

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company is principally engaged in one business activity, namely the design, development, manufacture and sale of machine tools, precision measuring equipment and precision transducers.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31st December, 2000 prepared in accordance with PRC accounting standards are set out in the income statement on page 38 of the annual report; the results prepared in accordance with Hong Kong accounting standards are set out in the income statement on page 64 of the annual report.

The board of directors do not recommend the payment of a dividend.

Details of the movements during the year in the reserves of the Company are set out in notes 24 and 20 to the financial statements prepared in accordance with PRC accounting standards and Hong Kong accounting standards respectively.

FINANCIAL SUMMARY

Summaries of the results, assets and liabilities of Company for the past five years, prepared in accordance with PRC accounting standards and Hong Kong accounting standards, is set out on page 6 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Company are set out in notes 11 and 12, and note 11 to the financial statements prepared in accordance with PRC accounting standards and Hong Kong accounting standards respectively.

BORROWINGS AND INTEREST CAPITALISED

Repayment analyses of bank borrowings are set out in notes 15 and 21, and note 18 to the financial statements prepared in accordance with PRC accounting standards and Hong Kong accounting standards respectively.

Interest capitalised by the Company during the year in respect of construction-in-progress amounted to approximately RMB263,000.

REVIEW OF BOARD ACTIVITIES

The board of directors of the Company held ten meetings during the year. The purpose of the meeting were to approve 1999 annual report, 2000 interim report, the investment in stock and fund, the potential investment plans, the election of Mr. Gao Yangren as the Company's Chairman, the appointment of Mr. Li Wenrong as the Company's General Manager, the appointment of Mr. Cheng Yunchuan as the Company's Deputy General Manager and the resignation of Mr. Li Yunxiang from the post of Deputy General Manager.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The directors and supervisors of the Company during the year and up to the date of this report are as follows:

Executive directors:

Gao Yangren	(appointed on 3rd June, 2000)
Li Yunxiang	
Li Wenrong	
Qin Jianzhong	
Guo Shangwu	
Ye Xiangyu	(resigned on 3rd June, 2000)

Non-executive director:

Li Mingde

Independent non-executive directors:

Sun Chuanliang
Sun Xiaoliang
Liang Wenxuan

Supervisors:

Li Renzhong
Li Yuen
Tang Jianxin
Zhang Yinghai

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Biographical details of the directors are as follows:

Mr. Gao Yangren, aged 54, is the Chairman of the Company. He graduated from Beijing Industrial College majoring in optical instrument in 1969. He has been engaged in technical and management work for a long period of time. He has held the positions of Technician, Workshop Officer, Assistant to Factory Head, Deputy Factory Head and then Factory Head of Southwest Dongguang Machinery Factory. After 1996, he was the General Manager of Kunming Shipping New High Technology Development Company, Deputy Chief Accountant, Assistant to General Manager and Deputy General Manager of Kunming Shipping Equipment Corporation. Mr. Gao holds relevant qualification from a university and held the title of a senior economist. The appointment is from 3rd June, 2000 to 31st October, 2002.

Mr. Li Yunxiang, aged 59, is an Executive Director and Deputy General Manager of the Company. He joined Kunming Machine Tool Plant in 1964 and has extensive experience in technical, administrative and management matters. Since 1984, he has held the positions of Deputy Head and then Head of Technology Section, Director of Technology Department, Deputy Chief Engineer, Deputy Factory Director of Kunming Machine Tool Plant, and Executive Director and Deputy General Manager of the First Board of Directors of the Company. Mr. Li graduated from Technology and Facilities of Mechanical Manufacturing of Guizhou Institute of Engineering and is a university graduate holding the title of senior engineer. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Li Wenrong, aged 38, is an Executive Director of the Company. He joined Kunming Machine Tool Plant in 1984 and has extensive experience in the technical area. He has been engaged in management activities since 1987 and has held the positions of Deputy Head of Factory Department Office and Deputy Director of Technology Department of Kunming Machine Tool Plant. He was the Director of the Organization Department and the Director of the Labour and Personnel Section of the Disciplinary Committee of Kunming Kun Ji Group Company in 1993. Mr. Li graduated from Hunan University in 1984 and Economic and Industrial Management with the Faculty of Economics of Yunnan University in 1997. Mr. Li holds the title of engineer. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Qin Jianzhong, aged 46, is an Executive Director, Deputy General Manager and Financial Manager of the Company. He joined Kunming Machine Tool Plant in 1982 and has extensive experience in the technical area and management. He has held the positions of Technician, Deputy Director and then Director of Workshop, Deputy Head of the Labour and Personnel Section, Supervisor of the First Supervisory Committee of the Company and Deputy Head and then Head of the Labour and Personnel Department of the Company. Mr. Qin graduated from Neimenggu Institute of Engineering in 1982, obtained a master's degree from Xian Jiaotong University in 1990 and holds the titles of engineer and senior economist. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Guo Shangwu, aged 54, is an Executive Director of the Company. He joined Kunming Machine Tool Plant in 1970 and has extensive experience in workshop production techniques and management. He has held the positions of Deputy Head and then Head of workshops of Kunming Machine Tool Plant, Factory Director of Bulk Product Plant, Assistant General Manager, Head of Sales Department and the Deputy Chairman of the Second Supervisory Committee of the Company. Mr. Guo graduated from Kunming Institute of Engineering specialised in casting and is a university graduate holding the title of senior engineer. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Sun Chuanliang, aged 63, is an Independent Non-Executive Director of the Company. He is a college graduate and holds the title of senior economist. He was previously the General Manager of the Industrial and Commercial Bank of China, Yunnan Branch, and is now retired. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Sun Xiaoliang, aged 67, is an Independent Non-Executive Director of the Company. He is a researcher and professor. He is the Chairman of China Enterprise Share Restructuring Management Consultant Company. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Liang Wenxuan, aged 64, is an Independent Non-Executive Director of the Company. He graduated from Kunming Technological School (with specialisation in mechanical manufacturing) in 1957. He started his career in the same year and has extensive experience in scientific research and technological matters. He has been engaged in economic administration and management since 1969, and has held the positions of Deputy Director, Director, Deputy Head of Office in various government departments, and Deputy Chief Secretary of the provincial government. Mr. Liang was the Director of Provincial Trade Office from 1993 to 1996 and is now retired. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Li Mingde, aged 67, is a Non-Executive Director of the Company. He is a college graduate and holds the title of senior engineer. He was previously the Head of Economic and Trade Committee in the Yunnan province and the Deputy Director of the Chinese People's Political Consultative Conference in the Yunnan province. He has been retired. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Ye Xiangyu, aged 55, is the Chairman and General Manager of the Company. He joined the Company in November 1996. He graduated from the mechanical manufacturing faculty of Zhejiang University in 1968 and has extensive experience in management and technical matters. He had held the positions of Technician and then Factory Director of Dehong Prefecture Factory. After 1986, he served as Director of the Bureau of Industry and Communication and Head of Dehong Prefecture Economic Planning Commission. He served as Deputy Governor of the Dehong Prefecture in 1991 and Chairman of the Chinese People's Political Consultative Conference in Dehong Prefecture Yunnan in 1995. Mr. Ye is a university graduate and holds the title of engineer.

Biographical details of the Supervisors are as follows:

Mr. Li Renzhong, aged 58, is the Chairman of the Company's Supervisory Committee. He joined Kunming Machine Tool Plant in 1966 and has extensive experience in mechanical manufacturing and other technical areas. He has been engaged in management since 1982 and has held the positions of Deputy Head of Personnel Section, Principal of the Worker's University, Chairman of the Factory Labour Union and, in 1985, Deputy Factory Director of Kunming Machine Tool Plant. He was the Deputy Chairman and the Deputy General Manager of the First Board of Directors. Mr. Li graduated from Chongqing School of Machine Building in 1963 with specialisation in Machine Tool Manufacturing and holds the titles of engineer and senior economist. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Li Yuen, aged 40, is a university graduate and holds the title of senior engineer. He is currently the Factory Director of the casting factory of the Company. He joined the Company in 1983 and has engaged in technology and management matters. He had held the positions of Deputy Factory Director of the casting factory of the Company since May 1996. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Tang Jianxin, aged 44, is a university graduate and holds the title of senior solicitor. He previously participated in legal work in politics and law committee in the Yunnan provincial government, Yunnan economic law firm, Yunnan foreign economic law firm and Yunnan Halhe law firm. He is currently the Head of Yunnan Lixin law firm. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Wu Ketian, aged 52, is a Deputy General Manager of the Company. He joined Kunming Machine Tool Plant in 1969 and has extensive experience in production, planning and management. He has held the positions of Deputy Head and then Head of Workshops, Deputy Director and then Director of Production Section of Kunming Machine Tool Plant, and Head of Production Department of the Company and then Assistant General Manager and Head of Production Department of the Company. Mr. Wu is a high school graduate and holds the title of economist. The appointment is from 1st November, 1999 to 31st October, 2002.

Mr. Cheng Yunchuan, aged 38, is a university graduate, engineer and senior political work engineer. He is a Deputy General Manager of the Company. He was previously Head of Battery Factory in Da Li City, Head of Da Li Wool Spinning Factory, Head of Dai Li Paper Manufacturing Factory, Party Secretary, Chairman and General Manager of Da Li Paper Manufacturing Company Limited and Vice-chairman and General Manager of Yunnan New Concept Bonded Science and Technology Company Limited. The appointment is from 23rd October, 2000 to 31st October, 2002.

Mr. Feng Sizhong, aged 55, is a university graduate and holds the title of senior economist. He is Company Secretary to the Board of Directors and he also acts as the Company's Head of Corporate Management Department. He joined Kunming Machine Tool Plant in 1978 and has extensive technical and management experience. He has held the positions of Deputy Head and then Head of Chief Engineer Office, Deputy Chief Economist and Head of Planning Department and Corporate Management Department. The appointment is from 1st November, 1999 to 31st October, 2002.

Fees and other emoluments amounting to RMB360,000 were paid by the Company to the above directors, supervisors and senior management for the year ended 31st December, 2000. Within the above directors, supervisors and senior management, there are two persons whose emoluments are within the range of RMB6,000 to RMB6,500, there are four persons whose emoluments are within the range of RMB7,000 to RMB7,500, there are five persons whose emoluments are within the range of RMB25,000 to RMB35,000 and there are five persons whose emoluments are within the range of RMB35,100 to RMB40,000.

During this period, Mr. Ye Xiangyu resigned from the post of Chairman and General Manager of the Company. Mr. Gao Yangren was elected as the Company's Chairman. Mr. Li Wenrong was appointed as the Company's General Manager. Mr. Li Yunxiang was resigned from the post of Deputy General Manager of the Company and Mr. Cheng Yunchuan was appointed as the Company's Deputy General Manager.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN SHARES

As at 31st December, 2000, the interests of the directors, supervisors, senior management and their associates in the share capital of the Company recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance") were as follows:

Name	Position	Shareholdings at beginning of the year			Shareholdings at end of the year	
		Identity card number	Personal interests	Family interests	Personal interests	Family interests
Gao Yangren	Chairman	530111460415443	-	-	-	-
Li Yunxiang	Executive Director	530111410906003	1,000	-	1,000	-
Li Wenrong	Executive Director and General Manager	530111621030005	-	-	-	-
Qin Jianzhong	Executive Director and Deputy General Manager	530111540918003	-	-	-	-
Guo Shangwu	Executive Director	530111461005003	-	-	-	-
Li Mingde	Non-Executive Director	530102330625001	-	-	-	-
Sun Chuanliang	Independent non-Executive Director	530103370416151	-	-	-	-
Sun Xiaoliang	Independent non-Executive Director	110108330608541	-	-	-	-

Name	Position	Shareholdings at beginning of the year			Shareholdings at end of the year	
		Identity card number	Number of A shares		Personal interests	Family interests
			Personal interests	Family interests		
Liang Wenxuan	Independent non-Executive Director	530102360125271	-	-	-	-
Li Renzhong	Supervisory Committee Chairman	530111420722001	-	-	-	-
Li Yuen	Supervisor	530111600316003	-	-	-	-
Tang Jianxin	Supervisor	530102560126271	-	-	-	-
Zhang Yinghai	Supervisor	530102340227183	-	-	-	-
Wu Ketian	Deputy General Manager	530111481013003	-	-	-	-
Cheng Yunchuan	Deputy General Manager	532901620722033	-	-	-	-
Feng Sizhong	Secretary to the Board of Directors	530111451228005	-	-	-	-

Other than as disclosed above, as at 31st December, 2000, none of the directors, supervisors, senior management or their associates had interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company a party to any arrangement to enable the directors, supervisors or member of senior management or 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 body corporate.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN CONTRACT

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.

CONNECTED TRANSACTIONS

The Company's independent non-executive directors have reviewed the connected transactions which are set out in note 31 and note 27 to the financial statements prepared in accordance with PRC accounting standards and Hong Kong accounting standards respectively. In the opinion of the independent non-executive directors, the transactions were entered into in the ordinary and usual course of the Company's business and on terms that are fair and reasonable so far as the shareholders of the Company are concerned. In addition, these terms are in accordance with the terms of the relevant agreements, or where no agreement exists, these terms are no less favourable than terms available to third parties.

Other than as disclosed in note 31 and note 27 to the financial statements prepared in accordance with PRC accounting standards and Hong Kong accounting standards respectively, no contract of significance between the Company and its controlling shareholder (including companies under its control) existed at the end of the year or at any time during the year.

OTHER MATTERS AND POST BALANCE SHEET EVENT

Details of other matters and the post balance sheet event are set out in note 34 and note 26 to the financial statements prepared in accordance with PRC accounting standards and Hong Kong accounting standards respectively.

SUBSTANTIAL SHAREHOLDERS

Other than the substantial shareholders disclosed on page 13 of the annual report, as at 31st December, 2000, there were no other shareholders whose shareholdings exceeded the amount required to be disclosed under Article 60 of "Administration of the Issuing and Trading of Shares Provisional Regulations" and Issue No. 2 of "The Content and Format of Disclosure of Information by Listed Companies - The Content and Format of Annual Report" of the PRC and the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company was not notified of any interests representing 10% or more of the Company's issued share capital.

SUBSIDIARIES AND AFFILIATED ENTERPRISES

Other than the Company's investment in Cheng Jiang Copper Products Plant which were fully written off last year, the Company did not have any direct or indirect investment in securities to be disclosed in accordance with Issue No. 2 of "The Content and Format of Disclosure of Information by Listed Companies - The Content and Format of Annual Report".

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Company's five largest customers were less than 30% of the Company's total sales for the year.

During the year, the aggregate purchases attributable to the Company's five largest suppliers accounted for 41% of the Company's total purchases and the purchases attributable to the Company's largest supplier accounted for 22% of the Company's total purchases for the year.

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in the five largest suppliers.

The Company's five largest suppliers are Siemens AG Company Limited, Kunming Electric Control Factory, Fanuc (Japan) Co., Ltd., China Shipping Company Kunming Branch Xinzhou Shipping Material Department and Wa Fang Dian Bearing Sales Branch.

INDEPENDENCE OF PERSONNEL, NET ASSETS AND FINANCING BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDERS

The personnel, net assets and financing of the Company are independent from its controlling shareholders, the Yunnan Provincial People's Government.

1. The Company's personnel and payroll management were independent from its controlling shareholder. The Company paid all the emoluments of the Company's General Manager, Deputy General Manager and Senior Management. Moreover, none of them were employed by controlling shareholder.
2. The Company has its own production, purchasing and selling facilities and systems.
3. The Company has independent finance department and has independent accounting and auditing systems and financial management. The Company maintains and operates its bank accounts independently.

EMPLOYEE RETIREMENT ARRANGEMENT

The Company is a participant in a state-managed retirement plan pursuant to which the Company pays a fixed percentage of its qualifying staff's wages as contribution to the plan. The Company's financial obligation under this plan is limited to the payment of the employer's contribution. During the year, contributions payable by the Company pursuant to this arrangement were approximately RMB4,889,000. There was no forfeited contribution for reduction in the Company's future contribution during the year or as at 31st December, 2000.

STAFF QUARTERS

The Company did not sell any of its staff quarters to its employees during the year.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company did not issue any convertible securities, options, warrants or similar rights during the year ended 31st December, 2000.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale, redemption or cancellation of the Company's listed securities by the Company during the year ended 31st December, 2000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DESIGNATED DEPOSIT AND MATURITY OF TIME DEPOSIT

During the year, the Company had no designated deposit arrangement with financial institutions or non financial institutions, nor any time deposit that has matured but could not be recovered.

STANDARDISATION OF INCOME TAX RATES AND CANCELLATION OF LOCAL GOVERNMENT TAX REFUND

During the year, the Company did not receive any notice from the local tax authority regarding taxation reforms. The Company's assessable profit for the year is wholly absorbed by tax losses brought forward from previous years.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied 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.

AUDITORS

Messrs. Deloitte Touche Tohmatsu Shanghai Certified Public Accountants and Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation. A resolution will be submitted to the Annual General Meeting of the Company to re-appoint them as auditors of the Company.

2001 PROPOSED APPROPRIATION SCHEME

The profit for the year 2000 cannot fully offset consecutive losses incurred in 1998 and 1999. The profit in 2001 is expected to be used to offset losses brought forward.

ANNUAL GENERAL MEETING

The Board of Directors will make a separate announcement on the date of the annual general meeting to be held.

The summary of annual results for 2000 will be published in Chinese and English simultaneously on 9th March, 2001 in "Shanghai Securities Daily" in the PRC and "Hong Kong iMail" and "Hong Kong Economic Times" in Hong Kong. The annual results for 2000 will also be simultaneously published on the internet website designated by China Securities Supervision and Administration Committee and on the internet website designed by the Stock Exchange of Hong Kong Limited. The internet address is <http://www.sse.com.cn> and <http://www.hkex.com.hk> respectively.

On behalf of the Board
Gao Yangren
Chairman

8th March, 2001