

Report of the Supervisory Committee of the Company

1. MEETINGS OF THE SUPERVISORY COMMITTEE OF THE COMPANY DURING THE PERIOD

The supervisory committee of the Company held two meetings during the period, mainly covering the following:

- (1) The 2nd meeting of the Third Supervisory Committee of the Company was held on 11th February 2004, wherein the following resolutions were passed:
 - 1) agreed with the 2003 supervisory committee working report of the Company;
 - 2) agreed with the 2003 annual report and the report summary of the Company;
 - 3) agreed with the financial and accounting statements of the Company for 2003;
 - 4) agreed with the 2003 final financial report and the 2004 financial budget report of the Company;
 - 5) agreed with the 2003 profit appropriation plan of the Company; and
 - 6) agreed with the report of 2003 financial condition of the Company.

The announcement for the resolutions of this Board meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 12th February, 2004.

- (2) The 3rd meeting of the Third Supervisory Committee of the Company was held on 19th August 2004, wherein the resolutions in respect of the announcements of the Company's interim report and its summary for the six months ended 30th June 2004 within and outside the PRC were passed.

The announcement for the resolutions of this Board meeting was published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 20th August, 2004.

2. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE RELEVANT ISSUES OF THE COMPANY IN 2004

- (1) Operations of the Company in compliance with the laws:

Pursuant to the relevant laws and regulations of the State in 2004, the supervisory committee of the Company has carried out supervision on the Shareholders' meetings, the convening procedures of the Board of Directors, resolutions and the implementation of the resolutions of the Shareholders' meetings by the Board of Directors, and considered that the performance of the Board of Directors in 2004 was strictly in compliance with the Company Law, the Securities Law, the Listing Rules, the Articles of Association and other laws and regulations, and that their operating decisions were scientific and reasonable. None of the Directors, Supervisors and the senior management of the Company has been found to be in violation of the laws and regulations, the Articles of Association and acts which were detrimental to the interests of the Company in carrying out their duties.

2. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE RELEVANT ISSUES OF THE COMPANY IN 2004 *(Cont'd)*

(2) Inspection on the financial situation of the Company:

The supervisory committee of the Company carried out serious and careful inspections on the financial system and financial situation of the Company, and considered that the 2004 financial report of the Company could truly reflect the financial situation and operating results of the Company. The audit opinion and appraisals of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd., the PRC auditors of the Company were objective and fair.

(3) Inspection on the actual situation of the fund raising exercise of the Company:

On 1st July 2004, the Company issued A Shares Convertible Bonds amounting to RMB1.2 billion. As of 31st December 2004, the use of proceeds matched the content disclosed in the subscription prospectus. The projects applying the proceeds proceeded smoothly.

(4) Inspection on the acquisition and sale of assets of the Company:

During the reporting period, the Company did not acquire or sell any assets.

(5) Inspection on the connected transactions of the Company:

During the reporting period, the resolution in respect of the increase in the registered capital of Capital Materials Company by contributing RMB17.5 million was considered and approved in the 3rd meeting of the Third Board of the Company on 8th July 2004. Following the increase in capital contribution, the Company held 66.25% of the shareholding of Capital Materials Company, becoming its controlling shareholder. As both the Company and Tianjin Sewage Engineering Company, one of the parties to the joint venture, are under the supervisory control of Urban Construction Bureau, accordingly the capital contribution constitutes a connected transaction. Meanwhile, the resolution relating to the transfer of 25% of the shareholding held by Longli Group in Guizhou Capital Water to the Company was considered and approved in the 8th meeting of the Third Board of the Company. Pursuant to the latest provisions under the Listing Rules, the above transfers of shareholding constituted connected transactions.

The supervisors of the Company carried out serious inspections on the above connected transactions, and considered that the transactions complied with the market principles and intentions of all parties involved in the transactions. Information was fully disclosed in accordance with the requirements so as to protect the interests of unconnected Shareholders.