

Major Events

1. During the year 2004, there is no litigation or arbitration that is material to the Company.
2. The Company had no acquisitions and sale of assets, merger and combination during the reporting period.
3. Significant connected transactions
 - (1) The Company's sewage water treatment business was operated in accordance with the Sewage Water Processing Agreement entered into the Group and Tianjin Sewage Company on 10th October 2000. Pursuant to the agreement, Dongjiao Sewage Water Treatment Plant and Jizhuangzi Sewage Water Treatment Plant of the Company provided sewage water treatment services to Tianjin Sewage Company, and charged fees calculated based on the formula stipulated in the agreement. Tianjin Sewage Company is a state-owned enterprise established in the PRC and is within the control of Urban Construction Bureau. The price calculation formula ensures that the sewage water treatment business can recover all the actual operational costs, including depreciation and amortisation of the fixed assets (excluding interests expenses and exchange difference). It can generate a 15% return calculated based on the annual mean of the monthly average book value of the relevant fixed assets (as defined in the agreement) of the sewage water treatment business. In addition, it can earn a price adjustment reward when it can cut cost or when the process volume exceeds the minimum processing volume as stipulated in the agreement. During the reporting period, the Company has processed 227,000,000 cubic metre of sewage water. The Company derived a sewage water processing service fees of RMB437,770,000 in accordance with the Sewage Water Processing Agreement.
 - (2) In accordance with the Fee Agreement on the Construction-in progress of the Sewage Water Plant Expansion Projects ("the Construction Fee Agreement"), the Company will assume the funds required for the construction-in progress of Xianyanglu Sewage Water Treatment Plant project, the expansion project of Jizhuangzi Sewage Water Treatment and Beicang Sewage Water Treatment Plant project ("Three Construction-in progress Projects"). Pursuant to the agreement, during the construction period of the Three Construction-in progress Projects, Tianjin Sewage Company agreed to pay and the Company agreed to receive the construction fees as the reward for the Company undertaking the Three Construction-in progress Projects. The total construction fees are the sum of 23.7% of the arithmetic mean of the estimated construction costs required in each year or period during the construction period (from 24th September 2001 to the date of completion and operation of the sewage water treatment plants). Based on this calculation method, the total construction fees receivable by the Company on the Three Construction-in progress Projects amounted to RMB1,170 million. Pursuant to the Construction Fee Agreement, Tianjin Sewage Company shall pay the construction fees in advance based on the estimated completion percentage for that month of each project. At the end of each quarter, fee adjustments determined by the independent surveyors or engineers based on the completed project will be made. At the same time, pursuant to the Construction Fee Agreement, after the three sewage water treatment plants commence operation, the respective rights and obligations of the Company and Tianjin Sewage Company will be based on the Sewage Water Processing Agreement. Pursuant to the Construction Fee Agreement, during the reporting period, the construction work completed for the construction in-progress project of Beicang Sewage Water Treatment Plant, the construction in-progress project of Xianyanglu Sewage Water

Treatment Plant and the construction in-progress expansion project of Jizhuangzi Sewage Water Treatment during the agreed period amounted to RMB440,000,000. An income of RMB225,000,000 was derived based on the Construction Fee Agreement on the Construction-in progress of the Sewage Water Plant Expansion Projects.

4. Significant contracts and status of implementation

(1) Custody

The Company did not provide any custodian during the year.

(2) Subcontracting

The Company did not provide any subcontracting during the year.

(3) Leasing

The Company did not have any leasing matters during the year.

(4) Guarantee

The Company did not have any guarantee matters during the year.

(5) Trust arrangement

The Company did not make any trust arrangements during the year.

(6) Other major contracts

The Company did not enter into any other major contracts during the year.

5. During the reporting period or remaining effective up to the reporting period, the Company or Shareholders who are interested in more than 5% of the total issued share capital of the Company had not published any matters of commitments in the designated newspapers and websites.

6. Appointment and disappointment of the auditors of the Company

During the reporting period, the Company did not change its auditors and re-appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers, Certified Public Accountants as the auditors of the Company. The remuneration paid for the audit work was approximately HK\$3,200,000 in aggregate for the previous year. As at the end of the previous reporting period, the auditors had provided 10 years of audit service to the Company.

Pursuant to the requirements under the “Provision concerning regular switch of certified public accountant in charge providing audit services for securities and futures” (Zheng Jian Hui Ji Zi [2003] No. 13), the Company has switched the certified public accountant in charge of its audit work in 2004 in compliance with the relevant provisions. Remunerations paid to the auditors of the Company during recent two years are as follows:

	2004	2003	Notes
	<i>RMB</i>	<i>RMB</i>	
Audit and financial services fees	3,170,000	3,050,000	The amount does not include other expenses such as the trip expenses mentioned below
Other fees	—	20,990	For the year ended 31st December 2004, the Company no other fees was paid to the auditors of the Company, which represent the reimbursement of accommodation and traveling expenses incurred during the course of audit works carried out by the auditors of the Company in Tianjin. The directors of the Company confirm that the payment of such fees will not impair the independence of the auditors of the Company

7. Other significant events:

- (1) According to the latest requirement of the Listing Rules, the Company is required to appoint a full-time qualified accountant who holds a professional qualification of the Hong Kong Institute of Certified Public Accountants or recognised by such organisation. The appointment of Mr. Chan Yuk Hiu as a qualified accountant of the Company was considered and approved in the 4th meeting of the Third Board held on 25th March 2004. Mr. Chan was then resigned from the position as a qualified accountant because of the personal reasons. The resolution regarding the resignation of Mr. Chan and the appointment of Ms. To Wai Kum in such position was considered and approved in the 11th meeting of the Third Board of the Company.
- (2) As reviewed in the 17th working meeting of the Issue Review Committee of 2004 held on 5th April 2004 by the Issue Review Committee of CSRC, the application by the Company to issue RMB1,200 million of A Shares Convertible Bonds was approved, which would commence public offering on 1st July. The A Shares Convertible Bonds were listed on SSE on 19th July 2004, Bond code: 110874.
- (3) The Company entered into a cooperative framework agreement with Chibi Municipal Construction Bureau on 18th May 2004, and intended to finance, construct and operate Chibi Sewage Treatment Plant by way of BOT (Build-Operate-Transfer) model, and acquire and operate No. 1 Water Plant, No. 2 Water Plant and Pufang Water Plant from Chibi Water Supply Corporation by way of TOT (Transfer-Operate-Transfer) model. Both parties to the agreement are now engaged in the follow-up duties. The Company will continue to make further announcements in compliance with relevant provisions of the relevant laws and regulations.

- (4) The resolution in respect of the increase in the registered capital of Capital Materials Company was considered and approved in the 8th meeting of the Third Board on 8th July 2004. The registered capital of Capital Materials Company was proposed to be increased to RMB40 million. Upon approval by this Board, the Company will make additional capital contribution to the registered capital in an amount of RMB17.5 million. Following the capital increase, the aggregate capital contribution will amount to RMB26.5 million, representing the registered capital of 66.25% of Capital Materials Company after the capital increase. The Company will become the controlling shareholder of Capital Materials Company. (Please refer to the related announcement published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 9th July 2004.)
- (5) The resolution in respect of the change of shareholding of Guizhou Capital Water was considered and approved in the 8th meeting of the Third Board on 8th July 2004. Upon approval by this Board, Longli Group transferred its entire 30% interests in Guizhou Capital Water, the joint venture company, to the Company and Guizhou Jinxu Cultural Science and Technology Co., Ltd., being 25% and 5% shareholdings respectively. (Please refer to the related announcement published on Shanghai Securities, Hong Kong Wen Wei Po and The Standard on 9th July 2004.)