

## **Company's Management Structure and Employees' Information (Cont'd)**

### **4 Directors, Supervisors and Senior Management's interests in contracts**

No contract of significance to which the Company was a party and in which a director, supervisor or member of senior management had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

### **5 Number of employees and the functions**

As at 31st December 2000, the Company had 995 employees, with 859 in production, 78 in engineering, 7 in finance, 51 in administration.

The Company values the quality of staff training. In 2000, the Company has formed a team of skillful professionals through on-the-job training, advanced level training, specialty training and total quality control.

## **Connected Transactions**

Before 20th December 2000, the Company had material connected transactions and contracts with Bohai Corporation:

1. By an agreement for lease of land and facilities dated 27th April 1994, Bohai Corporation granted a lease to the Company for a term commencing from 1st March 1994 to 7th January 2044, of the land, roads and other relevant facilities required for the businesses of the Group. The rent payable by the Company for the first three years of the term was Rmb 1 per square metre every year and thereafter the rent was increased by 15% every three years.
2. By an import and export agency agreement dated 27th April 1994, Tianjin Bohai Chemical Industry United Import and Export Corporation, a member of Bohai Corporation private group, was appointed by the Company as its non-exclusive agent for the import of products, raw materials, machinery and packaging materials and the export of the Group's products outside the PRC. Charges was determined based on the prevailing market price of the goods or at an agency fee at the rate of 1.5% of their total value, depending on the nature of the service provided.

### Connected Transactions (Cont'd)

3. By a miscellaneous services agreement dated 27th April 1994, the Company agreed to supply water, electricity, steam, products and waste materials to members of Bohai Corporation private group, and Bohai Corporation agreed to provide various services to members of the Group and their employees and family members (where applicable) relating to, inter alia, medical, catering, nursery, kindergarten, employees training, employees accommodation, planning design and construction services and the provision of supplementary and ancillary services. The fees chargeable or payable by the Company were fixed annually on the basis of State regulated prices, market prices or costs as provided in the agreement.
4. By a financial services agreement dated 27th April 1994, Tianjin Bohai Group Finance Company, a former wholly owned subsidiary of the Company agreed to provide non-banking financial services to non-listed members of the Bohai Corporation private group subject to the terms and conditions as may be prescribed by the People's Bank of China from time to time.
5. As part of the national policy to restructure state-owned enterprises, Bohai Corporation was reorganised during 1997 with a view to improving the operating efficiency. The reorganisation for Bohai Corporation was effected by merging Changlu Haijing Group Company Limited, Changlu Hangu Salt Plant Company Limited and Tianjin Chemical Industry Group Corporation together consisting of 117 entities ("Reorganised Corporations"). The legal procedure and amendment of business licence for the reorganisation were completed on 28th December 1997. Accordingly, any transaction between the Group and the Reorganised Corporations from 1998 onwards constitutes a connected transaction for the Company. Prior to 20th December 2000, the sales by the Group to the Reorganised Corporations were mainly composed of finished goods, such as soda ash, caustic soda and refined salt. Purchases by the Group from the Reorganised Corporations were mainly composed of raw materials including industrial salt and liquid cyanogen. The transactions were conducted on normal commercial terms.

The independent directors of Tianjin Bohai have confirmed that the above transactions were entered into on normal commercial terms.

Pursuant to the Share Transfer Agreement entered into on 10th October 2000, Bohai Corporation transferred its 63.09% interest in the Company to TMICL without consideration. The share transfer became effective on 2nd November 2000. Upon the completion of the share transfer, TMICL became the controlling shareholder of the Company. Both Bohai Corporation and TMICL are state-owned enterprises under the supervision and control of the Tianjin Municipal Government.



### Connected Transactions (Cont'd)

Pursuant to the Asset Exchange Agreement entered into among the Company, Bohai Corporation and TMICL on 10th October 2000 and the Asset Exchange Supplementary Agreement entered into on 29th November 2000, the Company exchanged for new business with its chemical business, including the disposal of certain receivables and investments (the "AR Assets") amounting to Rmb 305,200,000 to TMICL. The new business that was transferred to the Company pursuant to the asset exchange included ownership, operation and development of two sewage water treatment plants, and ownership, operation and development of a city road and toll stations. The sewage water treatment business comprises the ownership, operation and development of Dongjiao Plant and Jizhongji Plant. The asset exchange became effective immediately upon its approval in the extraordinary general meeting of the Company held on 20th December 2000.

Pursuant to the AR Agreement entered into on 10th October 2000, the Group agreed to dispose of and Tianjin Huaze agreed to acquire the AR Assets at a cash consideration of Rmb 305,200,000. The proceeds from the cash consideration were retained for the benefit of the Group, and forms a part of the assets of the chemical business that was transferred to TMICL under the Asset Exchange Agreement. The disposal of the AR Assets was completed upon the completion of the asset exchange. Tianjin Huaze is a state-owned enterprise under the supervision and control of the Tianjin Economic Commission.

Upon the completion of the asset exchange, the Company has the following connected transactions and contracts that are material in nature:

1. Pursuant to the Sewage Water Processing Agreement entered into on 10th October 2000, Tianjin Sewage Water Company agreed to appoint TMICL to process sewage water for a term of 30 years, of which the price is calculated according to the pricing formula. Tianjin Sewage Water Company is a state-owned enterprise established in the PRC is under the supervision of Tianjin Urban Construction Bureau. The agreement was initially entered into between TMICL and Tianjin Sewage Water Company, as TMICL then owned and operated the sewage water treatment business. Upon the completion of the asset exchange, the rights and obligations of TMICL were automatically assigned to the Company. The Company is the successor of TMICL as a party to the agreement. Pursuant to the pricing formula, the price to be charged on the treatment of sewage water is calculated on the basis of "cost-plus-profit", which has taken into account, amongst others, cost of sewage water treatment and a fixed return on the capital investment together with a performance-related bonus.

### **Connected Transactions (Cont'd)**

2. Pursuant to the Road Repair and Maintenance Agreement entered into on 1st October 2000 and the supplementary agreement entered into on 24th November 2000, Tianjin Urban Road & Bridge Construction Company ("TURBCC") will provide the maintenance and repair for the Southeastern half ring road. TURBCC is a state-owned enterprise established in the PRC, and is under the supervision of Tianjin Urban Construction Bureau. The agreement was initially entered into between TMICL and TURBCC, as TMICL then owned and operated the Southeastern half ring road. Upon the completion of the asset exchange, the rights and obligations of TMICL were automatically assigned to the Company. The Company is the successor of TMICL as a party to the agreement. Pursuant to the terms of the agreement, TURBCC will charge the Company fees according to the rates as provided in [1993] No. 412 as issued by the Ministry of Construction from time to time.
3. Pursuant to the Lease Agreement entered into on 10th October 2000 by the Company and TMICL, the Company will lease from TMICL No. 18 Jinlong Apartment, Shuishang Park North Road, Nankai District, Tianjin, the PRC as its office premises upon the completion of asset exchange. The gross floor area was about 674 square metres. The rent payable by the Company to TMICL is Rmb 450,000 per annum. The rent will be adjusted in accordance with the market rate by an independent valuer once every three years.

The independent directors of the Company have confirmed that the above transactions were entered into on normal commercial terms.

### **Management Contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### **Fixed Assets**

Details of the movement in fixed assets during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 70 to 73 and pages 114 to 116 of the annual report respectively.

### **Reserves**

Details of movements in reserves during the year as prepared in accordance with PRC GAAP and HK GAAP are set out on pages 75 and 76 and pages 118 to 120 of the annual report, respectively.

### Employee's Retirement Benefit Scheme

Particulars of the employee's retirement benefit scheme operated by the Company are set out on pages 65 and 106 of the annual report.

### Major Suppliers and Customers

The percentage of the Group's purchases and sales attributable to major suppliers and customers are as follows:

	2000	1999
	%	%
Percentage of purchases attributable to the Group's largest supplier	16	11
Percentage of purchases attributable to the Group's five largest suppliers	26	25
Percentage of sales attributable to the Group's largest customer	7	8
Percentage of sales attributable to the Group's five largest customers	9	10

The former controlling shareholder, Bohai Corporation has a beneficial interest in Tianjin Bohai Chemical Industry United Import and Export Corporation, the Group's largest customer before the completion of asset exchange.

Upon the reorganisation of Bohai Corporation in 1997 mentioned under the section "Connected Transactions" of this annual report, Bohai Corporation has a beneficial interest in Changlu Haijing Group Company Limited and Changlu Hangu Salt Plant Company Limited, the Group's first and second largest suppliers respectively before the completion of asset exchange.

Save for the above, none of the directors, supervisors or shareholders of the Company has interests in the share capital of the Group's suppliers or customers mentioned above.

### Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association.