

Notes to the Accounts

FOR THE YEAR ENDED 31ST DECEMBER 2004
(Prepared in accordance with PRC Accounting Regulations)

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 subsidiaries' 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.

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

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.

On 24th September 2001, the Company and TSC entered into the Xianyanglu Sewage Water Processing Plant Construction-in-progress Transfer Agreement, the Jizhuangzi (Expansion) Sewage Water Processing Plant Construction-in-progress Transfer Agreement and the Beicang Sewage Water Processing Plant Construction-in-progress Transfer Agreement (the “Transfer Agreements”). Pursuant to the Transfer Agreements, the Company would acquire from TSC the Sewage Plant Construction Projects and would be responsible for the construction and management of the remaining uncompleted portion of the Sewage Plant Construction Projects. The transfers were completed on 30th October 2002.

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)*

On 25th August 2003, the Company entered into a Co-operative Agreement with TSC so as to ensure the completion of the Sewage Plant Construction Projects. Pursuant to the Co-operative Agreement, the Company would be responsible for the overall execution of the Sewage Plant Construction Projects and TSC would be responsible for making use of the original projects' loans from foreign banks, including Asia Development Bank ("Asia Bank") and Japan International Cooperation Bank ("Japan Bank") (the "Foreign Loans") to acquire those equipment and plant construction portions of the Sewage Plant Construction Projects. TSC would transfer to the Company these Foreign Loans funded equipment and plant construction portions after their installation and the issuance of verification report respectively. Before the transfer of these Foreign Loans funded equipment and construction portions, the Company would be responsible for the management and the related repair and maintenance of these equipment and plant construction portions during the construction period of the Sewage Plant Construction Projects, accordingly pursuant to the Construction Fee Agreement, the Company would base on the percentage of work completed for these Projects, including the value of these equipment and plant construction portions as verified by qualified independent surveyors or engineers, to recognise the construction fee income.

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 Plants Construction Projects are set out below:

	Xianyanglu	Jizhuangzi	Beicang
	Sewage Water	Sewage Water	Sewage Water
	Processing Plant	Processing Plant	Processing Plant
	Construction	Expansion	Construction
	Project	Project	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 (<i>note (a)</i>)	End of 2005	End of 2005	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
Certified construction cost completed			
- as at 31st December 2003	355	527	87
- as at 31st December 2004	582	645	184
Including: Certified construction costs			
completed and funded			
by loans from Asia Bank and			
Japan Bank (<i>note (b)</i>)	96	89	79
% of completion of construction			
(excluded acquisition costs)			
- as at 31st December 2003	31.3%	53.9%	23.9%
- as at 31st December 2004	51.3%	66.0%	50.3%
Construction fees recognised			
by the Company (RMB' million)			
- up to 31st December 2003	185	171	63
- up to 31st December 2004	302	209	133

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)*

Notes:

- (a) Caused by the shortage of electricity supply in Northern China and the prolonged purchase procedures of equipments funded by the loan from Japan Bank, the original completion date had been postponed to the end of year 2005 from the end of year 2004.
- (b) Pursuant to the terms of the Construction Fee Agreement, the Company would base on the construction costs as verified by qualified independent surveyors or engineers to recognise the construction fee income. As at 31 December 2004, the construction costs of the three Sewage Plant Construction Projects included an amount of RMB264 million which were paid by TSC using the bank loans from Asia Bank and Japan Bank according to the Co-operative Agreement (2003: nil) (note 10).

(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 following:

- (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.

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.

(c) Construction Materials

The subsidiary

The principal business of one of the Company’s subsidiary, Tianjin Capital New Materials Co., Ltd. (“TCNM”), is manufacture and distribution of new construction materials. TCNM commenced its business in May 2004 (note 8).

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 People's Republic of China.

(b) Financial year

The financial year is from 1st January to 31st December of each calendar year.

(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. Restricted bank deposits are excluded from cash in the cash flow statement.

(f) Receivables and provision for bad debts

Receivables comprise accounts receivable and other receivables.

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

Provision for bad 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 bad debts.

2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS *(Cont'd)*

(g) Inventories

Inventories comprise raw materials, work in process, finished goods, spare parts and consumables.

Raw materials and finished goods are stated at the lower of cost and net realisable value and spare parts and consumables are stated at cost less provision for obsolescence.

Cost is determined on the weighed average basis. The cost of finished goods and work in progress comprises raw material, direct labour and an allocation of all production overhead expenditures incurred based on normal operating capacity. Net realisable value is determined on the basis of anticipated sales proceeds less estimated distribution and selling expenses.

(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, or 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.

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 stations business to review regularly the projected total traffic volume throughout the operating periods of the road. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustments will be made should there be a material change in the projected total traffic volume.

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 the 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.

2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS (Cont'd)

(j) Construction in progress

Construction in progress represents fixed 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.

(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 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.

2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS *(Cont'd)*

(n) Convertible bond

Convertible bonds are classified as liabilities and are stated at principal amount.

The difference between issuing cost of convertible bonds and the interest income derived during the issuing period is amortised over the bonds' issue period on a straight line basis. Interest of convertible bonds is accrued periodically. Interest and issuance cost are capitalized or expensed according to the respective purpose of issuance proceeds. Upon the conversion into the Company's share, the converted quantity of share times the par value is recognized as share capital and differences between share capital converted and the par value of convertible bond is recorded in capital surplus.

(o) 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.

(p) 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.

(q) 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.

(r) Foreign currency translation

Transactions denominated in foreign currencies are translated into RMB at 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 RMB at 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.

2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS (Cont'd)

(s) 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 People's Republic of China.
- (2) Toll fee income is recognised on a receipt basis.
- (3) Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.
- (4) Interest income is calculated based on the period of the principal amounts deposited and the effective interest rates.

(t) 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) Value added tax

The value added tax (VAT) payable is calculated as 17% of taxable sales, net of deductible input VAT.

(4) Government surcharges

Government surcharges comprise of city construction tax and education surcharge, calculated respectively at the tax rate of 7% and 3% of the amount of business tax or value added tax.

2 ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS *(Cont'd)*

(u) Related parties

Related parties refer to state-owned companies or other companies under the supervisory control of TMEB (note 29).

(v) 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	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Cash on hand	151	31	8	13
Cash in bank	1,318,516	450,043	1,236,279	400,050
Including				
- Special funds for construction in progress (note (a))	129,145	308,796	128,887	292,875
Other cash balances (note (b))	23,332	—	23,332	—
Total	1,341,999	450,074	1,259,619	400,063

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

(b) As at 31st December 2004, included in other cash balances was an amount of RMB20,000,000 (2003: Nil) representing a withholding deposit in Construction Bank of China, Tianjin Branch which provided guarantee for the issuance of the Company's convertible bonds. The remaining balance represented the project bidding deposit. These amounts have been excluded from cash balance at the year end for the purpose of cash flow statement.

For the purpose of the cash flow statement, cash comprises the following:

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Cash and bank balances	1,341,999	450,074	1,259,619	400,063
Less: Restricted bank deposits	(400,000)	—	(400,000)	—
Withholding deposits in bank	(23,332)	—	(23,332)	—
Cash shown on the cash flow statement	918,667	450,074	836,287	400,063

4 ACCOUNTS RECEIVABLE

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Ageing analysis of accounts receivable is as follows:				
Within 1 year	380,484	107,737	377,864	107,737
Between 1 and 2 years	13,318	—	13,318	—
Less: Provision for bad debts	—	—	—	—
Net accounts receivable	<u>393,802</u>	<u>107,737</u>	<u>391,182</u>	<u>107,737</u>
Details of the accounts receivable are set out as follows:				
Due from TSC				
-Revenue from sewage water processing services (note 1(a)(i))	133,541	52,103	133,541	52,103
-Revenue from sewage water processing plants construction services	238,484	35,868	238,484	35,868
Due from Tianjin Toll Collection Office				
-Toll fee (note 1(b))	19,157	19,766	19,157	19,766
Due from Guiyang City Administration Bureau				
-Revenue from sewage water processing services (note 1(a)(i))	1,981	—	—	—
Others	639	—	—	—
Total	<u>393,802</u>	<u>107,737</u>	<u>391,182</u>	<u>107,737</u>

The above accounts receivable were mainly from related companies, and the directors of the Company believe all the accounts receivables from TSC are collectible, therefore no bad debt provision was made. As at 31st December 2004, there was no accounts receivable from any of the Company's shareholders who hold 5% or more of voting shares.

5 OTHER RECEIVABLES

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Ageing analysis of other receivables is as follows:				
Within 1 year	2,774	2,854	1,090	5,401
Less: Provision for bad debts	—	—	—	—
Net other receivables	<u>2,774</u>	<u>2,854</u>	<u>1,090</u>	<u>5,401</u>

As at 31st December 2004, there were no other receivables from any of the Company's shareholders who hold 5% or more of voting shares.

6 PREPAYMENTS TO SUPPLIERS

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Prepayment for purchase of a building	115,411	82,000	115,411	82,000
Others	3,042	2,295	404	932
Total	<u>118,453</u>	<u>84,295</u>	<u>115,815</u>	<u>82,932</u>

Prepayments for purchase of a building represents deposits 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. This property had been occupied by the Company commencing from September 2004. The related purchase agreement is still under negotiation. Pursuant to the preliminary agreement reached between the Company and the developer, the usage rights and the rights to entitle rental income of the property belong to the Company from the time of the Company occupying the building to the time of completion of the procedures of title transfer.

The above prepayment of RMB82,000,000 for purchasing the new office building was aged over one year, however, the directors of the Company believe the acquisition of this premises will be completed in 2005. There is no risk on the recoverability of the prepayment, hence, no provision for bad debts was made. As at 31st December 2004, there were no prepayments to any of the Company's shareholders which hold 5% or more of voting shares.

7 INVENTORIES

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Raw materials	1,954	1,680	1,646	1,680
Finished goods	3,725	—	—	—
Spare parts and consumables	121	443	121	443
Less: Provision for losses on realisation of inventories	—	—	—	—
Net book value	<u>5,800</u>	<u>2,123</u>	<u>1,767</u>	<u>2,123</u>

8 LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Investment in subsidiary companies (note (a))	—	—	133,243	56,443
Investment in an associated company (note (a)(ii))	—	9,000	—	9,000
Other long-term equity investments (note (b))	6,000	4,000	4,000	4,000
Net book value	<u>6,000</u>	<u>13,000</u>	<u>137,243</u>	<u>69,443</u>

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") (note (i))	100,000	95%	—	Development and construction of municipal sewage water plants and provision of related consulting services for water processing facilities	Guiyang, the PRC	Limited liability company
Tianjin Water Recycling Co., Ltd.	20,000	90%	—	Production and sales of recycled water, equipment development and technical consulting for water recycling business.	Tianjin, the PRC	Limited liability company
Tianjin Capital New Materials Co., Ltd. ("TCNM") (note (ii))	37,500	70.7%	—	Production and sales of new types of construction materials and provision of related consulting services for construction materials	Tianjin, the PRC	Limited liability company

- (i) During 2003, the Company and a foreign company invested jointly to establish Guizhou Capital. Pursuant to the approval by the Board of Directors of the Company on 8 July 2004, the Company agreed with the foreign company in respect of its 30% of equity interest held in Guizhou Capital to transfer its 25% and 5% interest to the Company and Guizhou Jinxiu Culture and Technology Co., Ltd respectively. The Company's accumulated contributions to the registered capital of Guizhou Capital increased from 70% to 95%. As at 31st December 2004, the Company had injected capital of RMB95,000,000 to the subsidiary which commenced production in early 2004.

8 LONG-TERM EQUITY INVESTMENTS (Cont'd)**(a) Investment in subsidiary companies** (Cont'd)

- (ii) During 2003, the company together with Tianjin Sewage Engineering company ("TSEC") and Tianjin Senyuan Technology Development Company Limited ("TSTD") jointly invested and established TCNM and RMB9,000,000, representing 45% of the registered capital of this company had been contributed by the Company. TCNM was accounted for as an associated company in last year. Pursuant to the approval by the Board of Directors of the Company on 8th July 2004, the Company entered into the Capital Increase Agreement with TSEC and TSTD in respect of the increase of registered capital in TCNM. Pursuant to the Capital Increase Agreement, the registered capital of TCNM had been increased from RMB20,000,000 to RMB40,000,000. Pursuant to the approval by the Board of Directors of the Company on 28th October 2004, as the other two shareholders gave up the right of making additional capital contribution, the agreement was revised by changing the registered capital from RMB 20,000,000 to RMB37,500,000. According to the revised 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 TCNM had been increased to RMB26,500,000 and representing 70.7% of the Company's registered capital of this company. Accordingly TCNM has become a subsidiary of the Company from previously in 2003 as an associated company. TCNM has commenced its operation since May 2004.

(b) Other long-term equity investments

Name of invested entity	Group		Company	
	Percentage of interest in registered capital	Cost	Percentage of interest in registered capital	Cost
	%	RMB'000	%	RMB'000
Tianjin Baotong Qinjiliao Co., Ltd. (The Company has no significant influence on the entity)	20%	2,000	20%	2,000
Tianjin Northern Human Resources Co., Ltd.	6.1%	2,000	6.1%	2,000
Tianjin Pipeline Engineering Management Co., Ltd. (The Company has no significant influence on the entity)	20%	2,000	—	—
Less: Provision for diminution in value		—		—
Net book value		6,000		4,000

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 1st January 2004	645,517	185,418	677,777	273,494	58,585	1,840,791
Additions	4,374	—	16,548	9,869	19,368	50,159
Disposals	—	—	(7,284)	(5,523)	(2,101)	(14,908)
At 31st December 2004	649,891	185,418	687,041	277,840	75,852	1,876,042
Accumulated depreciation/amortisation						
At 1st January 2004	56,507	35,995	276,551	132,271	33,229	534,553
Charge for the year	14,830	3,453	18,241	16,777	4,635	57,936
Disposals	—	—	(3,403)	(4,883)	(1,877)	(10,163)
At 31st December 2004	71,337	39,448	291,389	144,165	35,987	582,326
Net book value						
At 31st December 2004	578,554	145,970	395,652	133,675	39,865	1,293,716
At 31st December 2003	589,010	149,423	401,226	141,223	25,356	1,306,238

9 FIXED ASSETS AND ACCUMULATED DEPRECIATION/AMORTISATION (Cont'd)

	Company					Total RMB'000
	Land use		Buildings and	Plant,	Motor vehicles	
	rights RMB'000	Road RMB'000	structures RMB'000	machinery and equipment RMB'000	and others RMB'000	
Cost						
At 1st January 2004	645,517	185,418	634,327	207,148	55,549	1,727,959
Additions	287	—	1,058	4,198	14,641	20,184
Disposals	—	—	(7,284)	(5,523)	(2,101)	(14,908)
At 31st December 2004	<u>645,804</u>	<u>185,418</u>	<u>628,101</u>	<u>205,823</u>	<u>68,089</u>	<u>1,733,235</u>
Accumulated depreciation/amortisation						
At 1st January 2004	56,507	35,995	276,549	132,272	32,640	533,963
Charge for the year	14,605	3,453	16,381	9,987	4,100	48,526
Disposals	—	—	(3,403)	(4,883)	(1,877)	(10,163)
At 31st December 2004	<u>71,112</u>	<u>39,448</u>	<u>289,527</u>	<u>137,376</u>	<u>34,863</u>	<u>572,326</u>
Net book value						
At 31st December 2004	<u><u>574,692</u></u>	<u><u>145,970</u></u>	<u><u>338,574</u></u>	<u><u>68,447</u></u>	<u><u>33,226</u></u>	<u><u>1,160,909</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 and plants are located in the PRC. As at 31st December 2004, fixed assets had no diminution in value, so no provision for impairment loss was made.

10 CONSTRUCTION IN PROGRESS

Name of project	Budget costs	As at		As at		Source of funds	Incurred costs to budget costs ratio
	(acquisition consideration included) RMB'000	1st January 2004 RMB'000	Additions RMB'000	31st December 2004 RMB'000			
Xianyanglu Sewage Water Processing Plant Construction Project	1,199,720	413,886	130,650	544,536	Bank loans and self-raised fund	45.39%	
Jizhuangzi Sewage Water Processing Plant Expansion Project	1,054,722	605,914	28,563	634,477	Bank loans and self-raised fund	60.16%	
Beicang Sewage Water Processing Plant Construction Project	366,327	87,746	17,099	104,845	Bank loans and self-raised fund	28.62%	
Research and Development Center Project	16,546	2,233	4,292	6,525	Self-raised fund	39.44%	
Jizhuangzi Office Building Project	5,226	1,242	3,933	5,175	Self-raised fund	99.02%	
Chibi Sewage Water Processing Plant Construction Project	23,000	—	6,591	6,591	Self-raised fund	28.66%	
Staff Dormitory Project	8,907	1,135	4,266	5,401	Self-raised fund	60.46%	
Others	—	1,008	11,345	12,353	Self-raised fund		
Total construction in progress (Company)	2,674,448	1,113,164	206,739	1,319,903			
Tianjin Jizhuangzi Sewage Water Recycling Project	143,416	107,461	30,887	138,348	Specific bank loans and self-raised fund	96.47%	
Others	—	—	3,087	3,087	Self-raised fund		
Total construction in progress (Group)	2,817,864	1,220,625	240,713	1,461,338			
Including: Capitalised borrowing costs							
- Company		16,749	21,482	38,231			
- Group		19,436	24,107	43,543			

10 CONSTRUCTION IN PROGRESS (Cont'd)

Analysis of the balances of the three Sewage Plant Construction Projects is as follows:

	Xianyanglu Sewage Water Processing Plant Construction Project <i>RMB'million</i>	Jizhuangzi Sewage Water Processing Plant Expansion Project <i>RMB'million</i>	Beicang Sewage Water Processing Plant Construction Project <i>RMB'million</i>
As at 31st December 2004	545	634	105
Less: Acquisition Cost at 24th September 2001	(59)	(78)	—
Add: Certified construction cost completed and funded by loans from Asia Bank and Japan Bank (<i>note 1(a) (ii)</i>)	96	89	79
Certified cost as the basis of construction fee income recognition at 31st December 2004 (<i>note 1(a) (ii)</i>)	<u>582</u>	<u>645</u>	<u>184</u>

As at 31st December 2004, construction in progress had no diminution in value, so no provision for impairment loss was made.

11 SHORT-TERM LOANS

	Group		Company	
	31st December 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>	31st December 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Bank loans	<u>115,000</u>	<u>45,000</u>	<u>100,000</u>	<u>45,000</u>

As at 31st December 2004, the short-term loans included the unsecured loan of RMB100,000,000 (2003: Nil) obtained by the Company from Shanghai Pudong Development Bank Tianjin Branch bearing interest rate at 5.31% per annum; and the loan of RMB10,000,000 (2003: Nil) obtained from Shanghai Pudong Development Bank Tianjin Branch and RMB5,000,000 (2003: Nil) obtained from Construction Bank of China Tianjin Branch by the Company's subsidiary, TCNM, and guaranteed by the Company's controlling shareholder, bearing interest rate at 5.31% (2003: Nil) and 6.42% (2003: Nil) per annum respectively. The short-term loan as at 31st December 2003 was obtained by the Company from the Construction Bank of China, Tianjin Branch, which bore interest rate at 5.31% per annum and guaranteed by the Company's controlling shareholder.

12 ACCOUNTS PAYABLE

As at 31st December 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 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 31st December 2004, advances from customers represented mainly the remaining balance of the advances (after offsetting ten percent of accumulated construction fees recognised, RMB64,367,000, for the period from 24th September 2001 to 31st December 2004).

As at 31st December 2004, there were no advances from any of the Company's shareholders which hold 5% or more of voting shares.

14 DIVIDEND PAYABLE

Pursuant to the 12th meeting of the shareholders 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 recorded in the account of dividend payable accounts (2003: RMB0.85 (tax included) for every ten shares held by shareholders, totalling RMB113,050,000).

The balance as at 31st December 2004 represents the dividend for prior years not yet paid to the legal person shareholders in China.

15 TAXES PAYABLE

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Income tax	88,186	36,623	87,301	36,623
Business tax and others	6,066	8,985	5,287	8,976
Total	<u>94,252</u>	<u>45,608</u>	<u>92,588</u>	<u>45,599</u>

16 OTHER PAYABLES

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Construction costs payable (<i>note (a)</i>)	97,720	140,070	97,720	138,024
Payable for purchase of fixed assets (<i>note (b)</i>)	55,000	66,000	—	—
Others	3,826	1,473	3,774	2,855
Total	<u>156,546</u>	<u>207,543</u>	<u>101,494</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 (*note 1(a)(ii)*). As at 31st December 2004, there were no construction costs payable to related companies (2003: RMB2,072,000).
- (b) The payable for purchase of fixed assets represents the balance owed for the purchase of a sewage water processing plant in 2003 by the Company's subsidiary, Guizhou Capital.
- (c) As at 31st December 2004, there were no other payables to the Company's shareholders which hold 5% or more of voting shares

17 LONG-TERM LOANS

Long-term bank loans include:

- (a) A long-term loan of RMB550,000,000 (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 in 2002. 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 6.12% (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 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 the controlling shareholder of the Company.

The long term loans are repayable as follows:

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Payable within one year	50,000	50,000	50,000	50,000
Payable in the second year	60,000	55,000	60,000	55,000
Payable in the third year to fifth year	502,000	426,000	452,000	366,000
Payable after the fifth year	43,000	159,000	43,000	159,000
Subtotal	655,000	690,000	605,000	630,000
Less: Portion of long-term liabilities due within one year	(50,000)	(50,000)	(50,000)	(50,000)
Total	605,000	640,000	555,000	580,000

18 CONVERTIBLE BOND

On 1st July 2004, pursuant to the approved document FXZ (2004) 100 issued by China Securities Regulatory Commission, the Company issued 12 million “A share” convertible bonds certificates at face value of RMB100 each. The aggregate amount of bonds issued was RMB1,200 million. The net cash received from issuance of convertible bond is RMB1,165,392,000 after deducting the issuance expense in the amount of RMB34,608,000.

The bonds, guaranteed by the Construction Bank of China, Tianjin Branch (“the guarantor”) and counter-guaranteed by the Company’s controlling shareholder to the guarantor, are convertible into shares of the Company at any time on and after 1st July 2005 and prior to 30th June 2009. The initial conversion price of convertible bond is set as RMB7.7 per share and the Company is entitled to revise the conversion price in the conversion period based on the market price of the Company’s shares. Unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed within 5 days after maturity date on 30th June 2009 at 100% of the principal amount and accrued interest in the fifth year plus an interest compensation for the difference between the coupon rate and five-year deposit interest rate in the 5 years.

Interest rates of the convertible bonds range from 1.7% to 2.7%. The actual interest payable to the bond holders will be based on the carrying bond interest rate and adjusted according to the statutory 5-year fixed deposit rate published by the State. As the actual level of statutory 5 year deposit interest rate was higher than 2.79%, as set out in bond pronouncement, the Company had adjusted the bond interest rate used to accrue interest expense accordingly. As at 31st December 2004, the Company accrued the related bond interest of approximately RMB14,040,000.

The Company is entitled to redeem the convertible bond issued in the period from one year after its issuance through its maturity. The bonds may be redeemed in whole or in part at 102% of par value plus current year’s interest, at the option of the Company, provided that during conversion period, the closing prices of the A shares for any 20 days in 30 consecutive trading days are not less than 130% of the conversion price.

The bond holder is entitled to resell the bond to the Company in the conversion period. The bonds may be resold to the Company in whole or in part according to their maturity period, at the option of the bondholders, provided that during the conversion period, the closing prices of the A shares for any 20 days in 30 consecutive trading days are less than 70% of the conversion price.

As at 31st December 2004, TMICL, the Company’s controlling shareholder, held 208,809 bonds which represented 1.74% of the total convertible bonds.

19 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.

20 SHARE CAPITAL

	Group and Company	
	31st December	31st December
	2004	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
	<hr/>	<hr/>
Total	<u>1,330,000</u>	<u>1,330,000</u>

Issued and paid up capital

(1) A shares with par value RMB1

	Group and Company	
	31st December	31st December
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<hr/>	<hr/>
Sub-total	990,000	990,000

(2) H shares with par value RMB1

Circulating shares outside China Social public shares (340,000,000 shares)	340,000	340,000
	<hr/>	<hr/>
Total	<u>1,330,000</u>	<u>1,330,000</u>

20 SHARE CAPITAL (Cont'd)

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). The Securities and Exchange Commission of The United States declared that the registration statement of the ADR Program has become effective on 23rd December 2003. Each ADR under the ADR Program shall represent 20 H shares of the Company listed on The Stock Exchange of Hong Kong Limited. The company did not and will not issue any new shares under such ADR Program. Trading of the Company's ADR will only be made in the over-the counters markets in the United States.

21 CAPITAL RESERVE FUND AND GENERAL RESERVES

	Group and Company		
	Capital reserve fund <i>(note (a))</i> RMB'000	Statutory common reserve <i>(note (b))</i> RMB'000	Statutory provident fund <i>(note (b))</i> RMB'000
At 1st January 2004	69,289	83,912	41,957
Transferred from profit appropriation			
- Transfer to statutory common reserve <i>(note (b))</i>	—	32,320	—
- Transfer to statutory provident fund <i>(note (b))</i>	—	—	16,160
	<u>69,289</u>	<u>116,232</u>	<u>58,117</u>
At 31st December 2004	<u>69,289</u>	<u>116,232</u>	<u>58,117</u>

a) Capital reserve fund

Capital reserve fund comprises the following item:

	Group and Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000
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.

21 CAPITAL RESERVE FUND AND GENERAL RESERVES *(Cont'd)*

(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 have proposed to transfer 10% and 5% of the net profit of the Company for 2004 prepared under PRC accounting regulations to the statutory common reserve of RMB32,320,000 (2003: RMB27,689,000) and to the statutory provident fund of RMB16,160,000 (2003:RMB13,845,000), respectively.

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.

22 UNDISTRIBUTED PROFITS

	Group and Company	
	2004	2003
	RMB'000	RMB'000
Original amount of undistributed profit at the beginning of the year	493,808	371,500
Add: current year's profit	323,197	276,892
	<u>817,005</u>	<u>648,392</u>
Less: Transfer to statutory common reserve (note 21)	(32,320)	(27,689)
Transfer to statutory welfare fund (note 21)	(16,160)	(13,845)
Cash dividend distribution approved by general shareholder meeting In prior year (note 14)	(106,400)	(113,050)
	<u>662,125</u>	<u>493,808</u>

23 INCOME FROM PRINCIPAL OPERATIONS AND SEGMENT INFORMATION**(a) Income from principal operations**

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from sewage water processing services	460,056	421,048	437,768	421,048
Revenue from sewage water processing Plants construction services	225,144	143,982	225,144	143,982
Sub-total	685,200	565,030	662,912	565,030
Toll fee income	67,374	64,666	67,374	64,666
Revenue from sales of construction materials	2,574	—	—	—
	<u>755,148</u>	<u>629,696</u>	<u>730,286</u>	<u>629,696</u>

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

(b) Segment information

	Sewage water processing and sewage water plant construction	Road and toll stations	Manufacture and selling of construction materials	Group
	2004	2004	2004	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Income from principal operations	685,200	67,374	2,574	755,148
Cost for principal operations	(133,382)	(13,128)	(2,048)	(148,558)
Business tax and surcharges	(37,683)	(3,728)	—	(41,411)
Profit from principal operations	514,135	50,518	526	565,179
Less: Administrative expenses	(46,198)	(4,147)	(3,280)	(53,625)
Add: Financial expense - net	(23,795)	(3,320)	(154)	(27,269)
Others	(2,480)	1,006	—	(1,474)
Total profit/(loss)	441,662	44,057	(2,908)	482,811
Less: Income tax	(145,907)	(14,509)	—	(160,416)
Net profit/(loss) before minority interests	295,755	29,548	(2,908)	322,395
Minority interests	(51)	—	853	802
Net profit/(loss)	295,704	29,548	(2,055)	323,197

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

(b) Segment information (Cont'd)

	Sewage water processing and sewage water plant construction	Road and toll stations	Group
	2003	2003	2003
	RMB'000	RMB'000	RMB'000
Income from principal operations	565,030	64,666	629,696
Cost for principal operations	(107,377)	(21,231)	(128,608)
Business tax and surcharges	(31,077)	(3,974)	(35,051)
Profit from principal operations	426,576	39,461	466,037
Less: Administrative expenses	(34,657)	(5,224)	(39,881)
Add: Financial (expense)/income - net	(19,168)	675	(18,493)
Others	(464)	5,739	5,275
Total profit	372,287	40,651	412,938
Less: Income tax	(123,953)	(12,426)	(136,379)
Net profit before minority interests	248,334	28,225	276,559
Minority interests	333	—	333
Net profit	248,667	28,225	276,892

24 BUSINESS TAX AND SURCHARGES

	Group		Company	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Business tax	37,647	31,885	36,536	31,885
City construction tax	2,635	2,216	2,557	2,216
Education surcharge	1,129	950	1,096	950
	<u>41,411</u>	<u>35,051</u>	<u>40,189</u>	<u>35,051</u>
Total	<u>41,411</u>	<u>35,051</u>	<u>40,189</u>	<u>35,051</u>

25 PROFIT FROM OTHER OPERATIONS

The profit from other operations of year 2004 mainly represented the income from pipeline installation service provided by Tianjin Water Recycling Co., Ltd.

Included in the profit from other operations of year 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)).

26 FINANCIAL EXPENSES - NET

	Group		Company	
	2004	2003	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense	52,566	32,450	49,746	29,763
Less: interest capitalised	(24,107)	(13,108)	(21,482)	(10,421)
	<u>28,459</u>	<u>19,342</u>	<u>28,264</u>	<u>19,342</u>
Interest expense - net	28,459	19,342	28,264	19,342
Less: Interest income	(6,466)	(993)	(6,275)	(930)
Others	5,276	144	5,273	142
	<u>27,269</u>	<u>18,493</u>	<u>27,262</u>	<u>18,554</u>
Total	<u>27,269</u>	<u>18,493</u>	<u>27,262</u>	<u>18,554</u>

27 INVESTMENT LOSS

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Based on equity accounting Share of loss of subsidiary	—	—	700	2,996

28 COMMITMENTS**Capital commitments**

	Group		Company	
	31st December 2004 RMB'000	31st December 2003 RMB'000	31st December 2004 RMB'000	31st December 2003 RMB'000
Contracted but not provided for (note (i))	235,348	190,725	235,348	184,209
Authorised but not contracted for (note (ii))	1,209,990	1,392,865	1,204,922	1,363,426
	<u>1,445,338</u>	<u>1,583,590</u>	<u>1,440,270</u>	<u>1,547,635</u>

(i) The Group amount as at 31st December 2004 comprised mainly the capital commitments of the Company in respect of the Sewage Plant Construction Projects (note 1(a)(ii)) amounting to RMB198,759,000 and in respect of the purchase of Ningfa Building as office premises and investment properties of the Company amounting to RMB36,589,000.

(ii) The Group amount as at 31st December 2004 mainly comprised the capital commitments of the Company in respect of the Sewage Plant Construction Projects from 1st January 2005 to completion date amounting to RMB1,158,853,000, and the capital commitments of the Company in respect of the Chibi sewage plant construction project amounting to RMB16,409,000.

The Company's Board of Directors approved the following investment projects in prior years, and these projects are still in negotiation.

Project item	Principal activities	Estimated Investment amount RMB'000	Amount invested as at year end RMB'000
Investment 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	—
		<u>304,523</u>	<u>—</u>

29 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	Tianjin Capital New Materials Co., Ltd
Place of registration:	Tianjin, the PRC	Tianjin, the PRC	Tianjin, the PRC	Guiyang, the PRC	Tianjin, 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 and technical consulting for water recycling business	Development and construction of municipal sewage water processing plant, and tap water plant and provision of related consulting services for water processing facilities	Production and sales of new types of construction materials and provision of related consulting services for construction materials
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	A subsidiary of the Company
Type of enterprise:	Limited company	Government authority	Limited company	Limited company	Limited company
Legal representative:	Ma Baiyu	Sun Zengyin	Zhang Wenhui	Gu Qifeng	Luo Lianfang

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

Name of related party	As at		As at
	1st January 2003	Additions	31st December 2004
	RMB'000	RMB'000	RMB'000
Tianjin Municipal Investment Company Limited	1,724,278	95,722	1,820,000
Tianjin Water Recycling Co., Ltd	20,000	—	20,000
Guizhou Capital Water Co., Ltd.	100,000	—	100,000
Tianjin Capital New Materials Co., Ltd	20,000	17,500	37,500

29 RELATED PARTIES (Cont'd)**(c) Share or equity of the Company held by a related party and its movements**

Name of related party	As at 1st January		Additions		As at 31st December	
	2004				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

Name of related party	Relationship with the Company
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

30 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions with related companies during the year 2004, which were carried out in the normal course of operations of the Group.

Name of enterprises	Nature of transaction	2004 RMB'000	2003 RMB'000
<i>Income:</i>			
TSC	Revenue from sewage water processing services (<i>note (a)</i>)	437,768	421,048
TSC	Revenue from construction of sewage water processing plants (<i>note (b)</i>)	225,144	143,982
TMEB	Compensation for toll fee of June 2003 (<i>note (c)</i>)	—	8,000
<i>Expenses:</i>			
TMICL	Operating lease rental in respect of office premises (<i>note (d)</i>)	963	1,050
<i>Others:</i>			
Related contractors	Amounts payable for sewage water processing plants construction costs (<i>note (e)</i>)	2,733	35,623
Disposal of fixed assets	Compensation receivable for		
TMEB	toll station removal (<i>note (f)</i>)	—	32,563

Notes:

- (a) This represents revenue derived from the sewage water processing services rendered by the Company to TSC according to Sewage Water Processing Agreement, details of which are set out in note 1(a)(i).
- (b) This represents revenue derived from the construction of sewage water processing plants services rendered by the Company to TSC according to Sewage Water Plants Construction Fee Agreement, details of which are set out in note 1(a)(ii).
- (c) This represents compensation from TMEB for toll fee revenue of June 2003 as a consequence of old toll stations being demolished.
- (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 leased the buildings from TMICL as its office premises and in 2004 paid a total annual rentals of RMB963,000 (2003: RMB1,050,000). These leasing agreements were terminated in September 2004.

30 RELATED PARTY TRANSACTIONS (Cont'd)

- (e) This represents the construction costs incurred in respect of the sewage water processing plants for the year ended 31 December 2004 and payable to the following related contractors:

Name of related parties	2004 RMB'000	2003 RMB'000
Tianjin Urban Road & Bridge Co., Ltd.	—	160
Tianjin Urban Road Construction No.2 Co., Ltd.	—	5,601
Tianjin Urban Road Construction No.3 Co., Ltd.	—	2,584
Tianjin Urban Road Construction No.5 Co., Ltd.	—	944
Tianjin City Construction Group Co., Ltd.	—	10,116
Tianjin Sewage Management Bureau No.8 Management Office	—	1,724
Tianjin Sewage Engineering Company	2,733	4,716
Tianjin Road & Bridge Management Bureau	—	2,415
Tianjin Municipal Engineering Design Research Institute	—	7,363
	<hr/>	<hr/>
Total	2,733	35,623
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According to the approval by the Tianjin Municipal Government and Tianjin Finance Bureau, Tianjin Urban Road & Bridge Co., Ltd. and other several associates, 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.

- (f) This represents an amount received from TMEB by the Company as one-off compensation for demolishing the old toll stations based on their net book value as at 30th June 2003.

31 DIRECTORS' REMUNERATION

The Company and its subsidiaries have paid an aggregate remuneration (including salaries, housing allowance and other allowance) of RMB1,855,000 to the Company's directors (2003: RMB2,188,000). The total amount includes director fees of RMB636,000 (2003: RMB689,000) paid to independent non-executive directors during the year.

32 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Pursuant to the Board of Directors' meeting held on 14th April 2005, the Company proposed to distribute a final cash dividend of RMB1 (tax included) for every ten shares held by shareholders, totalling RMB133,000,000, based on the total number of shares of 1,330,000,000 as at 31st December 2004,. The above proposal is subject to the shareholders' approval, according to revised "Accounting Standards for Business Enterprises - Events Occurring After the Balance Sheet Date", such distribution of dividend has not presented as liability in the accounts. Upon the approval by the coming shareholders meeting to be conducted, dividend distribution will be recorded as dividend payable in the 2005 accounts.

In addition, pursuant to the Board of Directors meeting held on 14th April 2005, The Company will invest in form of BOT (Build, Operate and Transfer) to construct a sewage water processing plant located in Chibi City of Hubei Province for an exclusive operating rights of 25 years. The estimated total investment amounted RMB95,000,000.

33 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 of China Securities Regulatory Commission 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 bonds were listed on Shanghai Stock Exchange on 19th July 2004.

34 AUTHORISATION FOR THE ISSUE OF THE ACCOUNTS

The accounts were authorised for issue by the Company's Board of Directors on 14th April 2005.