

## Report of the Directors



The board of directors of the Company is pleased to present the report of the directors of the Company for the year ended 31 December 2000

A. Board of meetings and resolutions:

During the period, a total of nine board meetings were held.

- (1) The first Board meeting was held on 29 February and the resolution was passed as follows: it was agreed to acquire Kingdom Hotel so as to set off the amount due from NET, its holding company, in respect of a connected transaction.
- (2) The second Board meeting was held on 27 April and the resolutions were passed as follows: the 1999 financial report, net profit appropriation plan, the working report of the board of directors, business report and 2000 business plan and the proposal of convening annual general meeting. These resolutions were published in China Securities Journal, Securities Times and Wen Wei Po and Hong Kong iMail (English) on 29 April 2000.
- (3) The third Board meeting was held on 30 May and the resolutions were passed as follows:

As proposed by the controlling shareholder, in order to reduce the administrative fee of the Company, the board of directors decided not to appoint PricewaterhouseCoopers and Price Waterhouse Da Hua as international and domestic auditors of the Company respectively. Moores Rowland Certified Public Accountants and Hualun Certified Public Accountants were appointed as international and domestic auditors of the Company respectively. The resolution was subject to approval at the annual general meeting on 13 June 2000.

Connected transactions of the Company published in China Securities Journal, Securities Times and Hong Kong Economics Times and Hong Kong iMail (English) on 27 April 2000 were subject to approval at the extraordinary general meeting on 17 July 2000.

The resolution was published in China Securities Journal and Securities Times on 4 June 2000.

- (4) The fourth Board meeting was held on 25 August, whereby the operations for the first half of 2000 and the business plan for the second half of 2000, interim results report and profit appropriation plan were passed. These resolutions were published in China Securities Journal, Securities Times and Wen Wei Po and Hong Kong iMail (English) on 28 August 2000.
- (5) The fifth Board meeting was held on 15 September, whereby the "comprehensive functionalities and expansion in catering" strategy of development for Kingdom Hotel was passed.
- (6) The sixth Board meeting was held on 17 November, whereby the resolution of investment diversification reform on a subsidiary of the Company was passed.
- (7) The seventh Board meeting was held on 28 November, whereby the resolution of reform on management decision system of a subsidiary of the Company was passed.
- (8) The eighth Board meeting was held on 4 December, whereby the resignation submitted by Mr. Zuo Changlin, original Chairman of the Company, due to job changes was passed.
- (9) The ninth Board meeting was held on 22 December, whereby the application for investment in the establishment of a production line by Shenyang High-Voltage Switchgears, a subsidiary of the Company, was passed.

B. The Board's execution of resolutions of the general meetings

During the reporting period, the Board of Directors carefully executed the resolutions passed at the General Meetings and fulfilled the relevant tasks.

- C. During the period from 6-12 July 2000, Shenyang securities management office under China Securities Regulatory Commission made a visit to the Company. In respect of the opinions made and the requirement of "Notice of Overall Reform", the Company held a meeting and has a thorough discussion. Overall reform solutions were formulated and implemented. The Company made a submission to the regulatory department at the end of August 2000.

D. Name, shareholding and annual remuneration of Directors, Supervisors and Senior Management

Note: There was no change in the shares held by the directors, supervisors and senior management during the period. They held a total of 31,311 A shares.

Due to job changes, Mr. Zuo Changlin, original Chairman of the Company, submitted his resignation. It took effect on 4 December 2000 after an approval was granted by the board of directors. Due to business engagement, Mr. Li Lianyi, original Director, submitted his resignation. It took effect on 13 June 2000 after an approval was granted at a general meeting. Ms. An Lijing, original Supervisor, submitted her resignation due to retirement. It took effect on 13 June 2000 after an approval was granted at a general meeting. At the extraordinary general meeting held on 13 June 2000, Mr. Huang Ping was elected as a director and Mr. Zhang Ping was elected as a supervisor. At the extraordinary general meeting held on 9 March 2001, thirteen persons including Messrs Xiang Yongchun, Zhou Baoyi, Huang Ping, Li Jinbiao, Liu Yongchun, Li Bin, Lu Minglin, Liu Jie, Gao Jinzhu, Guan Weili, Xing Yujiu, Gao Chuang and Kang Jinjiang were elected as members of the third board of directors. Mr. Xiang Yongchun was elected as the Chairman. At the extraordinary general meeting, five persons including Mr. Wu Qingwei, Madam Liu Zhong and Madam Liang Jie and the staff representatives, Mr. Luo Guiliang and Mr. Zhang Hongliang were elected as members of the third Supervisory Committee. Mr. Wu Qingwei was elected as the Chairman of the Supervisory Committee. Their term of office is during the period from 9 March 2001 to 9 March 2004.

#### E Remuneration of Directors and Supervisors

Brief particulars of the directors' and supervisors' service contracts, which are identical in all material respects, are set out below;

- (1) Each service contract is for a term of three years commencing from 12 March 1998 and thereafter renewable by the parties in accordance with the Company's articles of association.
- (2) From 12 March 1998 to 11 March 2001, the executive directors and the supervisors will receive aggregate annual salaries of approximately Rmb310,000 and Rmb98,000 respectively and aggregate annual bonuses not exceeding Rmb670,000 and Rmb245,000 respectively. Under the service contracts mentioned above, the salaries and maximum bonuses of the directors and supervisors are fixed until the expiry of their respective terms of employment.
- (3) According to the articles of association of the Company, the term of office for the four independent directors shall be three years commencing from the date of appointment, renewable upon re-election.

Apart from the above, there are no existing or proposed service contracts, excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation), between the Company or any of its subsidiaries and any of the directors or supervisors.

F. Number, qualification and retirement of the staff

As at 31 December 2000, there were 10,722 staff in the Company, of which, there were 1,735 management personnel, 2,646 technicians, 833 financial and sales personnel and 5,508 staff engaged in production and other kinds of job. There were 1,323 staff holding university or above qualification, 1,897 staff with college education and 3,050 staff with secondary and post-secondary education. There are currently 5,381 retired staff.

G. Financial highlights

The financial highlights are set out on pages 4 to 9.

Significant differences between accounting principles generally accepted in Hong Kong and PRC Accounting Regulations are shown on page 170 to 171.

H. Reserves

Details of the movements in reserves are shown from page 91 to 93 and page 154 to 155.

I. Bank Loans and other Borrowings

Particulars of bank loans and other borrowings of the Group are set out on page 89, page 93 to 96 and page 145, page 147 to 152.

J. Fixed Assets

Details of the movements in fixed assets are shown from page 69 to 70 and page 140.

K. Retirement Benefits

Details of the retirement benefits are set out from page 62 and page 125.

L. Share Capital

Details of the movements in share capital are shown on page 90 and page 153.

Movements and structure of share capital are set out on page 10 under Share Capital and Shareholders.

M. Pre-emptive rights

According to the articles of association of the Company and the laws of the PRC, no pre-emptive right exists requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

N. Purchase, sale and redemption of the Company's listed securities

During 2000, the Group made no purchase, sale or redemption of any of its securities.

O. Major suppliers and customers

During the year, the Company and its subsidiaries purchased less than 30% of its total goods and services from its five largest suppliers and sold less than 30% of the total goods to its five largest customers.

None of the directors, supervisors or their respective associates of the Company had any interests in the five largest suppliers and customers of the Group at any time during the year.

P. Directors' and supervisors' interests in contracts

During the reporting period, none of directors and supervisors of the Company and its subsidiaries or its holding company has any direct or indirect beneficial treatment.

Q. Confirmation by independent directors on connected transactions

Please refer to No.5 of significant events on page 38.

R. Auditors

The Company's 1999 H share and A share financial statements were audited by PricewaterhouseCoopers and Price Waterhouse Da Hua respectively. During the annual general meeting held on 13 June 2000, the Company appointed Moores Rowland, Hong Kong Certified Public Accountants, and Hualun Certified Public Accountants as international and domestic auditors of the Company respectively for a year.

S. Directors' and supervisors' rights to acquire shares or debentures

At no time during the year was the Company or any of its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors or supervisors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

T. Code of Best Practice

During the year, the Directors and Supervisors of the Company strictly complied with the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

U. Disclosure pursuant to Practice Note 19 issued by The Hong Kong Stock Exchange :

For Syndicated loan, please refer to item I of the report of the Directors. As at 31 December 2000, the net account receivable from its holding company and related companies totalled Rmb217 million (1999:Rmb545,067,000), representing 19% of the net assets of the Group (1999:35%)

In May 1998, the syndicated loan of a total of USD40million was received. In respect of the loan, Shenyang Municipal Government undertook that before the full repayment of the syndicated loan, the lenders will hold not less than 50% of the shares of the Company through the holding company at any time.

V. During the period, the Company published "1999 Annual Report" and "2000 Interim Report" respectively in China Securities Journal, Securities Times, Wen Wei Po and Hong Kong iMail on 29 August 2000 and 28 August 2000.

W. Material Contracts

During the year, the Company entered into a material contract "Settlement Agreement" with Northeast Electrical Transmission and Transformation Equipment Group Corporation Limited ("NET"). In order to settle the amount due from NET and its subsidiaries, the Company entered into "Settlement Agreement" with NET on 22 December 2000. Pursuant to which, NET shall use the net asset value of Kingdom Hotel of Rmb344,843,000 to set off the debt.

The followings are existing material contracts entered into between NET and the Company:

- a. A reorganisation agreement dated 13 June 1995 between the Company, its subsidiaries and NET, whereby NET shall give certain representations, undertakings, warranties and indemnities in favour of the Company in respect of the assets injected by NET.
- b. A service agreement dated 13 June 1995 between the Company and NET, whereby NET agreed to provide to the Group with services including the provision of workers' dormitories and employees' vacation lodges. Pursuant to the agreement, the Company and NET agreed to pay to each other a service fee for each of the above services on an annual basis which is determined by reference to the actual cost of provision of such service.
- c. A trademark licence agreement dated 13 June 1995 between the Company, its subsidiaries and NET. Pursuant to which, NET authorized the Company and its subsidiaries to use the DBD trademark for the production and sale of transmission and transformation products for the nominal payment of a fee of five yuan (Rmb).
- d. On 9 April 1999, the Company entered into a recovery agreement with NET. Details are set out from page 78 to 81 herein.

X. Profit Appropriation Proposal for the year

The board of directors of the Company recommends the appropriation of shareholders' funds for the year ended 31 December 2000 as follows:

The Company recorded net profit after taxation and minority interests of Rmb-363,597,000 in 2000, together with undistributed profit of Rmb-78,150,000 at the beginning of the period and the written off of Rmb16,782,000 to the undistributed profit pursuant to the requirements of Ministry of Finance Cai Qi[2000] No.295 document, and the allocation of Rmb49,000 to the statutory common reserve by a profitable subsidiary, distributable profit for the year totalled Rmb-458,578,000. The board of directors recommends no profit to be distributed and suggests no increase in share capital by converting from capital reserve. This proposal will be subject to the approval of the general meeting.

- Y. Forecast profit appropriation plan for 2001: the Company is to focus on making a turnaround profit for 2001. If the profit is made, it will be applied to cover the loss for the past consecutive years and it is expected that no profit appropriation will be made.

By order of the Board  
**Xiang Yongchun**

Shenyang, the PRC, 20 April 2001