

# Notes to the Accounts

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

## 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 12.

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 operating costs, including 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 purchasing of those equipment and plant construction portions of the Sewage Plant Construction Projects originally funded by loans from foreign banks, including Asia Development Bank ("Asia Bank") and Japan International Cooperation Bank ("Japan Bank") (the "Foreign Loans"). 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 plant construction portions, the Company would be responsible for the management and the related repairs and maintenance of these equipment and plant construction portions during the construction period of the Sewage Plant Construction Projects, accordingly and pursuant to the Construction Fee Agreement, the Company would base on the percentage of completion of 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 Plant Construction Projects are set out below:

	<b>Xianyanglu Sewage Water Processing Plant Construction Project</b>	<b>Jizhuangzi Sewage Water Processing Plant Expansion Project</b>	<b>Beicang Sewage Water Processing Plant Construction Project</b>
<b>Location</b>	<b>Tianjin, the PRC</b>	<b>Tianjin, the PRC</b>	<b>Tianjin, the PRC</b>
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 (RMB' million)			
- 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 North 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 (2003: Nil) which were paid by TSC using the bank loans from Asia Bank and Japan Bank according to the Co-operative Agreement (note 11(ii)).

### **(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 Toll 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 activities of one of the Company’s subsidiary, Tianjin Capital New Materials Co., Ltd. (“TCNM”), is manufacturing and selling of new construction materials. TCNM commenced its business in May 2004 (note 12(b)).

## **2 PRINCIPAL ACCOUNTING POLICIES**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The accounts are prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### **(a) Basis of consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

### **(b) Subsidiaries**

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

In the Company’s balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### **(c) Associated companies**

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group’s share of the results of associated companies for the year, and the consolidated balance sheet includes the Group’s share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

## **2 PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

### **(c) Associated companies** *(Cont'd)*

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

### **(d) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation/amortisation 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 less accumulated impairment losses, if any, 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, less accumulated impairment losses, if any, 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 less accumulated impairment losses, if any, on a straight-line basis over the unexpired periods of the leases, the unexpired periods of the rights to operate the road and the toll stations or their expected useful lives, whichever is shorter. The periods adopted for depreciation range from 10 to 50 years.



## 2 PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (d) Fixed assets (Cont'd)

Other tangible fixed assets are depreciated at rates sufficient to write-off the cost less accumulated impairment losses, if any, of the assets and less estimated residual value, over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Plant, machinery and equipment	10-40 years
Motor vehicles and others	5-15 years

Construction in progress represents fixed assets under construction or installation and is stated at cost. Cost comprises all direct costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. Construction in progress is transferred to fixed assets when commissioned.

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 to the Group.

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. Any revaluation reserve balance being attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

### (e) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

## **2 PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

### (f) **Inventories**

Inventories comprise raw materials, work in progress, 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 weighted average basis. The cost of finished goods and work in progress comprise raw materials, 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.

### (g) **Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### (h) **Revenue recognition**

Revenue from sewage water processing 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 a qualified independent surveyor or engineers in the PRC.

Toll fee income is recognised on a receipt basis.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (i) **Repair and maintenance expenses**

Repair and maintenance expenses are charged to the profit and loss account as incurred.

### (j) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

## **2 PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

### **(k) Retirement benefits**

The Group participates in a defined contribution pension scheme organised by the Tianjin Municipal Government whereby the Group is required to make contributions at 20% of the salaries of employees for the year. According to the scheme, the local municipal government has undertaken to assume the retirement benefits obligations of all 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.

### **(l) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### **(m) Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

### **(n) Translation of foreign currencies**

The Group maintains its books and records in Renminbi.

Transactions in foreign currencies are translated into Renminbi at exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date.

All exchange differences are dealt with in the profit and loss account.

### 3 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is mainly engaged in sewage water processing, sewage water processing plants construction, road and toll stations and construction materials operations.

#### (a) Analysis of the Group's turnover and other revenues

	2004 RMB'000	2003 RMB'000
Turnover		
Revenue from sewage water processing services	434,756	397,890
Revenue from sewage water processing plants construction services	212,761	136,063
	<u>647,517</u>	<u>533,953</u>
Toll fee income	63,646	60,692
Sale of construction materials	2,574	—
	<u>713,737</u>	<u>594,645</u>
Other revenues		
Compensation income ( <i>note 1 (b)(ii)</i> )	—	5,538
Interest income	6,466	993
Others	3,058	—
	<u>9,524</u>	<u>6,531</u>
Total revenues	<u><u>723,261</u></u>	<u><u>601,176</u></u>

Pursuant to the PRC tax rules, except for the construction material business, the business of the Group is subject to PRC business tax levied at 5% of operating revenue and government surcharges levied at 10% of the amount of business tax. The business tax and government surcharges related to revenue derived from the business of the Group during the year ended 31st December 2004 amounted to RMB41,411,000 (2003 RMB35,051,000), and has been deducted from the operating revenue to arrive at the turnover of the Group.

**3 TURNOVER, REVENUES AND SEGMENT INFORMATION** (Cont'd)**(b) Business segment analysis**

	Sewage water processing and sewage water processing plants construction 2004 RMB'000	Road and toll stations 2004 RMB'000	Manufacture and selling of construction materials 2004 RMB'000	Group 2004 RMB'000
Turnover	647,517	63,646	2,574	713,737
Segment results	441,662	44,057	(2,908)	482,811
Taxation				(160,416)
Profit after taxation				322,395
Minority interests				802
Profit attributable to shareholders				323,197
Segment assets	4,156,240	443,540	51,978	4,651,758
Investment securities				6,000
Total assets				4,657,758
Segment liabilities	2,258,445	109,034	17,385	2,384,864
Unallocated liabilities				20,550
Total liabilities				2,405,414
Capital expenditure	246,652	13,822	30,398	290,872
Depreciation and amortisation	47,490	9,741	705	57,936

**3 TURNOVER, REVENUES AND SEGMENT INFORMATION** (Cont'd)

## (b) Business segment analysis (Cont'd)

	Sewage water processing and sewage water processing plants construction 2003 RMB'000	Road and toll stations 2003 RMB'000	Group 2003 RMB'000
Turnover	<u>533,953</u>	<u>60,692</u>	<u>594,645</u>
Segment results	<u>372,287</u>	<u>40,651</u>	412,938
Taxation			<u>(136,379)</u>
Profit after taxation			276,559
Minority interests			<u>333</u>
Profit attributable to shareholders			<u>276,892</u>
Segment assets	2,588,738	585,208	3,173,946
Investment in an associated company			9,000
Investment securities			<u>4,000</u>
Total assets			<u>3,186,946</u>
Segment liabilities	1,064,957	88,263	1,153,220
Unallocated liabilities			<u>13,377</u>
Total liabilities			<u>1,166,597</u>
Capital expenditure	426,430	5,214	<u>431,644</u>
Depreciation and amortisation	42,774	9,845	<u>52,619</u>

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

**4 OPERATING PROFIT**

Operating profit is stated after crediting and charging the following:

	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Crediting:		
Compensation for road and toll stations operations, net of expenses ( <i>note 1(b)(ii)</i> )	—	5,538
Charging:		
Depreciation and amortisation	57,936	52,619
Staff costs, including retirement benefit costs of RMB3,198,000 (2003: RMB2,641,000)	34,416	29,550
Repair and maintenance expenses	15,212	14,705
Management fee to Toll Fee Collection Office	7,120	3,560
Operating lease rentals for land and buildings	1,381	1,050
Auditors' remuneration	3,170	3,050
Loss on disposal of fixed assets	4,645	498

**5 FINANCE COSTS**

	2004 RMB'000	2003 RMB'000
Interest expenses		
- bank loans and overdrafts	38,526	32,450
- convertible bonds	14,040	-
	<u>52,566</u>	<u>32,450</u>
Amortisation of issuance expense of the convertible bonds (note 14)	3,460	—
Other ancillary borrowing costs	1,750	—
Less: amount capitalised in construction-in-progress	(24,107)	(13,108)
	<u>33,669</u>	<u>19,342</u>

**6 TAXATION**

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

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the PRC income tax rate and the difference is set out as follows:

	2004 RMB'000	2003 RMB'000
Profit before taxation	482,811	412,938
Calculated at a tax rate of 33% (2003: 33%)	159,327	136,270
Expenses not deductible for taxation purposes	1,089	109
	<u>160,416</u>	<u>136,379</u>

There is no unprovided deferred taxation of the Group for the year (2003: Nil).



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(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of RMB323,897,000 (2003: RMB279,888,000), which is dealt with in the accounts of the Company.

### 8 DIVIDEND

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Final, proposed of RMB1 (2003: RMB0.8) per ten share	<u>133,000</u>	<u>106,400</u>

Pursuant to the Board of Directors meeting held on 14th April 2005, the Board of Directors proposed to distribute a final dividend of RMB1 (tax included) per ten shares held by shareholders, totalling RMB133,000,000 (2003: RMB0.8 (tax included) per 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 2004. The proposed dividend is not reflected as a dividend payable in these accounts but will be reflected as an appropriation of retained earnings for the year ending 31st December 2005.

### 9 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of RMB323,197,000 (2003: RMB276,892,000) and 1,330,000,000 shares (2003: 1,330,000,000 shares) in issue during the year.

### 10 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Fees	636	689
Salaries and other emoluments	2,100	2,112
Contribution to retirement benefit scheme	65	59
	<u>2,801</u>	<u>2,860</u>

Emoluments paid to independent non-executive directors amounting to RMB636,000 during the year (2003: RMB689,000) have been included in the above balance.

None of the directors and supervisors of the Company received emoluments in excess of HK\$1,000,000 during the year.

**10 DIRECTORS' SUPERVISORS AND SENIOR MANAGEMENT'S EMOLUMENTS** (Cont'd)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include 2 (2003: 4) directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2003: 1) individuals during the year are as follows:

	<b>2004</b>	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other emoluments	750	300
Contribution to retirement benefit scheme	<u>28</u>	<u>9</u>
	<u><u>778</u></u>	<u><u>309</u></u>

**11 FIXED ASSETS****(a) Group**

	Land use rights <i>RMB'000</i>	Road <i>RMB'000</i>	Buildings and structures <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i>	Motor vehicles and others <i>RMB'000</i>	Construction in progress <i>RMB'000</i> <i>(Note (ii))</i>	Total <i>RMB'000</i>
Cost							
At 1st January 2004	645,517	185,418	677,777	273,494	58,585	1,220,625	3,061,416
Additions	4,374	—	16,548	9,869	19,368	240,713	290,872
Disposals	—	—	(7,284)	(5,523)	(2,101)	—	(14,908)
At 31st December 2004	<u>649,891</u>	<u>185,418</u>	<u>687,041</u>	<u>277,840</u>	<u>75,852</u>	<u>1,461,338</u>	<u>3,337,380</u>
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	<u>71,337</u>	<u>39,448</u>	<u>291,389</u>	<u>144,165</u>	<u>35,987</u>	<u>—</u>	<u>582,326</u>
Net book value							
At 31st December 2004	<u><u>578,554</u></u>	<u><u>145,970</u></u>	<u><u>395,652</u></u>	<u><u>133,675</u></u>	<u><u>39,865</u></u>	<u><u>1,461,338</u></u>	<u><u>2,755,054</u></u>
At 31st December 2003	<u><u>589,010</u></u>	<u><u>149,423</u></u>	<u><u>401,226</u></u>	<u><u>141,223</u></u>	<u><u>25,356</u></u>	<u><u>1,220,625</u></u>	<u><u>2,526,863</u></u>

**11 FIXED ASSETS** (Cont'd)**(b) Company**

	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	Construction in progress RMB'000 (Note (ii))	Total RMB'000
Cost							
At 1st January 2004	645,517	185,418	634,327	207,148	55,549	1,113,164	2,841,123
Additions	287	—	1,058	4,198	14,641	206,739	226,923
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>1,319,903</u>	<u>3,053,138</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>—</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>1,319,903</u></u>	<u><u>2,480,812</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>1,113,164</u></u>	<u><u>2,307,160</u></u>

**11 FIXED ASSETS** (Cont'd)**(b) Company** (Cont'd)

Notes:

- (i) All of the Group's land use rights, road, buildings and structures and plants are located in the PRC and held under medium term leases of 50 years.
- (ii) The construction in progress is comprised of the following:

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Company</b>				
Xianyanglu Sewage Water Processing Plant				
Construction Project	544,536	413,886	544,536	413,886
Jizhuangzi Sewage Water Processing Plant				
Expansion Project	634,477	605,914	634,477	605,914
Beicang Sewage Water Processing Plant				
Construction Project	104,845	87,746	104,845	87,746
Research and Development Center Project	6,525	2,233	6,525	2,233
Jizhuangzi Office Building Project	5,175	1,242	5,175	1,242
Staff Dormitory Project	5,401	1,135	5,401	1,135
Chibi Sewage Water Processing Plant				
Construction Project	6,591	—	6,591	—
Others	12,353	1,008	12,353	1,008
	<u>1,319,903</u>	<u>1,113,164</u>	<u>1,319,903</u>	<u>1,113,164</u>
<b>Subsidiary</b>				
Tianjin Jizhuangzi Sewage Water				
Recycling Project	138,348	107,461	—	—
Others	3,087	—	—	—
	<u>141,435</u>	<u>107,461</u>	<u>—</u>	<u>—</u>
Total	<u>1,461,338</u>	<u>1,220,625</u>	<u>1,319,903</u>	<u>1,113,164</u>
Borrowing cost capitalised	<u>43,543</u>	<u>19,436</u>	<u>38,231</u>	<u>16,749</u>

**11 FIXED ASSETS** (Cont'd)**(b) Company** (Cont'd)

Notes: (Cont'd)

- (ii) The construction in progress is comprised of the following:

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

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

**12 INTEREST IN SUBSIDIARIES**

	Company	
	2004	2003
	RMB'000	RMB'000
Unlisted investments in the PRC, at cost	<u>139,500</u>	<u>62,000</u>

**12 INTEREST IN SUBSIDIARIES** (Cont'd)

Particulars of the subsidiaries at 31st December 2004 are as follows:

Name of subsidiary	Place of incorporation and operation and kind of legal entity	Principal activities	Registered capital RMB'000	Interest held directly
Guizhou Capital Water Co., Ltd. ("Guizhou Capital") (note (a))	Guiyang, the PRC, Limited liability company	Development and construction of municipal sewage water plants and provision of related consulting services for water processing facilities.	100,000	95%
Tianjin Water Recycling Co., Ltd.	Tianjin, the PRC, Limited liability company	Production of recycled water, equipment development and technical consulting for water recycling business.	20,000	90%
Tianjin Capital New Materials Co., Ltd. ("TCNM") (note(b))	Tianjin, The PRC, Limited liability company	Manufacture of new types of construction materials	37,500	70.7%

## Notes:

- (a) During 2003, the Company and a foreign company jointly invested and established Guizhou Capital. With the approval of the Board of Directors of the Company on 8th July 2004, the foreign company was agreed to transfer its 25% and 5% equity interest in Guizhou Capital to the Company and Guizhou Jinxiu Culture and Technology Co., Ltd respectively. The Company's cumulative capital contributions amounted to RMB95 million and the equity interest was increased from 70% to 95%. The subsidiary commenced production in early 2004.
- (b) 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 and 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 representing 70.7% of the Company's registered capital of this company. Accordingly TCNM has become the subsidiary from previously an associated company. TCNM has already commenced its operation since May 2004.

**13 INVESTMENT SECURITIES**

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments in the PRC, at cost	<u>6,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>

**14 OTHER NON-CURRENT ASSETS**

	Group and Company	
	2004	2003
	RMB'000	RMB'000
(a) Issuance expense of the convertible bonds ( <i>note (i)</i> )		
Addition during the year	34,608	—
Amortisation charge	(3,460)	—
At 31st December	<u>31,148</u>	—
(b) Restricted bank deposits ( <i>note (19)</i> )	<u>20,000</u>	—
	<u>51,148</u>	—

Note:

- (i) The issuance expense of the convertible bonds is being amortised over the duration of the convertible bonds. Any unamortised amount would be charged to the profit and loss account in the year when all the convertible bonds are being redeemed, converted or purchased and cancelled before the maturity date on 30th June 2009.

**15 INVENTORIES**

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	1,954	1,680	1,646	1,680
Finished goods	3,725	—	—	—
Spare parts and consumables	121	443	121	443
	<u>5,800</u>	<u>2,123</u>	<u>1,767</u>	<u>2,123</u>



**16 ACCOUNTS RECEIVABLE**

Details of the accounts receivable are set out as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
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 (note 1(a)(ii))	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 Administrative Bureau				
- Revenue from sewage water processing services	1,981	—	—	—
Others	639	—	—	—
	<u>393,802</u>	<u>107,737</u>	<u>391,182</u>	<u>107,737</u>

The normal credit period granted to the customers of the Group is up to 90 days.

At 31st December 2004, the ageing analysis of the accounts receivable was as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within one year	380,484	107,737	377,864	107,737
Over one year	13,318	—	13,318	—
	<u>393,802</u>	<u>107,737</u>	<u>391,182</u>	<u>107,737</u>

## 17 OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments as at 31st December 2004 included a prepayment of RMB115,411,000 (2003: RMB82,000,000) to a property developer in respect of the acquisition of the Company's office premises and investment properties (Note 27). This property had been actually 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 belongs to the Company from the time of the Company occupying the building to the time of completion of the procedures of title transfer. The directors of the Company believe the acquisition of this premises will be completed in 2005.

## 18 DEPOSIT WITH A FINANCIAL INSTITUTION

It represents a current deposit of RMB400,000,000 (2003: Nil) in an independent state-owned non-banking financial institution. This deposit carries interest at the current deposit rate as promulgated by the People's Bank of China.

## 19 BANK BALANCES AND CASH

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cash on hand and in bank	941,999	450,074	859,619	400,063
Restricted bank deposits included in other non-current assets (note (i) and note 14)	(20,000)	—	(20,000)	—
	<u>921,999</u>	<u>450,074</u>	<u>839,619</u>	<u>400,063</u>
Included:				
Special funds for construction-in-progress (note (ii))	<u>129,145</u>	<u>308,796</u>	<u>128,887</u>	<u>292,875</u>
Restricted bank deposits (note (i))	<u>3,332</u>	<u>—</u>	<u>3,332</u>	<u>—</u>

### Note

- (i) As at 31st December 2004, included in restricted bank deposits was an amount of RMB20,000,000 (2003: Nil) representing a collateral deposited in Construction Bank of China, Tianjin Branch which provided guarantee for the issuance of the Company's convertible bonds. The remaining restricted bank deposits represented the project bidding deposit as required by the tenderer in course of project bidding.
- (ii) 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.

## 20 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).

## 21 OTHER PAYABLES

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Construction costs payable (note (a))	97,720	140,070	97,720	138,024
Payable to purchase of fixed assets (note (b))	55,000	66,000	—	—
Others	41,681	25,896	40,489	26,931
	<u>194,401</u>	<u>231,966</u>	<u>138,209</u>	<u>164,955</u>

Notes:

- (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)).
- (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 Water Co., Ltd.

## 22 SHORT-TERM BANK LOANS, UNSECURED

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

## 23 SHARE CAPITAL

	Company	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Registered, issued and fully paid:		
990,000,000 A shares of RMB1 each	990,000	990,000
340,000,000 H shares of RMB1 each	340,000	340,000
	<u>1,330,000</u>	<u>1,330,000</u>

All the A and H shares rank pari passu in all respects.

The Company established a Sponsored level 1 American Depositary Receipts ("ADR") Program with The Bank of New York (as the Depositary Bank). Securities and Exchange Commission of the United States declared that the registration statement of the ADR Program has become effective on 23rd December 2003. Each ADR under the ADR Program shall represent 20 H shares of the Company listed on The Stock Exchange of Hong Kong Limited. The Company did not and will not issue any new shares under such ADR Program. Trading of the Company's ADR will only be made in the over-the-counters markets in the United States.

**24 RESERVES****(a) Group**

	<b>Capital reserve fund</b>	<b>General reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(note(i))</i>	<i>(note(ii))</i>		
At 1st January 2003	69,289	84,335	371,500	525,124
Profit for the year	—	—	276,892	276,892
Transferred from profit and loss account to:				
— statutory common reserve <i>(note (ii))</i>	—	27,689	(27,689)	—
— statutory provident fund <i>(note (ii))</i>	—	13,845	(13,845)	—
— dividend payable	—	—	(113,050)	(113,050)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2003	<u>69,289</u>	<u>125,869</u>	<u>493,808</u>	<u>688,966</u>
Representing:				
Retained earnings at 31st December 2003			387,408	
2003 proposed final dividend			106,400	
			<hr/>	
At 31st December 2003			<u>493,808</u>	
At 1st January 2004	69,289	125,869	493,808	688,966
Profit for the year	—	—	323,197	323,197
Transferred from profit and loss account to:				
— statutory common reserve <i>(note (ii))</i>	—	32,320	(32,320)	—
— statutory provident fund <i>(note (ii))</i>	—	16,160	(16,160)	—
— dividend payable	—	—	(106,400)	(106,400)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2004	<u>69,289</u>	<u>174,349</u>	<u>662,125</u>	<u>905,763</u>
Representing:				
Retained earnings at 31st December 2004			529,125	
2004 proposed final dividend			133,000	
			<hr/>	
At 31st December 2004			<u>662,125</u>	

**24 RESERVES** (Cont'd)

## (b) Company

	<b>Capital reserves fund</b>	<b>General reserves</b>	<b>Retained earnings</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(note (i))</i>	<i>(note (ii))</i>		
At 1st January 2003	69,289	84,335	374,061	527,685
Profit for the year	—	—	279,888	279,888
Transferred from profit and loss account to:				
— statutory common reserve <i>(note (ii))</i>	—	27,689	(27,689)	—
— statutory provident fund <i>(note (ii))</i>	—	13,845	(13,845)	—
— dividend payable	—	—	(113,050)	(113,050)
	<u>69,289</u>	<u>125,869</u>	<u>499,365</u>	<u>694,523</u>
At 31st December 2003	<u>69,289</u>	<u>125,869</u>	<u>499,365</u>	<u>694,523</u>
Representing:				
Retained earnings at 31st December 2003			392,965	
2003 proposed final dividend			106,400	
			<u>499,365</u>	
At 31st December 2003			<u>499,365</u>	
At 1st January 2004	69,289	125,869	499,365	694,523
Profit for the year	—	—	323,897	323,897
Transferred from profit and loss account to:				
— statutory common reserve <i>(note (ii))</i>	—	32,320	(32,320)	—
— statutory provident fund <i>(note (ii))</i>	—	16,160	(16,160)	—
— dividend payable	—	—	(106,400)	(106,400)
	<u>69,289</u>	<u>174,349</u>	<u>668,382</u>	<u>912,020</u>
At 31st December 2004	<u>69,289</u>	<u>174,349</u>	<u>668,382</u>	<u>912,020</u>
Representing:				
Retained earnings at 31st December 2004			535,382	
2004 proposed final dividend			133,000	
			<u>668,382</u>	
At 31st December 2004			<u>668,382</u>	

**24 RESERVES** (Cont'd)**(b) Company** (Cont'd)

Notes:

- (i) Capital reserve fund comprises share premium arising from the issuance of shares. Amounts in capital reserve fund can be utilised to offset prior years' losses or for issuance of bonus shares.
- (ii) 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.

- (iii) The distributable reserve available to the Company as at 31st December 2004 amounted to RMB668,382,000 (2003: RMB499,365,000) before the proposed final dividend for the year ended 31st December 2004.

**25 LONG-TERM LIABILITIES**

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Bank Loans (note (a))	655,000	690,000	605,000	630,000
Specific payables (note (b))	81,307	81,652	—	—
Convertible bonds (note (c))	1,200,000	—	1,200,000	—
Other long-term payables	10,412	—	—	—
	<u>1,946,719</u>	<u>771,652</u>	<u>1,805,000</u>	<u>630,000</u>
Less: Long-term bank loans				
repayable within one year				
included under current liabilities	(50,000)	(50,000)	(50,000)	(50,000)
	<u>1,896,719</u>	<u>721,652</u>	<u>1,755,000</u>	<u>580,000</u>

**25 LONG-TERM LIABILITIES** (Cont'd)

(a) Long-term bank loans include:

- (i) A long-term loan of RMB555,000,000 (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.
- (ii) A long-term loan of RMB50,000,000 (2003: RMB50,000,000) obtained from China Everbright Bank for the purpose of financing the construction of the Sewage Plant Construction Projects. The interest rate is 5.76% (2003: 5.76%) per annum. The loan has a total facility limit of RMB700,000,000 and is secured by the right to receive sewage water processing fees of TSC.
- (iii) A long-term loan of RMB50,000,000 (2003: RMB60,000,000) obtained by the Company's subsidiary, Tianjin Water Recycling Co., Ltd, from China Everbright Bank, for the purpose of financing of the installation of water pipes for recycled water. The interest rate is 5.02% (2003: 5.02%) per annum. The loan is guaranteed by Tianjin Municipal Investment Company Limited ("TMICL"), the controlling shareholder of the Company.

The long-term loans are repayable as follows:

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	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
	<u>655,000</u>	<u>690,000</u>	<u>605,000</u>	<u>630,000</u>



## 25 LONG-TERM LIABILITIES (Cont'd)

### (b) Specific payables

Specific payables mainly include amounts totalling RMB81,000,000 (2003: RMB81,000,000), granted by TMEB to the Company's subsidiary, Tianjin Water Recycling Company Limited. The specific payables are granted for the construction of Tianjin Jizhuangzi Sewage Water Recycling Project. This specific payables are interest free, and the method and date of repayment will only be determined after the completion of the construction project.

### (c) Convertible bonds

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.

**26 CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of profit before taxation to cash generated from operations**

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	482,811	412,938
Depreciation and amortisation	57,936	52,619
Loss on disposal of fixed assets	4,645	498
Interest income	(6,466)	(993)
Interest expense-net of amount capitalised	28,459	19,342
	<hr/>	<hr/>
Operating profit before working capital changes	567,385	484,404
(Increase)/decrease in inventories	(3,677)	317
Increase in accounts receivable, other receivables and prepayments	(286,896)	(82,671)
Decrease in accounts payable, advances from customers and other payables	(25,674)	(12,744)
	<hr/>	<hr/>
Cash generated from operations	<u>251,138</u>	<u>389,306</u>

**(b) Acquisition of subsidiaries**

In July 2004, the Group increased its equity interest in Tianjin Capital New Materials Co., Ltd. from 45% to 70.7% by cash contribution of RMB17.5 million.

	2004 <i>RMB'000</i>
Net assets acquired	
Fixed assets	12,337
Trade and other receivables	372
Bank balances and cash	24,791
Minority shareholders' interests	(11,000)
	<hr/>
	26,500
Less: Interest originally held by the Group	(9,000)
	<hr/>
Satisfied by cash	<u>17,500</u>

**26 CONSOLIDATED CASH FLOW STATEMENT** (Cont'd)**(b) Acquisition of subsidiaries** (Cont'd)

Analysis of the net cash inflow in respect of the purchase of subsidiaries:

	2004 RMB'000
Cash consideration	(17,500)
Bank balances and cash in hand acquired	<u>24,791</u>
Net cash inflow in respect of the purchase of subsidiaries	<u><u>7,291</u></u>

The subsidiary acquired during the year ended 31st December 2004 utilised RMB9,511,000 of the Group's net operating cash flows, utilised RMB15,006,000 for investing activities and contributed RMB14,846,000 from financing activities.

**(c) Analysis of major changes in financing during the year**

	2004			2003
	Short-term bank loans and			
	Minority interests	long-term liabilities	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January	1,383	816,652	818,035	598,392
New short-term bank loans	—	115,000	115,000	50,000
New long-term bank loans	—	—	—	200,000
Increase in other long-term liabilities	—	10,412	10,412	—
Repayment of a short-term bank loan	—	(45,000)	(45,000)	(30,000)
Repayment of a long-term bank loan	—	(35,000)	(35,000)	—
Acquisition of a subsidiary	11,000	—	11,000	—
Capital injections by minority shareholders	5,000	—	5,000	—
Share of loss of subsidiaries, net	(802)	—	(802)	(333)
Gross proceeds received from issuance of convertible bonds	—	1,200,000	1,200,000	—
Decrease in specific payables	—	(345)	(345)	(24)
At 31st December	<u>16,581</u>	<u>2,061,719</u>	<u>2,078,300</u>	<u>818,035</u>

**27 CAPITAL COMMITMENTS**

	Group		Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	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 Chibi Sewage Water Processing 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
Invest to construct a sewage water processing plant	Sewage water processing	52,523	—
Invest to establish two joint venture companies	Operate water related business	252,000	—
		<u>304,523</u>	<u>—</u>

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 with an estimated total investment amounting to RMB95,000,000.

## 28 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 related companies	Nature of transaction	2004 RMB'000	2003 RMB'000
Income:			
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
Expenses:			
TMICL	Operating lease rental in respect of office premises ( <i>note (d)</i> )	963	1,050
Others:			
Construction of sewage water processing plants:			
Related contractors	Amounts payable for sewage water processing plants construction costs ( <i>note (e)</i> )	2,733	35,623
Disposal of fixed assets	Compensation received for toll station removal ( <i>note (f)</i> )	—	32,563

- (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 Plant Construction Projects 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 represented 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 for a total annual rentals of RMB963,000 (2003: RMB1,050,000) in 2004 and the leasing agreements were ceased before the end of 2004.

**28 RELATED PARTY TRANSACTIONS** (Cont'd)

- (e) This represents the construction costs incurred in respect of the sewage water processing plants for the year ended 31st 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	<u>2,733</u>	<u>35,623</u>

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 represented 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.

## **29 ULTIMATE HOLDING COMPANY**

The directors of the Company regard Tianjin Municipal Investment Company Limited as being the ultimate holding company.

## **30 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.

## **31 APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 14th April 2005.