

## 1. Industry Review (Cont'd)

Major measures adopted by the Group to tackle the difficulties in production and operations included:

- (i) The Group streamlined the production processes and was more aggressive in the market development in order to ensure growth in production volume and revenue. Up to 20th December 2000, the production volumes of PVC, proplene dioxide and soda ash were increased by 11.41%, 61.61% and 7.97%, respectively. Ratio of sales over annual production reached 100.18%, with a continuous increase in export trading and export-oriented production. Up to 20th December 2000, the Group exported products in the total value of Rmb 354,260,000, representing an increase of 14.52% over last year. It also achieved an export-oriented production in the total value of USD33,490,000, representing an increase of 11.67% from the previous year.
- (ii) Based on the policy of economy of scale, the Group enhanced its management and operational efficiency. In 2000, the Group was successful in reducing the loss and raising the efficiency through the implementation of the policy of economy of scale, cost control for optimal efficiency and dynamic management style.
- (iii) By deploying the low cost on-going expansion, the Group became the new powerhouse of economic growth. In 2000, it upgraded the equipment for PVC production from proplene dioxide and calcium carbide and raised the production capacity substantially by overcoming the shortage of funds by deploying the low cost on-going expansion.
- (iv) Stepping up efforts of corporate reforms, the Group enhanced its competitiveness. In 2000, all the subsidiaries stepped up the reform of distribution and labour policies. This led to a smooth reduction in the number of employees by leveraging on the incentive of the reformed distribution policy and quota policy on labour.

### (b) The Company's status after the completion of asset exchange

Following the completion of asset exchange, the Company is positioned advantageously in Tianjin with respect to its principal operation. The Company now has a stable income source. The Company now focuses on the cost control and human resource management so as to achieve the target as stated in the "Sewage Water Processing Agreement" at a lower cost basis, and to also carry out the toll stations operation business by adopting a lower cost approach accordingly.

## 1. Industry Review (Cont'd)

- (i) To strengthen the internal control of toll stations. As the tolls are collected in cash by the operators at the toll stations, it is necessary to strengthen the monitoring on the toll collection procedures and the surveillance of the toll stations. The Company has installed the surveillance systems at the toll stations. As at 31st December 2000, the installation of surveillance system at the eight toll stations of heavier traffic flow was completed. The result of surveillance is satisfactory.
- (ii) To strengthen the training for staff and to enhance their qualities. The Company has introduced a series of training programs for its staff so as to enhance their qualities. The Company also intends to recruit experts with relevant experience in order to enhance their professional standard. At the same time, the Company will set up an appraisal system to conduct appraisals for its staff on a regular or ad-hoc basis. Staff will be laid off if they fail to satisfy the requirements of the Company.
- (iii) To strengthen the cost control. The Company has imposed strict controls on expenditures with an aim to reduce costs while maintaining the quality and fee level of sewage water processing. Such policy would increase the profitability of the Company's business as a whole.

## 2. Financial Performance of the Group

### (1) An analysis of financial performance of the Group (prepared in accordance with PRC GAAP)

Item	2000	1999	Change
	Rmb'000	Rmb'000	%
(1) Total assets	<b>1,419,534</b>	6,964,042	(79.62)
(2) Long-term liabilities	—	3,026,093	(100)
(3) Shareholders' equity	<b>1,406,654</b>	1,226,452	14.69
(4) Profit from principal operations	<b>547,639</b>	238,524	129.59
(5) Net profit/(Loss)	<b>168,604</b>	(374,179)	145.06
(6) Return on net assets (%)	<b>11.99</b>	(30.51)	139.30
(7) Earnings/(Loss) per share (Rmb)	<b>0.13</b>	(0.28)	146.43

## 2. Financial Performance of the Group (Cont'd)

The reasons for the change in the financial position are as follows:

- (a) Total assets decreased by Rmb 5,544,508,000 in 2000, which was mainly resulted from the implementation of the asset exchange by the Company in 2000.
  - (b) Long-term liabilities decreased by Rmb 3,026,093,000 in 2000, which was mainly resulted from the debt restructuring implemented by the Company in 2000.
  - (c) Shareholders' equity increased by Rmb 180,202,000 in 2000 from that in 1999, which was mainly resulted from the implementation of the asset exchange by the Company in 2000, and the increase in profit was a result of change in the principal operating business.
  - (d) Profit from the principal operations increased by Rmb 309,115,000 in 2000 as compared with 1999, which was mainly resulted from the implementation of the asset exchange, change of principal operating business, increase in operating income, increase in profit and decrease in cost.
  - (e) Net profit amounted to Rmb 168,604,000 in 2000 as compared to the net loss of Rmb 374,179,000 in 1999. The increase was mainly resulted from the implementation of the asset exchange, change of principal operating business, increase in profit, and reduction in expenditure accordingly.
  - (f) Return on net assets was 11.99% in 2000 as compared with the negative return on net assets of 30.51% in 1999, the change was mainly resulted from the implementation of asset exchange by the Group in 2000, change of principal operating business, increase in profit and reduction in expenditure accordingly.
  - (g) Earnings per share amounted to Rmb 0.13 in 2000 as compared with losses per share of Rmb 0.28 in 1999, such change was mainly resulted from the implementation of asset exchange by the Group in 2000, change of principal operating business, increase in profit and reduction in expenses accordingly.
- (2) PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. (formerly known as Price Watehouse Da Hua) and PricewaterhouseCoopers have audited the accounts of the Company for 2000, and have issued their respective audit reports with unqualified opinion. Following completion of the asset exchange on 20th December 2000, issues arising from the audit report of 1999 with disclaimer opinion issued by Price Waterhouse Da Hua CPAs and PricewaterhouseCoopers were resolved satisfactorily.

### 3. The Group's Investment Projects

Prior to completion of the asset exchange, the Group's investment projects in 2000 were those commenced in 1999, of which the expansion project for proplene dioxide of Dagu Plant was completed. The Chloric Soda Technology Improvement Project of Tianjin Chemical Plant was completed during the year and production was commenced. The energy saving project for Tianjin Soda Plant was also completed in the beginning of the year.

The Group has not invested into new project after the completion of asset exchange to 31st December 2000.

The Company has implemented substantial restructuring of assets thereby changed its principal operations. This led to a significant change in the Company's production and operating environment as well as the macro policy, law and legal framework governing the Company.

Upon completion of the asset exchange on 20th December 2000, the primary business focus of the Company changed to environmental protection and urban infrastructure facilities. The Company is subject to the State law and legal framework about urban infrastructure facilities and environmental protection industries. Although the Company no longer enjoys tax incentives on profits, this will not affect the profitability of the Company.

### 4. Future Plans for 2001

Year 2001 will be the first full operating year of the Company in the capital market of Shanghai and Hong Kong after completion of the asset exchange. There will be more challenges ahead of the Company. On the one hand, the Company will have to enhance and develop its existing business. On the other hand, it will have to actively explore other new business opportunities. With great prospect that China is likely to join the WTO together with the fact that the economic development in Tianjin is fast-accelerating, the primary aim of the Tianjin Municipal Government is to "increase environmental protection, facilities and improve urban environment" (as approved in the meetings for the 33rd Executive Committee Meeting of the Tianjin Municipal Government on 2nd January 2001). Against the aforesaid background, there will be a greater demand for the urban infrastructure facilities and sewage water treatment businesses in Tianjin, such demand will no doubt bring pressure to the development of the Company but which also bring in opportunities at the same time.

- (1) Focusing on the present businesses, the Company's major measures in 2001 are as follows:
  - (a) The Company has continued its improvement to the toll collection surveillance system. It had installed the surveillance system at the remaining two toll stations of heavier traffic flow. The installation works were completed at the end of January 2001.
  - (b) If the situation permits, the Company will increase the sewage water processing capacity of Dongjiao Plant.

#### 4. Future Plans for 2001 (Cont'd)

- (c) The Company always believe that staff is its most valuable asset. It will therefore conduct more on-the-job trainings and will recruit more experts of relevant experience to strengthen the employees' team.
- (2) In order to develop the Company's businesses, investment will be made in new projects or expansion will be conducted on the existing business with an aim to enhance productivity. The investment projects mainly comprise the following:
- (a) To invest in the construction of Haihe Bridge. The Company will acquire the Haihe Bridge construction project from TMICL. The Company will then be the sole investor. Upon completion of the construction, toll stations will be set up to collect tolls from the vehicles using the bridge. The total investment will be Rmb 485 million and the construction is expected to complete in 2002. The investment in 2001 will be Rmb 220 million.
- (b) To acquire Tianjin Zhongshui Construction Company. Purified sewage water will be sold to residents for miscellaneous use. The total investment is Rmb 18 million. The acquisition is expected to be completed in 2001.

#### 5. Operation Review 2000

##### (1) Operation of the Group prior to the completion of the asset exchange

Prior to the completion of the asset exchange on 20th December 2000, the Group was engaged in the manufacturing of chemical products and non-banking finance business, with composition as set out below:

	Principal		Profit/(loss)	
			from principal	
	operating income		operations	
	Amount	%	Amount	%
	Rmb'000		Rmb'000	
(Prepared in accordance with PRC GAAP)				
(1) Manufacturing of chemicals				
Soda ash	586,223	16.82	113,096	21.10
Caustic soda	431,472	12.38	(32,894)	(6.14)
PVC	1,384,914	39.72	239,503	44.67
Other chemicals	1,081,265	31.01	214,425	40.00
(2) Finance management				
Finance company	2,407	0.07	1,997	0.37
Total	3,486,281	100	536,127	100

### 5. Operation Review 2000 (Cont'd)

In 2000, despite the improvement in the chemical business, the Group still recorded losses of Rmb 92,901,000 as a result of excessive finance costs and long outstanding accounts receivable (excluding the recovery of certain assets at gross value).

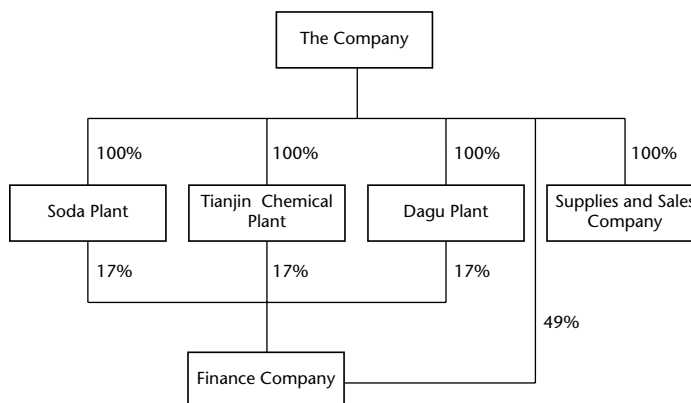
#### (2) Operation of the Company after the completion of the asset exchange

Upon completion of the asset exchange, the Company focuses on city road and toll stations businesses, as well as sewage water processing business. Breakdown of the turnover and profits is as follows:

	Primary		Primary	
	business's turnover		business's operating profit	
	Amount	%	Amount	%
	Rmb'000		Rmb'000	
(Prepared in accordance with PRC GAAP)				
Sewage water processing business	11,890	82.24	9,695	84.22
City road and toll station operation business	2,567	17.76	1,817	15.78
Total	14,457	100	11,512	100

#### (3) The operation and results of the Group's wholly-owned subsidiaries and controlling subsidiaries

Before the asset exchange, the organization structure of the Group was as follows:



## 5. Operation Review 2000 (Cont'd)

Before consolidation adjustments, the operating results of the key members in the Group are as follows:

- (a) Tianjin Bohai Chemical Industry (Group) Company Limited Tianjin Soda Plant ("Soda Plant")

Soda Plant is located in the Tanggu District of Tianjin. Its products include soda ash, ammonium chloride, sodium bicarbonate, calcium chloride and caustic soda using electrolysis. In 2000, income derived from the principal operations was Rmb 714,520,000 and the operating loss was Rmb 16,670,000.

- (b) Tianjin Bohai Chemical Industry (Group) Company Limited Tianjin Chemical Plant ("Tianjin Chemical Plant")

Tianjin Chemical Plant is located in the Hangu District of Tianjin. It produces more than 20 products including caustic soda and PVC. In 2000, income derived from the principal operations was Rmb 1,123,580,000 and the operating profit was Rmb 50,600,000.

- (c) Tianjin Bohai Chemical Industry (Group) Company Limited Dagu Chemical Plant ("Dagu Plant")

Dagu Plant is located in the Tanggu District of Tianjin. It produces more than 20 products including caustic soda and PVC. In 2000, income derived from the principal operations was Rmb 1,654,040,000 and the operating profit was Rmb 148,600,000.

- (d) Tianjin Bohai Chemical Industry Group Company Supplies and Sales Company ("Supplies and Sales Company")

Established in 1992, the Supplies and Sales Company involves in the supply of chemical products and materials to domestic customers. In 2000, income derived from the principal operations business was Rmb 1,920,000 and the operating profit was Rmb 350,000.

- (e) Tianjin Bohai Group Finance Company ("Finance Company")

Established in 1992, the Finance Company is a non-banking financial institution approved by the State. Its principal operations are to provide financing and other related services to members of Bohai Corporation, ranging from deposit taking, lending to credit financing. In 2000, income derived from the principal operations was Rmb 5,420,000 and the operating profit was Rmb 9,190,000.

Principal subsidiaries are all on the way to generating return for the investment made.

Upon completion of the asset exchange, the Company runs its own business. The Company's affiliates do not have their own legal entities and independent operation rights.