0
Zhang Wenhui	M	Chairman of Supervisory Committee	50	2003.12.20-2006.12.19	0	0
Zhang Mingqi	M	Supervisor	48	2001.09.19-2004.09.18	0	0
Nie Youzhuang	M	Supervisor	36	2003.12.20-2006.12.19	700	700
Wen Qiuli	M	Supervisor	38	2003.12.20-2006.12.19	0	0
Hou Xiaojian	F	Supervisor	40	2003.12.20-2006.12.19	0	0
Wang Hui	M	Supervisor	37	2002.10.16-2005.10.15	0	0
Luo Lianfang	M	Deputy General Manager	57	2003.12.20-2006.12.19	0	0
Lin Wenbo	M	Deputy General Manager	48	2003.12.20-2006.12.19	0	0
Zhu Yanbo	M	Deputy General Manager	57	2003.12.20-2006.12.19	0	0
Liu Wenya	M	Deputy General Manager	47	2003.12.20-2006.12.19	0	0
Wang Hongren	M	Deputy General Manager	60	2003.12.20-2006.12.19	0	0
Deng Biao	M	Chief Engineer	39	2003.12.20-2006.12.19	0	0
Chen Yinxing	F	Chief Accountant	31	2005.2.22-2008.2.21	0	0
Guo Hui	M	Chief Economist	31	2005.2.22-2008.2.21	0	0

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION (Cont'd)**(1) Directors, Supervisors and senior management of the Company** (Cont'd)

1. Details of Directors, Supervisors and senior management of the Company (Cont'd)

Name	Gender	Position	Age	Term	Shareholding at the beginning of the year	Shareholding at the end of the year
Ip Pui Sum	M	Company Secretary in Hong Kong	46	2003.12.20-2006.12.19	0	0
Chan Yuk Hiu	M	Full-time Qualified Accountant	27	2004.3.25-2004.12.15	0	0
To Wai Kum	F	Full-time Qualified Accountant	41	2004.12.16-2005.12.31	0	0

2. Positions held at the Shareholder's entity

Name	Name of the Shareholders' entity	Positions held	Commencement of employment	Any remuneration, allowance received
Ma Baiyu	TMICL	Chairman	2004.2.24	yes
An Pindong	TMICL	General Manager	2005.2.22	yes
Zhang Wenhui	TMICL	Chief Party Committee Secretary	2003.10.22	yes

Description on the positions held at the Shareholder's entity:

Save as the above duties, the Directors, Supervisors and senior management of the Company did not take up any other director or non-director positions in the Controlling Shareholder.

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION (Cont'd)**(2) Positions held at other entities**

Name	Name of other entities	Positions held
Ma Baiyu	Urban Construction Bureau	Chief Economist
Gu Qifeng	Guizhou Capital Water	Chairman
Gu Qifeng	Tianjin Water Recycling Company Limited	Director
Fu Yana	Beifang Rencaigang	Director
Fu Yana	Capital Materials Company	Director
Zhang Weihui	Tianjin Water Recycling Company Limited	Chairman
Luo Lianfang	Capital Materials Company	Chairman
Luo Lianfang	Baotong Light Mass	Director
Lin Wenbo	Guizhou Capital Water	General Manager
Zhu Yanbo	Guizhou Capital Water	Director
Liu Wenya	Tianjin Water Recycling Company Limited	General Manager
Deng Biao	Guizhou Capital Water	Director

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION (Cont'd)**(3) Remunerations of Directors, Supervisors and senior management of the Company**

1. The procedures for determining the remuneration of the Directors and Supervisors: the remuneration of the Directors and Supervisors will be determined in accordance with the respective service agreements entered into with the Directors and Supervisors as approved in the Shareholders' general meetings and the Company's operating results.
2. The basis for determining the remuneration of the senior management of the Company: the remuneration of the Company's senior management will be distributed in accordance with the achievements in production and operation and the usual management activities. The annual package will be determined upon the achievement of annual operating targets and performance indicators and performance appraisal results.
3. The remuneration of Directors, Supervisors and senior management of the Company for a new term was paid from 1st January 2004.

The Company has 23 Directors, Supervisors and senior management of the Company on 31st December 2004 and 23 of them were paid remuneration by the Company. There were two individuals whose annual remuneration was RMB300,000 or above. There were nine individuals whose annual remuneration was between RMB200,000 and RMB300,000. There were 12 individuals whose annual remuneration was RMB200,000 or below.

Remunerations of Directors and Supervisors

	2004 RMB'000	2003 RMB'000
Fees	636	689
Salaries and other emoluments	2,100	2,112
Pensions	65	59
	<u>2,801</u>	<u>2,860</u>

The remuneration was paid to the Directors and Supervisors as follow:

	Number	
	2004	2003
RMBnil - RMB1,073,000 (HK\$1,000,000)	<u>23</u>	<u>22</u>

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

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

4. Highlights for remuneration

Annual total remuneration for the Directors, Supervisors and senior management of the Company: RMB4,186,000 (including salaries for independent non-executive Directors of RMB636,000)

Total remuneration for top three Directors with highest remuneration: RMB1,000,000 (subsides for Directors included only)

Total remuneration for top three senior management of the Company with highest remuneration: RMB1,000,000 (subsides for senior management included)

Subsidy for the independent non-executive Directors: RMB200,000 per head each year.

Other benefits for the independent non-executive Directors:

Reimbursement based on actual traveling and accommodation expenses incurred.

5. Range of remuneration

Range of remuneration	No. of individuals
Below RMB200,000	10
RMB200,000 – RMB300,000	9
More than RMB300,000	2

6. Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years. No Director or Supervisor has entered into a service contract with the Company which is not terminable by the employer within one year without payment of compensation (other than statutory compensation). Details of the Directors' and Supervisors' remuneration and the five highest paid individuals in the Company are set out in Note 10 to the financial statements contained in report of the international auditors. There were no arrangements under which a Director or Supervisor had waived or agreed to waive any remuneration in respect of the year ended 31st December 2004.

COMPANY'S MANAGEMENT STRUCTURE AND EMPLOYEES' INFORMATION (Cont'd)**(4) Changes of Directors, Supervisors and senior management of the Company during the reporting period and the reasons for the changes**

Name	Title	Reasons for leaving
Chan Yuk Hiu	Full time qualified accountant	personal reason
An Pindong	Chief accountant	job position reallocation reason

Recruitment or removal of the senior management of the Company:

1. In the eleventh meeting of the Third Board of the Company, it was approved that Mr. Chan Yuk Hiu resigned from the position of the Company's full time qualified accountant due to personal reasons, and Ms. To Wai Kum was appointed as the Company's full time qualified accountant.
2. In the twelfth meeting of the Third Board of the Company, it was approved that Mr. An Bindong resigned from the position of the Company's chief accountant due to job reallocation. Ms. Chen Yinxing was appointed as the Company's chief accountant, and Mr. Guo Hui was appointed as the Company's chief economist, with a term from 22nd February 2005 to 21st February 2008.

(5) An overview of the Company's staff

As at the end of 2004, the number of staff of the Company was 472 which did not include any staff resigned or retired. Among the Company's staff, 207 of which have professional qualifications, and accounted for 43.86% of the total number of staff; 38 of them have senior titles; 75 of them have intermediate titles; 94 of them of junior titles. The Company has senior expertise in the field of international management and investment, environmental engineering, roads and bridges construction, and engineering management. The expertise portfolio at each segment was managed reasonably.

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

Administration	91	(19.28%)
Finance	19	(4.03%)
Technical	161	(34.11%)
Operating staff at sewage treatment plants and others	201	(42.58%)

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

Postgraduate	16	(3.39%)
University	157	(33.26%)
Post-secondary	133	(28.18%)
Secondary or below	166	(35.17%)

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

(6) Arrangements to purchase Shares or debentures

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

(7) Directors, Supervisors and senior management's interests in contracts

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

CONNECTED TRANSACTIONS

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

- (1) The Company's sewage water treatment business was operated in accordance with the Sewage Water Processing Agreement entered into between the Group and Tianjin Sewage Company on 10th October 2000. Pursuant to the agreement, Dongjiao Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant of the Company provided sewage water treatment services to Tianjin Sewage Company, and charged fees calculated based on the formula stipulated in the agreement. Tianjin Sewage Company is a state-owned enterprise established in the PRC and is within the control of Urban Construction Bureau. The price calculation formula ensures that the sewage water treatment business can recover all the actual operational costs, including depreciation and amortisation of the fixed assets (excluding interests expenses and exchange difference). It can generate a 15% return calculated based on the annual mean of the monthly average book value of the relevant fixed assets (as defined in the agreement) of the sewage water treatment business. In addition, it can earn a price adjustment reward when it can cut cost or when the process volume exceeds the minimum processing volume as stipulated in the agreement. During the reporting period, the Company has processed 227,000,000 cubic metre of sewage water. The Company derived a sewage water processing service fees of RMB437,770,000 in accordance with the Sewage Water Processing Agreement.

CONNECTED TRANSACTIONS (Cont'd)

(2) In accordance with the Fee Agreement on the Construction-in progress of the Sewage Water Plant Expansion Projects ("the Construction Fee Agreement"), the Company will assume the funds required for the construction-in progress of Xianyanglu Sewage Water Treatment Plant project, the expansion project of Jizhuangzi Sewage Water Treatment and Beicang Sewage Water Treatment Plant project ("Three Construction-in progress Projects"). Pursuant to the agreement, during the construction period of the Three Construction-in progress Projects, Tianjin Sewage Company agreed to pay and the Company agreed to receive the construction fees as the reward for the Company undertaking the Three Construction-in progress Projects. The total construction fees are the sum of 23.7% of the arithmetic mean of the estimated construction costs required in each year or period during the construction period (from 24th September 2001 to the date of completion and operation of the sewage water treatment plants). Based on this calculation method, the total construction fees receivable by the Company on the Three Construction-in progress Projects amounted to RMB1,170 million. Pursuant to the Construction Fee Agreement, Tianjin Sewage Company shall pay the construction fees in advance based on the estimated completion percentage for that month of each project. At the end of each quarter, fee adjustments determined by the independent surveyors or engineers based on the completed project will be made. At the same time, pursuant to the Construction Fee Agreement, after the three sewage water treatment plants commence operation, the respective rights and obligations of the Company and Tianjin Sewage Company will be based on the Sewage Water Processing Agreement. Pursuant to the Construction Fee Agreement, during the reporting period, the construction work completed for the construction in-progress project of Beicang Sewage Water Treatment Plant, the construction in-progress project of Xianyanglu Sewage Water Treatment Plant and the construction in-progress expansion project of Jizhuangzi Sewage Water Treatment during the agreed period amounted to RMB440,000,000. An income of RMB225,000,000 was derived based on the Construction Fee Agreement on the Construction-in progress of the Sewage Water Plant Expansion Projects.

After reviewing the current year's ongoing connected transactions, the independent non-executive Directors confirmed that the above connected transactions were:

1. entered into in the ordinary and usual course of business of the Group;
2. conducted either (a) on normal commercial terms (as compared with transactions of similar nature carried out by similar entities in the PRC) or (b) (if no similar condition to be compared with) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
3. carried out (a) in accordance with the terms of the agreements governing such transactions or (b) if no relevant agreement, on terms no less favourable than terms available to the independent third parties; and
4. the aggregate amount of each of the ongoing connected transactions have not exceeded the respective cap amount during the year.

The auditors of the Company have performed certain procedures on the above ongoing connected transactions (1) and (2) and reported that:

1. these transactions have been approved by the Board of directors of the Company;
2. these transactions have been entered into in accordance with the terms of the agreements governing the ongoing connected transactions; and
3. these transactions for the year did not exceed the respective cap amount.

Other connected transactions during the year are set out on notes (d) and (e) on pages 117 and 118 and notes (d) and (e) on pages 162 and 163 of this report.

MANAGEMENT CONTRACTS

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

FIXED ASSETS

Details of the movement in fixed assets during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 99 and 100 and pages 144 to 147 of the annual report, respectively.

RESERVES

Details of movements in reserves during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 108 and 109 and pages 154 to 156 of the annual report, respectively.

EMPLOYEES' RETIREMENT BENEFIT SCHEME

In compliance with the Notice of decision on establishing a uniform staff basic pension and insurance scheme (Guo Fa No. [1997]26) issued by the State Council, the Company established the staff basic pension and insurance scheme. The proportion of contribution from the Company to the basic pension and insurance scheme is 20% of the total staff salaries. The proportion of contribution from individual staff to the basic pension and insurance scheme is 8% of the individual staff's salaries.

Particulars of the staff basic pension and insurances scheme operated by the Company are set out on page 90 and 136 of this annual report.

MAJOR SUPPLIERS AND CUSTOMERS

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

	2004	2003
	%	%
Percentage of purchases attributable to the Group's largest supplier	63	37
Percentage of purchases attributable to the Group's five largest suppliers	82	55
Percentage of sales attributable to the Group's largest customer	88	90
Percentage of sales attributable to the Group's five largest customers	90	90

None of the Directors, Supervisors or Shareholders has any interests in the share capital of the Group's suppliers or customers mentioned above. The largest customer of the Group, Tianjin Sewage Company, is under the supervisory control of Urban Construction Bureau.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association and there was no restriction against such rights under the laws of the PRC.

FIVE YEARS FINANCIAL SUMMARY

A summary of the Group's profit and loss accounts and assets and liabilities for the last five years prepared under PRC GAAP is set out on pages 11 and 12 of the annual report.

A summary of the Group's profit and loss accounts and assets and liabilities for the last five years prepared under HK GAAP is set out on page 13 of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and supervisors has entered into a service agreement with the Company for a term of 3 years, the length of the terms are set out on pages 60 and 61 of the annual report.

Each of the independent non-executive Directors has entered into agreement with the Company for a term of 3 years, the length of the terms are set out on pages 60 and 61 of the annual report.

None of the Directors or Supervisors has entered into a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company and its subsidiaries was a party and in which any of the Directors and Supervisors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the reporting period.

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

None of the Directors and Supervisors is interested in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

EMOLUMENT POLICY

The pay levels of the employees are commensurate with their responsibilities, performance and contribution. The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualification and competence.

The emoluments of the Directors and Supervisors are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

SALE, PURCHASE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted a code of practice ("Model Code") with standards not lower than those prescribed in Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules for securities transactions conducted by the Directors. During the reporting period, all Directors have complied with the Model Code in relation to securities transactions conducted by the Directors.

AUDIT COMMITTEE

On 31st July 2001, the Board approved the establishment of an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting process and internal controls pursuant to paragraph 14 of the Code of Best Practice* as set out in Appendix 14 to the Listing Rules (the "Code of Best Practice"). The present audit committee of the Company comprises three independent non-executive Directors, Messrs. Wang Xiangfei, Gao Zongze and Ko Poming. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the year ended 31st December 2004.

*Note: The "Code of Best Practice" under Appendix 14 to the Listing Rules was replaced by the "Code on Corporate Governance Practices" under the new Appendix 14 to the Listing Rules on 1st January 2005.

CODE OF BEST PRACTICE

During the year, none of the Directors is aware of any information that would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans, other borrowings and bank facilities during the year as prepared in accordance with PRC GAAP and HK GAAP are set out in notes 11 and 17 and notes 22 and 25 to the financial statements, respectively.

MAJOR LITIGATION

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

AUDITORS

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

By order of the Board

Ma Baiyu

Chairman

Tianjin, the PRC

14th April 2005