

# **REPORT OF THE DIRECTORS**

The Directors have pleasure in presenting their annual report together with the audited financial statements for the year ended 31 December 2001.

## **PRINCIPAL ACTIVITIES**

The principal activities of the Company and its subsidiaries (the "Group") and its jointly controlled entities are the generation and sale of electricity which is all fed into the Shandong Provincial Grid operated by Shandong Electric Power (Group) Corporation ("SEPCO"), the immediate holding company of the Company. SEPCO determines to whom the electricity is sold.

As the Group is located, and operates one single business, in Shandong Province, the People's Republic of China ("PRC"), no segmental reporting is included in the financial statements.

The profit of the Group for the year ended 31 December 2001 and the state of the Group's and the Company's financial affairs as of that date prepared in accordance with International Accounting Standards ("IAS") are set out in the financial statements on pages 43 to 87.

## **DIVIDENDS**

The Board of Directors recommended payment of a final dividend of RMB0.17 per share (totalled RMB893,534,000) for the financial year ended 31 December 2001 (2000: a final dividend of RMB0.058 per share, totalled RMB304,853,000). This dividend distribution proposal is subject to approval by the shareholders of the Company at the Annual General Meeting to be held on Tuesday, 16 April 2002.

Final dividend for domestic shares will be distributed and paid in Renminbi whereas dividend for H shares will be declared in Renminbi and paid in Hong Kong dollars (at the average exchange rate of Renminbi to Hong Kong dollars as quoted by the People's Bank of China for the week immediately preceding Tuesday, 16 April 2002). The final dividend for 2001 will be distributed to shareholders of the Company whose names appear on the register of members of the Company at the close of business on Monday, 15 April 2002. The register of members of the Company will be closed from Friday, 15 March 2002 to Monday, 15 April 2002 (both days inclusive) during which no share transfer will be registered. Registered holders of H shares of the Company should lodge their instruments of transfer and the relevant share certificates with the H share registrar of the Company, i.e. Hong

Kong Registrars Limited, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, by 4:00 p.m. on Thursday, 14 March 2002 for the entitlement to receive the final dividend. The final dividend will be distributed on Friday, 26 April 2002.

An interim dividend of RMB0.02 per share (totalled RMB105,122,000) for the year 2001 (2000: an interim dividend of RMB0.02 per share, totalled 105,122,000 and a special interim dividend of RMB0.228 per share, totalled RMB1,198,387,000) was distributed on 9 November 2001.

## **SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES**

Particulars of the Company's subsidiaries and jointly controlled entities at 31 December 2001 are set out in notes 16 and 17 respectively on the financial statements.

## **BANK LOANS AND OTHER BORROWINGS**

Details of bank loans and other borrowings of the Group and the Company as at 31 December 2001 are set out in note 23 on the financial statements.

## **INTEREST CAPITALISED**

Details relating to the interest capitalised by the Group during the year of 2001 are set out in note 7 on the financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

Details relating to movements in property, plant and equipment of the Group and the Company during the year of 2001 are set out in note 13 on the financial statements.

## **RESERVES**

Details relating to movements in reserves of the Group and the Company for the year ended 31 December 2001 and details of distributable reserves of the Company as at 31 December 2001 are set out in note 26 on the financial statements.

## **DONATIONS**

During the year of 2001, the Group made donations for charitable purposes amounting to an aggregate of approximately RMB60,000 (2000: RMB20,000).

## **EMPLOYEES' RETIREMENT PLANS**

Details of the Group's employees' retirement plans are set out in note 29 on the financial statements.

## **PRE-EMPTIVE RIGHTS**

According to the articles of association of the Company and the laws of the PRC, no rules relating to pre-emptive rights exist which require the Company to offer and issue new shares to the existing shareholders of the Company in proportion to their respective shareholding interests in the Company.

## **STAFF HOUSING**

The relevant housing reform policy promulgated by the PRC government was implemented by the Group. During the year of 2001, no material loss was incurred by the Group from its sale of staff quarters.

## **SHARE CAPITAL**

Details of the share capital of the Company are set out in note 26 on the financial statements.

## **USE OF PROCEEDS**

As disclosed in the annual report of the Company for the year 2000, as at 31 December 2000, all the proceeds resulting from issue of shares were totally used by the Company. The Company did not issue any shares nor proceed with any fund raising activities in 2001.

## **MAJOR CUSTOMERS AND SUPPLIERS**

All electricity generated by the Group was sold to SEPCO.

Purchases made by the Group in 2001 were mainly made from three suppliers. Among them, Shandong Luneng Fuel (Group) Company Limited, a company controlled by SEPCO, was the Group's largest supplier and responsible for the supply of coal required by the Group. It accounted for 87% of the Group's total purchases in 2001.

Save as disclosed above, none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's

share capital) had any interest in these suppliers or customers of the Company at any time during the year of 2001.

## SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, substantial shareholders who held 10% or more of any class of the share capital of the Company were as follows:

Name of shareholder	Shares	Number of shares held	Percentage of the total number of shares of the Company in issue as at 31 December 2001	Percentage of the total number of domestic shares of the Company in issue as at 31 December 2001	Percentage of the total number of H shares of the Company in issue as at 31 December 2001
SEPCO	Domestic shares	2,815,075,430	53.56%	73.60%	-
Shandong International Trust and Investment Corporation	Domestic shares	903,443,970	17.19%	23.62%	-
HKSCC Nominees Limited (Note 1)	H shares	899,785,000	17.12%	-	62.88%
Mirant (SIPD) Investment, Inc. (Note 2)	H shares	525,083,000	9.99%	-	36.69%

Note 1: According to the record of HKSCC Nominees Limited, the H shares held by it were held on behalf of a number of persons and, to the knowledge of the Company, none of whom individually owned or held 10% or more of the total number of H shares of the Company in issue as at 31 December 2001.

Note 2: Mirant (SIPD) Investment, Inc. is a wholly-owned subsidiary of Mirant Corporation, the foreign strategic investor of the Company.

The aforesaid interests and the relevant information were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

Save as disclosed above, the Directors are not aware of any person (other than the Directors, chief executive, senior management or supervisors of the Company) who as at 31 December 2001 was interested in 10% or more of any class of share capital of the Company which was required to be recorded in the register of interests of the Company pursuant to Section 16(1) of the SDI Ordinance.

## **DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT AND THEIR INTERESTS IN SHARES**

The following table sets forth certain information concerning the existing Directors, supervisors and senior management of the Company. All Directors and supervisors are currently serving a term of three years, renewable upon re-election and reappointment every three years.

<b>Name</b>	<b>Position with the Company</b>	<b>Change during 2001</b>
Da Hongxing	Executive Director and Chairman	(appointed on 26 February 2001)
Tian Peiting	Executive Director and Vice Chairman	(appointed as Vice Chairman on 26 February 2001)
Chen Jianhua	Executive Managing Director	
Lin Mingshan	Executive Director	
Fu Yijun	Non-executive Director and Vice Chairman	
Li Ruge	Non-executive Director	
Zhao Wenan	Non-executive Director	
Cui Jiaoshan	Non-executive Director	
Zhang Bingju	Non-executive Director	
Henry T.E. Coolidge, Jr.	Non-executive Director	(appointed on 26 April 2001)
Cui Jianbo	Non-executive Director	(appointed on 26 November 2001)
Ding Changhao	Independent non-executive Director	
Kung Shaiindow	Independent non-executive Director	
Feng Lanshui	Chairman of the Supervisory Committee	
Xu Qingzao	Member of the Supervisory Committee	
Zheng Feixue	Member of the Supervisory Committee	
Zhou Lianqing	Company Secretary	
Zhong Tonglin	Deputy General Manager	
Zhu Fangxin	Chief Accountant and Chief Supervisor of Financial Affairs	

Mr. Tian Peiting resigned from the office of the Chairman on 26 February 2001. Mr. Li Yuting, the ex-Vice Chairman, resigned from his office as a director of the Company on 16 January 2001. Mr. Da Hongxing was appointed as a director of the Company at the extraordinary general meeting of the Company held on 26 February 2001. The Board of Directors resolved to elect Mr. Da Hongxing as the Chairman and Mr. Tian Peiting as the Vice Chairman of the Company on the same day with effect from 26 February 2001.

Mr. Frederick D Kuester and Ms. Yang Renxiang, two previous non-executive directors of the Company, resigned from their office as directors of the Company on 26 April 2001 and 26 November 2001 respectively. Mr. Henry T.E. Coolidge, Jr. was appointed as a director of the Company at the 2000 annual general meeting of the Company held on 26 April 2001 and Mr. Cui Jianbo was appointed as a director of the Company at the extraordinary general meeting of the Company held on 26 November 2001.

The Directors' and supervisors' remuneration for the year ended 31 December 2001 is set out in note 8 on the financial statements.

As at 31 December 2001, none of the Directors, supervisors, chief executive or senior management of the Company and their associates had any beneficial interest in the issued share capital or debt securities of the Company and/or any associated corporation (within the meaning as defined in the SDI Ordinance) which were required to be entered in the register of interest maintained by the Company pursuant to section 29 of the SDI Ordinance or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

During the year of 2001 and as at 31 December 2001, none of the Directors, supervisors, chief executive or senior management of the Company or any of their respective spouses or children under 18 years of age were granted any right, and the Company had not made any arrangement enabling any of them, to subscribe for any share capital or debt securities of the Company.

The biographical details in respect of the existing Directors, supervisors and senior management of the Company are set out on pages 35 to 39.

The 2001 Annual General Meeting of the Company will be held on 16 April 2002 for the purpose of, among other things, considering and approving the re-appointments of Mr. Da Hongxing, Mr. Fu Yijun, Mr. Tian Peiting, Mr. Chen Jianhua, Mr. Li Ruge, Mr. Zhang

Bingju, Mr. Cui Jianbo, Mr. Henry T.E. Coolidge, Jr., Mr. Lin Mingshan, Mr. Ding Changhao and Mr. Kung Shaindow as directors of the Company, the appointments of Mr. Wang Guisheng and Mr. Geng Yuanzhu as directors of the Company and the re-appointments of Mr. Feng Lanshui and Mr. Xu Qingzao as supervisors of the Company, all for a term of three years. Their personal particulars are contained in the Notice of Annual General Meeting dated 25 February 2002 issued by the Company.

## **DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

No contract of significance or proposed contracts of significant, to which the Company or any of its subsidiaries, holding companies or jointly controlled entities was a party and in which a Director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year ended 31 December 2001.

## **SERVICE CONTRACTS OF THE DIRECTORS AND SUPERVISORS**

No Director or supervisor who will be elected and re-appointed at the Annual General Meeting to be held on 16 April 2002 has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

## **CONNECTED TRANSACTIONS**

During the year of 2001, the Company entered into the following transactions which constituted connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

### **1. LUNENG CENTRE AGREEMENT**

On 11 October 2001, the Company entered into an agreement (the "Luneng Centre Agreement") with Shandong Luneng Property Corporation ("Luneng Property"). Pursuant to the Luneng Centre Agreement, the Company agreed to pay to Luneng Property an aggregate of RMB30,000,000 (approximately HK\$28,286,000) (subject to adjustments for variations of the construction work) to partially finance the construction of Luneng Centre. Luneng Centre is a 13-storey modern integrated office building constructed by Luneng Property in Jinan, Shandong Province, the PRC. Upon completion of the construction, Luneng Property shall transfer, at no further consideration, the title and the property of one level of Luneng Centre to the Company, which intends to use as its office premises. The terms of the Luneng Centre Agreement were negotiated on an arm's length basis and on normal commercial

terms in the ordinary and usual course of business of the Company. The consideration was determined based on a proportional amount of the estimated total investment cost for the construction of one level, out of 13 levels, of Luneng Centre and was funded out of the Company's internal resources.

As Luneng Property is an associate of SEPCO, the entering into by the Company of the Luneng Centre Agreement constituted a connected transaction for the Company under the Listing Rules.

## **2. THE LAICHENG PLANT PHASE II CONSTRUCTION AGREEMENTS**

On 11 October 2001, Laicheng Plant entered into the following agreements:

- (a) a construction agreement with Shandong Electric Power No. 2 Construction Engineering Company (the "No. 2 Construction Engineering Company") pursuant to which Laicheng Plant agreed to engage the No. 2 Construction Engineering Company to provide services for the construction work of the public systems and ancillary facilities of phase II of Laicheng Plant for an aggregate consideration of approximately RMB254,177,000 (approximately HK\$239,654,000) (subject to adjustments for variations of the construction work), approximately 80% of which was funded out of unsecured bank loans to the Company with the balance funded out of the Company's internal resources; and
- (b) a construction agreement with Shandong Electric Power No. 3 Construction Engineering Company (the "No. 3 Construction Engineering Company") pursuant to which Laicheng Plant agreed to engage the No. 3 Construction Engineering Company to provide services for the construction work of the principal portion of phase II of Laicheng Plant for an aggregate consideration of approximately RMB338,333,000 (approximately HK\$319,002,000) (subject to adjustments for variations of the construction work), approximately 80% of which was funded out of unsecured bank loans to the Company with the balance funded out of the Company's internal resources.

As each of the No.2 Construction Engineering Company and the No.3 Construction Engineering Company is a wholly-owned subsidiary of SEPCO, which is a connected person of the Company, the entering into of each of the above construction agreements constituted connected transactions for the Company under the Listing Rules and agreements were conditional upon approval by shareholders of the Company (excluding SEPCO and its associates).



The details of the above construction agreements and the transactions contemplated thereunder are contained in an announcement and a circular of the Company dated 11 October 2001 and 1 November 2001 respectively. Such transactions were approved by shareholders of the Company at the extraordinary general meeting held on 26 November 2001.

### **3. THE XINYUAN AGREEMENT**

On 17 December 2001, the Company entered into an agreement with Shandong Luneng Development (Group) Company Limited ("Luneng Development") pursuant to which the Company agreed to acquire from Luneng Development its entire 30% equity interest in Shandong Tengzhou Xinyuan Power Company Limited ("Xinyuan") and 60% of the development right of its proposed new project to construct and develop two 135MW heat and electricity co-generating units in Tengzhou for an aggregate consideration of RMB13,620,000. Such consideration was determined after arm's length negotiation based on the unaudited net asset value of Xinyuan and was funded out of the Company's internal resources. The Company started to exercise effective control over Xinyuan as from January 2002.

As Luneng Development is a promoter and, hence, a connected person, of the Company, the entering into of the above agreement constituted a connected transaction for the Company under the Listing Rules.

### **4. THE ZIBO AGREEMENT**

On 17 December 2001, the Company entered into an agreement with Luneng Development pursuant to which the Company agreed to, for a consideration of RMB74,200,000, acquire from Luneng Development all the assets owned by Luneng Development in connection with the business operated by Shandong Luneng Development (Group) Company Limited Zibo Branch (which is currently wholly-owned by Zibo SIPD Power Company Limited, "Zibo SIPD"), including but not limited to all of its fixed and current assets, contractual rights (including the right owned by Luneng Development through the branch to construct and develop two 135MW heat and electricity cogenerating units in Zibo, Shandong Province, the PRC) and liabilities (the "Zibo Assets"). The consideration of RMB74,200,000 was determined principally based on the unaudited net asset value of the Zibo Assets as a result of the arm's length negotiation between the parties and was funded out of the Company's internal resources. These assets, business and liabilities were transferred to the Zibo SIPD, which is in turn, wholly-owned by the Company, in January 2002.

As Luneng Development is a promoter and, hence, a connected person, of the Company, the

entering into of the above agreement constituted a connected transaction for the Company under the Listing Rules.

## 5. THE LUNENG FUEL AGREEMENT

On 17 December 2001, the Company entered into an agreement with Shandong Luneng Fuel (Group) Company Limited (the "Fuel Company") pursuant to which the Company has, for a consideration of RMB39 million, agreed to acquire 13% of the enlarged registered capital (in the amount of RMB300 million) of the Fuel Company. The consideration of RMB39 million represented 13% of the enlarged registered capital of the Fuel Company and was funded out of the Company's internal resources.

As the Fuel Company was, as at the date of the above agreement, owned as to 49% by Luneng Development and was therefore an associate of Luneng Development. As Luneng Development is a promoter and, hence, a connected person, of the Company, the Fuel Company was also a connected person of the Company, and the entering into of the above agreement constituted a connected transaction for the Company under the Listing Rules.

## CONNECTED TRANSACTIONS WHICH ARE THE SUBJECT OF EXEMPTION UNDER THE LISTING RULES AND MATERIAL CONTRACT WITH SEPCO

### CONNECTED TRANSACTIONS

Apart from the transactions disclosed above, most of the transactions undertaken by the Group and its jointly controlled entities during the year ended 31 December 2001 were entered into with SEPCO or entities controlled by it on such terms as have been agreed between the relevant parties. Under the Listing Rules, the above parties are connected persons of the Company and the relevant transactions constituted connected transactions for the Company. Details of these transactions which are required by Rule 14.25(1) of the Listing Rules to be disclosed herein are set out below and in note 28 on the financial statements.

	<b>Note</b>	<b>2001</b> <i>RMB'000</i>	<b>2000</b> <i>RMB'000</i>
Sale of electricity	i	<b>7,142,341</b>	6,862,545
Interconnection and despatch management fees	ii	<b>76,185</b>	72,104
Purchase of coal, including handling fees	iii	<b>2,102,879</b>	1,916,916
Coal field management fee	iv	<b>90,408</b>	75,240

Repairs and maintenance services	v	<b>240,681</b>	235,623
Technical supervision, assistance and testing services	vi	<b>14,812</b>	13,928
Electricity consumed	vii	<b>17,865</b>	14,046
Construction costs and equipment costs paid	viii	<b>313,395</b>	331,000
Staff training	ix	<b>997</b>	1,796
Operating lease charges on office premises	x	<b>1,230</b>	1,117

- (i) All electricity generated by the Group was sold to SEPCO. See note 28 on the financial statements for details.
- (ii) See note 28 on the financial statements for details of interconnection and despatch management fees paid to SEPCO.
- (iii) Shandong Luneng Fuel (Group) Company Limited (the "Fuel Company"), a company controlled by SEPCO, was responsible for purchasing fuel required for the Group and its jointly controlled entities. The cost of coal charged was determined based on the actual purchase price plus a handling fee of 5% of the actual purchase price.
- (iv) The Fuel Company was also responsible for the daily management of the Group's and its jointly controlled entities' coal fields. The management fee payable was determined annually in advance with the aim of reimbursing the costs incurred by the Fuel Company in carrying out its duties.
- (v) Shandong Electric Power Hong Yuan Electricity Generation Overhaul Company Limited (the "Overhaul Company"), which is controlled by SEPCO, was responsible for the repair and maintenance works, including major overhauls, of the Group and its jointly controlled entities. The amount payable was determined on a cost reimbursement basis.
- (vi) The Shandong Electric Power Scientific Research Institute (the "Research Institute"), which is controlled by SEPCO, was responsible for the provision of technical supervision, assistance and testing services to the Group and its jointly controlled entities. Such services were charged at a rate of RMB3.66 per KW (including value-added tax) of installed capacity per year.
- (vii) The Group and its jointly controlled entities purchased electricity from SEPCO at the published tariff rates for use in certain of its operations and for its head office and staff quarters where they are located in areas under the cover of the grid operated by SEPCO.

- (viii) Shandong Electric Power No.1 Construction Engineering Company, a subsidiary of SEPCO, was responsible for the construction of ancilliary facilities (including the railway system, ash fields and dust removing systems) of Zouxian Plant and Shiliquan Plant.

The construction work of the third and the fourth units of Laicheng Plant Phase II was principally carried out by Shandong Electric Power No. 2 Construction Engineering Company and Shandong Electric Power No. 3 Construction Engineering Company, both of which are controlled by SEPCO. See note 28 on the financial statements for details.

- (ix) From time to time, the Group and its jointly controlled entities sent certain of their employees to the Research Institute and the Staff Education and Training Centre for technical training.
- (x) Shandong Luneng Property Corporation, which is controlled by SEPCO, leased to the Company office premises on the 7th and 15th floors of the SEPCO Despatch Buildings at 14 Jingsan Road, Jinan, Shandong Province, the PRC as the headquarters of the Company.
- (xi) All materials and equipment for fixed assets improvement works and major overhauls undertaken by the Group were supplied by Shandong Luneng Materials Group Corporation Limited (the "Materials Company") (previously known as Shandong Electric Power Materials Company), which was previously controlled by SEPCO. After completion of a reorganisation of the Materials Company in December 2000, under the Listing Rules, the Materials Company ceased to be a connected person of the Company and the transactions entered into between the Group and the Materials Company did not constitute any connected transaction for the Company.

The independent non-executive Directors of the Company have confirmed to the Board of Directors of the Company that they have reviewed the above connected transactions and have concluded that these transactions had been entered into:

- (i) in the ordinary and usual course of business;
- (ii) either on normal commercial terms or on terms no less favourable than those available to (or from) independent third parties; and
- (iii) on terms that are fair and reasonable so far as the shareholders of the Company are

concerned.

## **MATERIAL CONTRACT WITH SEPCO**

On 12 January 1999, SEPCO and the Company entered into a letter of undertaking, pursuant to which SEPCO granted to the Company a right to acquire, develop, construct, own and operate, at the Company's option, any or all future power plants in Shandong Province. Further, SEPCO agreed not to compete with the Company in relation to the acquisition, development, construction and operation of power plants located outside the service area of the Shandong Provincial Grid, but power generated by which will be supplied to Shandong Province.

## **INVESTMENT**

In December 2001, the Company entered into an agreement with an investing party, which is independent of the Company or its subsidiaries, any director, chief executive or substantial shareholder of such companies or an associate of any of them, in respect of investment in Shandong Zhangqiu Power Company Limited ("Zhangqiu"), of which two 135MW generating units are under construction, to become its largest shareholder holding its 70% equity interest therein for a consideration of approximately RMB24,281,000. It is expected that the first unit will commence operation in 2002. The Company started to exercise effective control over Zhangqiu as from January 2002.

## **SHANDONG LUNENG HEZE MINERALS DEVELOPMENT COMPANY LIMITED**

Due to the expansion of the business of Shandong Luneng Heze Minerals Development Company Limited ("Heze Minerals") and the need urged for increasing its capital, the Board of Directors of the Company has approved the Company's agreeing to increase the net asset value of Heze Minerals to RMB500 million and approved the Company not to increase its investment in Heze Minerals in this proposed increase in its net asset value. Hence, the equity interest owned by the Company in Heze Minerals has been diluted from 45% to 18.4%.

## **REPURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the financial year of 2001, neither the Company nor any of its subsidiaries and their jointly controlled entities has repurchased, sold or redeemed any of the Company's securities (the word "securities" shall have the same meaning as defined in paragraph 1, Part I of Appendix 7 to the Listing Rules).

## **FINANCIAL SUMMARIES**

Summaries of the results of the Group for each of the five years ended 31 December 2001 and are set out on page 88.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has at any time throughout the year of 2001 complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

## **MATERIAL LITIGATION**

The Group was not involved in any material litigation or arbitration during the financial year of 2001. As at 31 December 2001, no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Group.

## **PRACTICE NOTE 19**

During the financial year of 2001, the Company did not advance any money to any entity which exceeded 25% of the Company's net assets, did not provide any financial assistance or guarantees to affiliated companies which exceeded 25% of the Company's net assets, did not have pledging of shares by the controlling shareholder to secure debts, guarantees or other support of obligations of the Company and did not make any loan agreements imposing specific performance obligations on the controlling shareholder.

## **DESIGNATED DEPOSITS AND OVERDUE MATERIAL DEPOSITS**

As at 31 December 2001, the Group's deposits placed with financial institutions or other parties did not include any designated or trust deposits, or any material deposits which could not be collected upon maturity.

## **AUDITORS**

The Company has not changed its auditors in any of the preceding three years. A resolution for the reappointment of KPMG Huazhen (previously known as KPMG Peat Marwick Huazhen) and KPMG as domestic auditors and international auditors of the Company respectively for the financial year ending 31 December 2002, is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**Da Hongxing**

*Chairman*

Jinan, Shandong Province  
People's Republic of China,

25 February 2002