



## Management's Discussion and Analysis

The following discussion shall be read together with the consolidated accounts of the Group as set out in other sections of this annual report. The Group maintains its books and records in accordance with accounting principles of the PRC, and prepares its accounts in accordance with PRC GAAP and HK GAAP. The following discussion and analysis is prepared in accordance with PRC GAAP.

### 1. Industry Review

#### (1) Before the asset exchange

The Group focused on the production of basic chemical materials before the asset exchange. The chemical industry is one of the pillars of the PRC economy. The Group's primary business is the production of chemical raw materials, which is a foundation industry supported with major development efforts under the State industrial policy. The Group's three principal products are soda ash, caustic soda and PVC resin.

Soda ash is one of the most important chemical materials. Its market mainly spread from chemical production, building materials, glass production, light industrial products, metallurgy to pharmaceutical industries. In 2000, production volume of soda ash in the PRC amounted to 8,343,200 tonnes. The Group's total production volume of soda ash was 698,500 tonnes, representing a 4.9% growth as compared to last year. The Group was the fifth largest producer in the PRC, making up 8.37% of the domestic production of soda ash.

Caustic soda is a strong alkaline chemical product and is mainly used in the chemical production, textile, dyeing, metallurgy, papermaking and pharmaceutical industries. In 2000, the production volume of caustic soda in the PRC was 6,678,800 tonnes. The Group's total production volume was 373,300 tonnes, representing a 7.97% increase over last year. The Group was the largest producer of caustic soda in the PRC, making up 5.59% of the domestic production of caustic soda.

PVC resin is the basic material for the production of plastic products. In 2000, a total of 2,397,200 tonnes of PVC resin was produced in the PRC. The Group's total production volume was 248,100 tonnes, representing a 11.41% increase from last year. The Group was the second largest PVC resin producer in the PRC, representing 10.35% of the domestic production of PVC resin.

## 1. Industry Review (Cont'd)

### (2) After the completion of the asset exchange

Following the implementation of asset exchange, the Company is engaged in the operation of environmental protection and municipal infrastructure facilities in Tianjin. Both environmental protection and municipal infrastructure facilities are the fundamental industries which are heavily supported by the State. Environmental protection is also the focus of the twenty-first century, and is protected and supported by State policies. As Tianjin is a major coastal city in northern China and the economic and financial centre in the Bohai Bay area, sewage water treatment business and municipal infrastructure facilities are the business focuses for development. The Tianjin Municipal Government and the Commission of Urban and Rural Construction of the Tianjin Municipality, the supervisory authorities of the Company have also declared their unlimited supports to the Company. In particular, it was undertaken by the Commission of Urban and Rural Construction of the Tianjin Municipality that the Company would be the only overseas listed flagship that has been engaged in the sewage water treatment and city road and toll stations businesses which are under its supervision.

Prior to the completion of asset exchange, the results of the Group was mainly affected by the chemicals' market conditions. In 2000, despite of the improvement in the chemicals' market, the problem of excessive finance costs as a result of huge debts together with the problem of long outstanding accounts receivable, attributed to an operating loss of Rmb 92,900,000 up to 20th December 2000. Accordingly, the Group implemented the asset restructuring. Through the disposal of certain receivables and investments, the set-off of accumulated losses with general reserves, and the change in principal business activities as a result of the asset exchange, the Group recorded a net profit of Rmb 168,604,000.



## 1. Industry Review (Cont'd)

After the asset restructuring, the Company's major source of income is derived from sewage water treatment and city road and toll station businesses. According to the Sewage Water Processing Agreement signed between the Company and Tianjin Sewage Company, income derived from the processing fee accounted for 75% of the Company's total income after the asset restructuring whereas the remaining 25% income derived from tolls collected from the toll stations business.

Sewage water processing is a key to improve Tianjin's environment. The Company now owns two sewage water treatment plants, namely Dongjiao Plant and Jizhuangzi Plant. For the period from the effective date of the asset exchange on 20th December 2000 to 31st December 2000, Jizhuangzi Plant and Dongjiao Plant had processed 3,268,126 cubic meters and 3,124,501 cubic meters of sewage respectively.



## 1. Industry Review (Cont'd)

The city road business is an infrastructure facility of Tianjin. The toll station business generates income and funds for the road repair and maintenance expenses. The city road and toll stations business owned by the Company has a tolled traffic flow of 87,476 from 20th December 2000, the date of the asset exchange became effective, to 31st December 2000.

There is almost no competition for the sewage water treatment and city roads and toll stations businesses of the Company. Therefore, the major factor affecting net profit is costs, which comprises salary, power costs, chemicals, and maintenance expenses. During the period from 20th December 2000 to 31st December 2000, the aggregate amount of the aforesaid three cost items amounted to Rmb 1,307,000.

Tianjin is one of the four municipalities that are under the direct administration of the central government of China. Tianjin is the largest coastal city in northern PRC and the economic and finance centre of the Bohai Bay area. The economy of Tianjin has grown since the PRC has implemented the economic reform and the "open door policy" in the late 1970s. Since the economic reform to 1999, the average annual growth rate of the nominal GDP of Tianjin was approximately 18.66%, as compared to 17.9% of the PRC (Source: China Statistics Yearbook).

The economic development of the PRC imposed a demand for an improvement in the urban infrastructure facilities both in terms of quality and quantity. And the economic development of Tianjin also led to a greater demand for more convenient urban infrastructure facilities to support and supplement its economic development. With the enhancement in the livelihood of the citizens, there is a corresponding higher expectation on the environment. These factors have created substantial demands and rooms for development in urban construction and environmental protection businesses.

In addition, water supply in Tianjin is insufficient but the urban development requires additional support of water resources. The treatment of the sewage water will, to a certain extent, solve the water shortage problem faced by the Tianjin citizens.

### (3) Difficulties and problems encountered in production and operations and related solutions in 2000

#### (a) Before completion of the asset exchange (excluding the recovery of certain assets at gross value)

The Asian financial crisis and recession in the domestic economy attributed to the Group's substantial losses in 1998 and 1999. In 2000, there was improvement in the operating environment of the Group but the competition in the chemical industry was still keen. The prices of the Group's major products including soda ash, caustic soda, benzoyl mono-chloride and PVC rose gradually. Accordingly, the Group had adopted a series of effective measures such as expanded re-engineering and had enhanced corporate and financial management which effectively prevented a further slump in the operational efficiency. However, up to 20th December 2000, the Group still recorded a loss of Rmb 92,900,000, despite the figure already represents a decrease in loss of Rmb 281,280,000 as compared with the previous year.