

Report of the Board of Directors

The Board of Directors has pleasure in submitting its report together with the audited financial statements for the year ended 31st December, 2000.

DAY-TO-DAY OPERATION OF THE BOARD OF DIRECTORS

1. During the year, five board meetings were held, at which the following matters were discussed:

- (1) On 7th March, 2000, the third Board of Directors of the Company held its tenth meeting at the Company's headquarters during which the resolutions regarding the appointment of Mr. Wu Liulin as the Chief Accountant of the Company, and the appointment of Mr. Fei Yuenyin as Deputy General Manager of the Company were passed.
- (2) On 26th April, 2000, the third Board of Directors of the Company held its eleventh meeting at the Company's headquarters during which the 1999 Chairman's Statement, the annual report, the annual report highlights, the financial statements and the resolution of no profits appropriation were passed. The meeting approved that Deloitte Touche Tohmatsu Certified Public Accountants and Zhongtian (Shenzhen) Certified Public Accountants would be re-appointed as international and domestic auditors for the year 2000 respectively. Ms. Ada Y.K. Wong was nominated as candidates of independent non-executive director. At the meeting, the Board of Directors agreed on matters in respect of calling the 1999 Annual General Meeting.
- (3) On 15th June, 2000, the third Board of Directors of the Company held its twelveth meeting at the Company's headquarters during which the resolution relating to the appointment of Horwath Hong Kong CPA Limited (Hong Kong Certified Public Accountants) as international auditors for the year 2000 was approved.
- (4) On 2nd August, 2000, the third Board of Directors held its thirteenth meeting at the Company's headquarters during which the resolutions with respect to (i) the Company's interim results report and its summary for 2000; (ii) the setting up of Intenna (Nanjing) Company Limited jointly with Sweden Intenna AB and Hong Kong Yung Shing Enterprise Co., Ltd.; and (iii) the joint venture agreement to be entered into with Flextronics International Limited with respect to the setting up of Flextronics Technology (Nanjing) Company Limited were passed.

- (5) On 9th October, 2000, the third Board of Directors held its fourteenth meeting at the Company's headquarters during which the resolutions regarding (i) the Asset Reorganisation Agreement entered into between the Company and PEG L, a major and connected transaction announcement and the Memorandum on On-going Connected Transactions and Non-Competition Undertaking; and (ii) the setting up of Jiangsu Software Industrial Company Limited jointly with Jiangsu International Trust and Investment Corporation and three other companies were passed. The resignation of Messrs. Yang Huiqian and Zhou Zhenyu from the positions of Deputy General Managers was agreed. It was resolved that an extraordinary general meeting would be held on 27th November, 2000.

(For items (2), (3), (4) & (5) above, the relevant resolutions which had been passed at the Board of Directors meetings were published in Shanghai Securities Journal, China Securities Journal, Hong Kong Wen Wei Po and Hong Kong iMail on the next day from the date of convening the respective meetings. For item(3), the relevant resolution which had been passed at the Board of Directors meeting was published in Shanghai Securities Journal, China Securities Journal, Hong Kong Economic Times and Hong Kong iMail on the next day from the date of convening the relevant meeting.)

2. The Company's Board of Directors strictly complied to the resolutions made at the general meetings during the reporting period, and will continue to serve the Company and the shareholders sincerely for their best interests adhering to the principles of integrity and diligence.
3. There was no change in General Manager and Secretary to the Board of Directors of the Company during the reporting period.

SENIOR MANAGEMENT

Executive Directors

Mr. LI Anjian, born in 1953, is the Chairman and General Manager of the Company, General Manager of Panda Electronics Group Limited ("PEGL"), an economist and a postgraduate. He was the Chairman of the Workers' Union and Deputy General Manager of Nanjing Huadong Electronics Group Company, and the Chairman and General Manager of Nanjing Changjiang Machinery Company Limited. He has been working in electronic industrial enterprises for many years, and has extensive experience in the management of operations in electronic enterprises and the industrial development. He has strong capabilities of reform and renovation and extensive experience in operation and management.

Mr. ZHANG Zuzhong, born in 1945, is the Vice Chairman, the Party Secretary of the Company; and Party Secretary and Senior Engineer of PEGE. After graduating from the Radio Technology Faculty of the Nanjing Industrial College (currently known as the South East University) in 1968, he joined the Company. He became the Party Secretary of Nanjing Radio Factory (the precedent of the Company) since 1992. He has been involved in enterprise management, staff training and education for many years. He was awarded the titles of "Outstanding Calibre Youth of Nanjing", "Outstanding Ideological and Political Worker of Jiangsu Province" and "Outstanding Corporate Ideological and Political Worker of the State".

Non-executive Directors

Mr. ZHOU Zhenyu, born in 1964, is the Deputy General Manager of PEGE. He holds a master degree in Mechanical Engineering. Upon graduating from the Faculty of Mechanical Engineering of the School of Engineering of Eastern China (currently known as the Nanjing Polytechnic University) in 1989, he joined the Company. He supervised and participated in the development and production of automatic printed circuit board assembler. He has extensive experience in enterprise management and the practice of design development. He served as the Deputy Officer of the printed circuit board assembling division (Unit 1), the Manager of the high precision machinery production company and the Deputy Chief Engineer of PEGE. He was named as the "Outstanding Calibre Youth" by the Nanjing Municipal Government in 1993.

Mr. YANG Huiqian, born in 1946, is the Deputy General Manager of PEGE and Senior Engineer. He joined the Company upon graduating from the Radio Technology Faculty of the South East University in 1970. He was involved in the repair, development and production of radio instruments. He was also the Deputy Officer of the personnel department and the Chief Officer of the senior management division of PEGE. He is experienced in the technological and personnel management.

Ms. LIU Ailian, born in 1951, is the Chief Accountant of PEGE. She was the Vice-Chairman of Ministry of State-owned Assets Management of the Nanjing City. Ms Liu was graduated from the Central Financial Management Cadre Institute in 1989, and South East University in 1998 specializing in financial management. She holds a bachelor's degree and the title of accountant. Ms Liu has extensive experience in finance and management.

Mr. HE Zaiding, born in 1951, is the Deputy General Manager of PEGL and an economist. He graduated from Jiangsu Television Broadcasting University in 1986 and joined the Company in 1975. He served as the assistant to the General Manager of PEGL, the head of Nanjing Home Appliances Factory, the Deputy General Manager of the Company. He is well experienced in production operation and management.

Mr. TANG Hongqing, born in 1944, is the Chairman of the worker's union of PEGL, senior political work engineer and senior engineer. He graduated from the Radio Equipment Structure Faculty of the Nanjing Industrial College (currently known as the South East University), in 1968 and joined the Company in the same year. Mr. Tang has extensive experience in enterprise management and personnel-related work.

Mr. JIN Yiming, born in 1959, is the Chief Engineer of PEGL and a senior engineer. Mr. Jin graduated from the Shanghai University of Science and Technology specializing in television broadcasting and joined the Company in 1982. He served as the Chief Engineer of the Company. Mr. Jin has participated in managing the manufacture and development of television broadcasting products for many years. He has superb knowledge in technological development and extensive experience in operating management.

Mr. DENG Weiming, born in 1964, is the current Deputy General Manager of PEGL and a senior engineer. Mr. Deng graduated from Information Engineering faculty of Huazhong Industrial College in 1987, and holds a bachelor's degree. He was the officer of the short-wave telecommunications design centre of PEGL, and the Manager of mobile telecommunications division of the Company. Mr. Deng has extensive experience in electronic technology and management.

Mr. XU Guofei, born in 1962, is the current Deputy General Manager of PEGL and a senior engineer. Mr. Xu graduated from the Radio Technology Faculty of the South East University in 1987, and holds a bachelor's degree. He was the Deputy General Manager of general duties of the short-wave telecommunications subsidiary of PEGL. Mr. Xu has extensive experience in electronic technology and management.

Mr. ZHU Lifeng, born in 1964, is the current Deputy General Manager of PEGL and a senior engineer. Mr. Zhu graduated from the South East University specializing in electronic equipment and surveying technologies in 1986, and from the South East University specializing in signal and message management in 1996. He is a postgraduate, and attained a master degree in Industrial Studies. He was the Manager of Technological Division of PEGL. Mr. Zhu has extensive experience in electronic technology and management.

Independent Non-Executive Director

Mr. LI Jun, born in 1951, is a senior economist. He graduated with a master's degree from the China Social Science College. He is the Vice-chairman and General Manager of the sale division of Jiangsu Branch of China Industrial and Commercial Bank. Mr. Li has extensive experience of over 20 years in management of financial institutions.

Ms. Ada Ying Kay Wong, born in 1959, holds a BA (Hons.) degree from Pomona College, Claremont, California, USA. She passed the final common and practising examinations of Law College in Britain. She is practising solicitor in Hong Kong Special Administrative Region and is a partner of Philip K. H. Wong, Kennedy Y. H. Wong & Co. She is also an independent non-executive director of Hengan International Group Co., Ltd. and Dongfang Electrical Machinery Co., Ltd. She participates actively in public service including an elected members of the Wanchai District Council in Hong Kong and a member of the Hong Kong Cultural and Heritage Commission and Hong Kong Policy Research Institute.

Supervisors

Ms. ZHANG Zhenping, born in 1956, is the Vice-secretary of the Communist Party Committee and the Secretary of the Disciplinary Check Committee of PEGL and an economist. Ms Zhang graduated from Nanjing Television University in 1987 specializing in management of party politics. She served as the Chairman of Television Factory No 2 of the Company. Ms Zhang has extensive experience in technology, management, administration and duties of the Central Communist Party.

Supervisors

Ms. CHEN Ning, born in 1953, is the Head of the audit department of the Company and an economist. She joined the Company in 1970. She served as the Deputy Party Secretary of the nineteenth branch factory and the chief and deputy chief of the audit department of PEGL. She has extensive experience in administration and auditing. Ms. Chen graduated from the Faculty of Enterprise Management of the Television Broadcasting University in 1986.

Ms. XU Ping, born in 1953, is the Vice Chairman of the worker's union of PEGL and an economist. She graduated from the Party Politics Administration Faculty of the Television Broadcasting University in 1986. She joined the Company in 1970. She is experienced in administration and union works.

Senior Management

Mr. WANG Hongjin, born in 1948, is the Deputy General Manager of the Company and a senior engineer. He graduated from the Television Broadcasting University specializing in radio-technology and joined the Company in January 1969. Mr. Wang was the Vice Chairman of the Nanjing Radio Factory and the Deputy General Manager of PEGL in 1991. He has extensive experience in business administration and sales management. Currently, he is also the Deputy Vice Chairman of the Jiangsu Province Marketing Studies Association, the Nanjing Union of Entrepreneurs and the Nanjing Trademark Association.

Mr. SONG Jiaqu, born in 1942, is the Deputy General Manager of the Company and a senior engineer. He graduated from the Faculty of Radio Technology at the Hefei University of Technology in 1965 and joined the Company in the same year. He has involved in the development and management of production of satellite communication, mobile telecommunications and television broadcasting products. He served as Deputy Head and Head of Sub-plant, Officer of design institutes, Manager of department of television related affairs, Deputy Chief Engineer, Assistant to General Manager, etc. He has extensive experience in product development, production and management.

Mr. WU Liulin, born in 1959, is the Chief Accountant of the Company, and holds the title of accountant. Mr Wu joined the Company upon graduation from the faculties of Finance and Accounting of Hengzhou Radio Technology Industrial College in 1980. He served as the Vice-chancellor, Chancellor and Deputy Chief Accountant of Finance Division of the Company, the Chief Accountant of Nanjing Panda Television Company Limited, and the Assistant to the General Manager of Panda Electronics Company Limited. He has extensive experience in finance and management. Mr Wu graduated from Nanjing Polytechnic University in 1999 specializing in economic management, and further studied in 1997 in Nanjing Polytechnic University for a MBA.

Mr. FEI Yuenwen, born in 1946, is the Deputy General Manager of the Company, and a senior engineer. Mr Fei graduated from the Physics Faculty of Nanjing University in 1969, and joined the Company in 1973. He has involved in the research, design and development of mobile telecommunications products for many years. He was product Designer and Technology Officer. He was the General Manager of Panda International Telecommunications System Company Limited and Wireless Telecommunications Company of PEGL. Mr Fei has extensive experience in enterprise management and sale of products.

Mr. SHI Qiusheng, born in 1959, is the Company Secretary, Assistant to the General Manager of the Company. Mr. Shi specialized in economics management at Hangzhou Radio Industrial College and graduated and joined the Company in 1980. He has extensive practices and experience in administration and management. He completed his studies at the Arts Faculty of the Nanjing Polytechnic University in 1987 and has commenced his postgraduate studies of Business Administration at the University from 1995 to 1998.

DIRECTOR, SUPERVISORS AND SENIOR MANAGEMENT

As at 31st December, 2000, the interests of directors, supervisors and senior management in the share capital of the Company as shown on the register maintained under the "Securities (Disclosure of Interests) Ordinance" were as follows:

Name	Sex	Age	Duties	Term	No. of shares held (beginning of the year)	No. of shares held (end of the year)
Li Anjian	M	47	Chairman, General Manager	1999.08.30-2002.08.30	0	0
Zhang Zuzhong	M	55	Vice-chairman	1998.01.26-2001.01.26	9,400	9,400
Zhou Zhenyu	M	36	Non-executive Director	1998.01.26-2001.01.26	2,900	2,900
Yang Weiqian	M	54	Non-executive Director	1998.01.26-2001.01.26	4,400	4,400
Liu Ailian	F	49	Non-executive Director	1999.10.19-2002.10.19	0	0
He Zaiding	M	49	Non-executive Director	1998.01.26-2001.01.26	8,000	8,000
Jin Yiming	M	41	Non-executive Director	1999.10.19-2002.10.19	3,514	3,514
Deng Weiming	M	36	Non-executive Director	1999.10.19-2002.10.19	2,743	2,743
Xu Guofei	M	38	Non-executive Director	1999.10.19-2002.10.19	1,886	1,886
Zhu Lifeng	M	36	Non-executive Director	1999.10.19-2002.10.19	2,743	2,743
Tang Hongqing	M	56	Non-executive Director	1998.01.26-2001.01.26	9,100	9,100
Ada Y.K. Wong	M	41	Independent non- executive Director	2000.06.15-2003.06.15	0	0
Li Jun	F	49	Independent non- executive Director	1999.06.30-2002.06.30	0	0
Zhang Zhenping	F	44	Chairman of the Supervisory Committee	1999.10.19-2002.10.19	3,429	3,429
Chen Ning	F	47	Supervisor	1998.01.26-2001.01.26	3,900	3,900
Xu Ping	F	47	Supervisor	1998.01.26-2001.01.26	8,600	8,600

Name	Sex	Age	Duties	Term	No. of shares held (beginning of the year)	No. of shares held (end of the year)
Wang Hongjin	M	52	Deputy General Manager	From 1998.04.24	8,300	8,300
Song Jiaju	M	58	Deputy General Manager	From 1996.07.27	4,114	4,114
Wu Liulin	M	41	Chief Accountant	From 2000.03.07	0	0
Fei Yuenyin	M	54	Deputy General Manager	From 2000.03.07	0	0
Shi Qiusheng	M	41	Secretary to the Board of Directors	From 1997.12.05	3,343	3,343

There have been no changes in the shareholding of the Directors, Supervisors and senior management during their duties in the reporting year.

Save as disclosed above, none of the directors, supervisors or members of the senior management or their associates had any interest in the share capital of the Company or any those of its associated companies (as defined in the "Securities (Disclosure of Interests) Ordinance") as at 31st December, 2000, and none of the directors or supervisors, or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

For the year, the remuneration for the directors, supervisors and senior management totalled RMB920,100. Of which, the non-executive director fee of Ms. Ada Wong, an independent non-executive director, amounted to HK\$80,000. Mr Li Jun, an independent non-executive director in Hong Kong, did not receive remuneration from the Company. The remuneration for other directors, supervisors and senior management were all under RMB60,000.

REASONS FOR THE ELECTION AND CHANGE IN DIRECTORS AND SUPERVISORS

Due to change of engagement in work, the Company's original independent non-executive director, Mr. Li Junxiong resigned from his position of independent non-executive director. Ms Ada Wong was elected as independent non-executive director of the Company at Annual General Meeting of the Company. There was no change in other directors and supervisors.

In order to reduce the number of part-time personnel appointed by controlling shareholder in a listed company in compliance with the requirement of China Securities Regulatory Commission, Messrs Zhou Zhenyu and Yang Weiqian resigned from their positions of Deputy General Manager.

COMPANY STAFF

As at 31st December, 2000, the total number of the Company's staff are 2,273. 472 of which are technical staff, 109 are sales personnel, 58 are financial staff, 349 are administrative and management staff. Of these employees, 614 are graduates of secondary schools.

INFORMATION DISCLOSURE

During the reporting period, the information of the Company was disclosed in Shanghai Securities Journal and China Securities Journal in the PRC and Wen Wei Po and Hong Kong iMail in Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries are the development, production and sale of mobile telecommunications system, satellite communication system, IT and electromechanical products.

TURNOVER AND CONTRIBUTION BY BUSINESS ANALYSIS

An analysis of consolidated turnover by business activities and their contribution to profit (loss) of the Group under the accounting principles generally accepted in Hong Kong is as follows:

	Turnover RMB'000	Contribution to Group's operating profit (loss) RMB'000
Television sets	687,646	34,357
Video compact disc players	8,434	(3,181)
Electronic information products	54,148	(5,335)
Mobile telecommunications products	411,875	27,334
UPS systems	40,607	1,400
Other	20,876	(22,503)
	1,223,586	32,072
Less: Financial costs		(59,933)

Operating profit	(27,861)
Share of results of associated companies	238,266
Profit before taxation	210,405

FINANCIAL SUMMARY

A summary of the Group's results and its assets and liabilities for the last three financial years, prepared in accordance with the accounting standards generally accepted in Hong Kong, is set out on page 11 of this Annual Report.

NET ASSETS PER SHARE

The details of the net assets per share at the balance sheet date for each of the three years ended 31st December, 2000 are as follows:

- (1) As prepared in accordance with the accounting principles generally accepted in Hong Kong

	2000	1999	1998
Net assets per share	1.10	0.83	0.81
(Net assets / Total number of shares)			
(Unit: RMB)			
Rate of increase	32.16%	2.47%	(48.41%)

- (2) As prepared in accordance with PRC accounting standards:

	2000	1999	1998
Net assets per share	1.22	1.01	0.93
(Net assets / Total number of shares)			
(Unit: RMB)			
Rate of increase	20.79%	8.60%	(44.97%)

PURCHASE, SALE OR REDEMPTION OF SHARES LISTED BY THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the reporting year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights according to the relevant laws of the People's Republic of China and the Company's Articles of Association.

DIRECTORS' AND SUPERVISORS' REMUNERATION

During the year, the aggregate remuneration of the Directors and Supervisors amounted to RMB620,600 and RMB99,500 respectively, inclusive of their pension scheme contributions. Save as disclosed above, the Company did not offer any emoluments, allowances, or bonuses to the directors and supervisors.

Save as the emoluments paid to the Hong Kong independent non-executive director, the emoluments paid or payable by the Company to each of the directors and supervisors was less than RMB60,000 per year. The pension scheme for executive directors and supervisors was included as part of the staff pension scheme of the Company as there was no other special arrangement.

HIGHEST PAID INDIVIDUALS

Except for the Hong Kong independent non-executive directors, the five highest paid individuals of the Company during the year were technology specialists of the Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors, supervisors or senior management or any of their spouses or children under 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other corporate body.

DIRECTORS' OR SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN CONTRACTS

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

SERVICE AGREEMENT FOR DIRECTORS AND SUPERVISORS

Agreements have been signed between the Company and all executive directors and supervisors, the details of which are as follows :

1. The term of service of each agreement is for an initial term of three years, commencing from the execution date. Thereafter, the term of office will continue if the director concerned is re-elected by the shareholders of the Company. The directors or the Company may give the other party a 3-month written notice to terminate the agreement, such notice will expire on or at any time after the expiry of the initial term of service.
2. The aggregate annual salary of all the executive directors amounted to RMB115,000 in 2000. The annual increment will not be more than 20% during the contractual period thereafter. The proposal on the amount of over 20% increment (if any) will be submitted by the Board of Directors and be considered and passed at the Annual General Meeting of the Company. Besides, within the contractual period of the service agreements, all executive directors are entitled to bonus payment in respect of each of the financial years during the term of service agreements subject to the approval at the Annual General Meeting of the year concerned. Moreover, the bonus or all such bonus payment (including the rewards payable to non-executive directors, all other directors, supervisors and senior management staff of the Company) cannot exceed 1% of the audited consolidated profit after taxation less any net consolidated extraordinary loss, if any (excluding the net consolidated extraordinary gain of the Company), of the financial year concerned.

PRIVILEGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the year, no privileges were enjoyed by the directors, supervisors or senior management of the Company.

MATERIAL CONTRACTS WITH PEGL

The following are contracts, transactions or arrangements between the Company and PEGL.

- (1) On 14th July, 1999, the Company signed an agreement on assets reorganisation. Accordingly, the Company agreed to transact its assets and liabilities to Panda Electronic Group Limited. The total transaction amounted to approximately RMB300,939,000 (approximately HK\$281,251,000). Transaction price: The transaction price was based on the book value of transferring assets of approximately RMB1,290,927,000 (approximately HK\$1,206,474,000) at 31st December, 1999 less the transferring debt of approximately RMB989,988,000 (approximately 925,222,000) as at 31st December, 1998.

The above agreement was approved at the extraordinary general meeting held on 30th August, 1999, and completed.

- (2) On 9th October, 2000, the Company and Panda Electronics Group Limited ("PEGL") entered into an asset reorganisation agreement. Pursuant to which, the Company agreed to dispose its entire interest in certain assets in relation to the development, manufacture and sale of television sets and related products ("the Disposal Assets") to PEGE for a total consideration of approximately RMB167.916 million (approximately HK\$156.931 million) which is payable by PEGE by way of transfer of certain equity interest in Shenzhen Jinghua Electronic Co., Ltd. and Nanjing Panda Mechanical Engineering Plant ("The Injected Assets") together with a cash consideration of approximately RMB55.543 million (approximately HK\$51.909 million) to the Company.

In accordance with the terms of 2000 Reorganisation, the considerations for the transfers of the Disposed Assets and the Injected Assets were determined based on the valuations of their respective combined net assets made by Shenzhen Weiming Appraisal Firm of approximately RMB167.916 million (approximately HK\$156.931 million) and RMB112.373 million (approximately HK\$105.021 million) as at 30th June, 2000. The difference between the valuation of the combined net assets of the Disposed Assets and the Injected Assets was settled by a cash consideration of approximately RMB55.543 million (approximately HK\$51.909 million) paid by PEGE to the Company.

The above-mentioned asset reorganisation agreement and on-going connected transactions were approved at the Extraordinary General Meeting held on 27th November, 2000. Conditions of the reorganisation were all satisfied.

- (3) Pursuant to an agreement dated 9th October, 2000 entered into between the Company and PEG L to supplement the "Non-competition and First Right of Refusal Agreement, the definitions of "business" and "unique products" in the "Non-competition and First Right of Refusal Agreement" dated 18th March, 1996 entered into between the Company and PEG L should be subject to the definitions of "business" and "unique products" after 2000 Reorganisation.
- (4) Pursuant to the "Trademark Licence Agreement" dated 12th October, 2000 entered into between the Company and PEG L and Nanjing Panda Television Co., Ltd., the Company agrees to permit PEG L and Nanjing Panda Television Co., Ltd. to use PANDA trademark under tradework category 14 television set and category 9 audio and visual equipment (video compact disc players) with consideration and the licence fee shall be paid before 31st December each year.
- (5) Pursuant to the "Supplementary Agreement in Relation to "Tenancy Agreement" dated 20th October, 2000 entered into between the Company and PEG L, the Company shall lease factory premises including a total gross floor area of 4,395.71 sq.m. at No. 53 building, a total gross floor area of 2,352.4 sq.m. at No. 16 building and 1,878.7 sq.m. of miscellaneous premises for an annual rent of RMB1,192,308. Both parties agreed that the scope of lease and the annual rent shall be adjusted with reference to business needs of then but it shall not exceed 20% of the scope of lease stated herein.

The Company was not a party to any material contract during the year with the exception of the contracts disclosed herein.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had not issued any convertible securities, options warrants or similar rights up to 31st December, 2000.

PENSION SCHEME

The Company participated in a pension scheme established by the government. In accordance with the terms of to the scheme, the annual contribution should be equivalent to 20% of the salary of the employees. The pension of present and retired employees of the Company is protected by the Nanjing Social Labour Insurance System Co-ordinating Committee.

Except for the annual contribution, the Company has no further obligation in relation to the pension scheme.

MANAGEMENT CONTRACTS

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

RESULTS AND DISTRIBUTION OF PROFIT

The operating results of the Group for the year ended 31st December, 2000 and the financial status of the Company and the Group on that date are listed on the financial statements prepared in accordance with the accounting principles generally accepted in Hong Kong and the PRC accounting standards. They are listed on pages 56 to 104 and on pages 105 to 182 of the Annual Report.

The Board of Directors have resolved not to distribute any final dividend for the year ended 31st December, 2000, and not to transfer the capital reserve to increase the share capital.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group, as at 31st December, 2000, are set out in note 21 to the financial statements prepared under accounting principle generally accepted in Hong Kong.

No interest was capitalised during the year.

RESERVES

The changes in the reserves of the Group for the year are set out in note 24 to the accounts prepared under accounting principles generally accepted in Hong Kong and notes 5(25) and 5(26) to the financial statements prepared under PRC accounting standards.

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 13 to the financial statements prepared under accounting principles generally accepted in Hong Kong and note 5(12) to the financial statements prepared under PRC accounting standards.

SUBSIDIARIES

Information on the subsidiaries of the Company is set out in note 15 to the financial statements prepared under accounting principles generally accepted in Hong Kong.

MAJOR SUPPLIERS AND CUSTOMERS

As at 31st December, 2000, the aggregate turnover of the five major customers of the Company represented not more than 30% of the total turnover of the Company for the year.

The aggregate amount of procurement from the five major suppliers of the Company was not more than 30% of the total amount of procurement made by the Company for the year.

During the year, none of the directors, supervisors and their related persons or shareholders had interests in the share capital of the Company's suppliers or customers mentioned above.

STAFF QUARTERS

In respect of purchases of staff quarters by employees of the Company, such staff quarters are owned by PEGL and are provided to certain employees of the Company in accordance with the relevant policies issued by the State and Nanjing Municipal Government respectively. The Company was not involved in the selling of staff quarters to its employees during the year ended 31st December, 2000. Therefore, there is no problem of financial arrangement arising from sale of houses during the reform of corporate housing system. The Company has transferred 7% of basic salary of existing staff as housing reserve in accordance with the relevant regulations of the State. It does not have material impact on the results of the Company. There is currently no housing rental subsidy, housing allowance and one-off housing subsidy for old staff.

COMPLIANCE OF CODE OF BEST PRACTICE

The Company has established an audit committee on 30th August, 1999. In addition, the Directors of the Company has complied throughout the reporting period with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year.

CONFIRMATION BY INDEPENDENT NON EXECUTIVE DIRECTORS ON CONNECTED TRANSACTIONS

The independent non-executive directors of the Company have, in such capacity, reviewed the connected transactions referred to in note 30 to the financial statements prepared under accounting principles generally accepted in Hong Kong and note 7 to the financial statements prepared under PRC accounting standards and confirmed that :

1. such transactions have been entered into by the Company in the ordinary and usual course of its business;
2. the transactions have been entered into either (i) on normal commercial terms or (ii) where there is no available comparison, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. such transactions have been entered into either (i) in accordance with the terms of the relevant agreement governing such transactions or (ii) (where there is no such agreement) on terms no less favourable than terms available to third parties.

AUDITORS

The financial statements have been audited by Horwath Hong Kong CPA Limited and Zhong Tian Qin Certified Public Accountants. The auditors retire in accordance with the Articles of Association of the Company but required to be re-appointed as international and domestic auditors of the Company respectively.

ANNUAL GENERAL MEETING

The board of directors resolved that the Annual General Meeting will be held before 30th June, 2001. Designated date and details will be announced later.

By Order of the Board

Li Anjian

Chairman

Nanjing, the PRC

15th March, 2001