

# Report of the Board of Directors

## 1. OPERATION REVIEW DURING THE REPORTING PERIOD

### (1) Principal activities of the Company and its position in the industry

Specializing in manufacturing power generating equipment, the Company is one of the largest enterprises of the industry in the PRC and plays a significant role in the country's power development.

### (2) Business review

The major business of the Company include: hydro turbine generator, steam turbine generator, A.C. and D.C. motors and control equipment.

For the year ended 31 December 2000, in accordance with PRC GAAP, the Company recorded an income from principal operation of RMB644,417,000, representing a decrease of 14.89% over the previous year; a net profit of RMB2,310,000 representing a decrease of 52.35% from the previous year; earnings per share of RMB0.0051, decreased by RMB0.0059 from the previous year. In accordance with HKGAAP, the Company recorded a loss attributable to shareholders for the year of RMB21,541,000 and loss per share of RMB0.048.



During the year, the Company built 16 hydro turbine sets with an aggregate electricity generation capacity of 1085MW; 9 steam turbine generators with an aggregate electricity generation capacity of 1520MW; 52 A.C. motors with an aggregate capacity of 52.59MW, 33 D.C. motors with an aggregate capacity of 20.381MW and 110 accessory machines.

The Company received orders amounting to RMB555 million during the year.

### **(3) Operational difficulties**

From the perspective of power generating equipment market, the 10th 5-year Plan and the Western Region Development Strategy have stimulated recent demand in the market. However, the demand was still far less than the production capacity of the industry in PRC. The excess supply remained unchanged and market competition was intensifying. From the internal perspective of the Company, the orders placed were unable to satisfy the demands of production, in particular, the orders of steam turbine generator were seriously insufficient. Moreover, the Company's internal operating system was not fully adaptable with the changing market and the market participation ability and competitiveness were limited.

From the perspective of development, the average per capita installed capacity in the PRC is still far short of that in the developed countries. There is still a great potential demand in the PRC. Therefore the power generator manufacturing industry is now facing opportunities on one hand and challenges on the other. In view of this, the Company will take the challenge and maintain and develop its business through reforms. The Company will continue to carry out system reforms and internal operational reforms, enhance specialised production and team work through economic motivations and market mechanism, develop a parent-subsidiaries system of risk sharing and establish competition mechanism, so as to achieve a diversified development of the Company. The Company also has a vision of "catching up with and getting ahead of world class technology" and starting in 2001 the Company will enhance human resources training, technological development and appropriate investments. It is intended that in 5 to 10 years the Company will develop a specialised core business with market competitiveness, possess the essential know-how in research and development of power generating equipment and become a leading player in the world market.



### **(4) Development Plan of the Company in 2001**

The Company will emphasis on the following in 2001:

strengthening reform, enhancing management, improving technology, expanding markets, reducing costs and overcoming difficulties.

The Company's main targets are set as follows:

- 1) To enhance organization reform and management, to strengthen basic works standardize management and to use information technology in management;
- 2) To accelerate system reform, to enhance reform in the holding company and the Company and to adopt the operation model of corporate legal person;
- 3) To strengthen asset management, to improve capital operation and to develop operation in diversified forms;
- 4) To conduct in-depth reform in allocation and the use of labour, to gradually realize the system of labour allocation on basis of production, to reward its staff on basis of performance and to determine wages on basis of efficiency, to strengthen development of human resources and to cultivate high quality employees;
- 5) To promote reform in quality improvement, to improve the system of responsibility clarification, to implement projects with which the customers were satisfied and to control losses arising from quality;
- 6) To initiate "catch up with and get ahead of world class technology" project, improve the capability in core areas and to reinforce technological development;
- 7) To speed up market development, to improve marketing and sale system, to further develop new markets, to ensure orders;
- 8) To establish quick response system, to ensure the production progress of Three Gorges project, new 300,000 steam turbine project and technological transformation project of power generating station, to avoid serious personal injuries or damage to equipment;
- 9) To intensify the full scale work on reducing cost and improving efficiency; and
- 10) To focus on debt recovery and to control the use of inventory.

In order to realise the above guiding principles and targets, the Company will focus on the following:

- 1) To enhance the adopted operation model of corporate legal person and to conduct in-depth system innovation;
- 2) To facilitate reform in quality improvement, to strictly implement quality responsibility system, to focus on production of existing contracts, to implement projects with which the customers were satisfied and to intensify exterior quality of the products;

- 3) To facilitate "catch up with and get ahead of world class technology" project in respect of employee training, technological development and appropriate investment, to cultivate its capability in the core areas and to ensure market competitiveness in five to ten years from 2001;
- 4) To facilitate the steam turbine projects, to intensify development of international market, to focus on technological reform projects of power plants, to strive for large scale orders from international cooperation and coordination projects and to realize the production targets;
- 5) To tentatively organize production, to complete the mission of electricity generation in the year, to focus on the production for Three Gorges Project and to establish system in response to market demand;
- 6) To facilitate technological reform with focus on product diversity, quality and profit, to consider technological investment on basis of better resource allocation and to accelerate technological development of equipment; and
- 7) To conduct research on development opportunities in respect of wind energy, pump and technological sale, to explore development in diversified forms and to give impetus and sources for the reform and development of the Company.

## **2. FINANCIAL POSITION OF THE COMPANY (UNDER PRC GAAP)**

- (1) Total assets: Total assets at the end of the year amounted to RMB2,397,273,000, up RMB89,398,000 or 3.87% from the end of last year by RMB65,000,000 or 14.64% from last year. Reasons for the increase include:
  - A. increase in cash and bank balances by RMB170,830,000, which is due to increase in net inflow from operating activities;
  - B. decrease of net account receivable by RMB36,177,000 which is attributable to settlement of trade debts;
  - C. decrease of net inventories by RMB45,251,000 which is due to reduction of reserved materials.
- (2) Long-term liabilities: Long-term liabilities at the end of the year amounted to RMB379,000,000, decrease the end of last year. It is mainly due to the transfer from the long-term liabilities amount due within one year.
- (3) Shareholders' funds: Shareholders' funds amounted to RMB1,147,065,000, up RMB4,180,000 from the end of last year.
- (4) Profit from principal operation: Profit from principal operation for the year amounted to RMB152,692,000, down RMB54,842,000 or 26.43% from last year. It is mainly due to the reduction of income from principal operation and gross profit margin.

- (5) Net profit: Net profit for the year amounted to RMB2,310,000, down RMB2,538,000 or 52.35% from last year. It is mainly the to decrease of profit from principal operation.

### 3. INVESTMENT

#### (1) Investment in technological reform projects and establishment of subsidiaries

During the year, the Company actively invested in technological reform particularly those related to transformation and expansion of "Large Scale Hydro Turbine Project". The total investment for the year amounted to RMB39,139,000.

"Dongfang Control Equipment Company Limited" was established on 18th May 2000 with registered capital of RMB13 million. The Company invested RMB12.5 million therein. "Dongfang Large and Medium Electrical Machinery Company Limited" was established on 10th July 2000 with registered capital of RMB25 million. The Company invested RMB24.5 million therein. The said two companies are subsidiaries which are controlled by the Company.

#### (2) Use of proceeds

In accordance with the purpose stipulated in the Company's Prospectus for the issue of A Shares and H Shares, the proceeds of RMB752,548,300 has to be applied in the technological reform projects on improving the production capacity of hydro turbine generator sets and in other three projects (see note 1). The use of proceeds up to 31 December 2000 is as follows:

| Stipulated projects  | Planned<br>investment<br>RMB'000 | Actual<br>investment<br>RMB'000 | Note |
|--|----------------------------------|---------------------------------|------|
| 1. Technological reform projects for improving production capacity of hydro turbine generator sets   | 670,000                          | 196,045                         | 2    |
| 2. Capital inputs of the PRC party in joint venture projects for the production of hydro turbine generator sets and steam turbine generators | 160,000                          | -*                              | 3    |
| 3. Additional working capital  | 150,000                          | 150,000                         |      |
| 3. Repayment of the loans of the Seventh and Eighth Five-Year Plan   | 75,000                           | 88,449                          |      |

Notes:

Note 1: The Prospectus stipulated that where the capital required for the abovementioned items exceeds the listing proceeds, the Company will make up the shortage by internal sources and bank facilities.

Note 2: Through the implementation of the technological reform, the production capacity and technology level of hydro and steam turbine generator sets have been enhanced, thus improving its ability to seize market share and its competitiveness. However, in view of the present market situation of generator equipment, the Company is prudent in technological reform.

Note 3: Due to changes in the market of generator equipment and intense competition, the joint venture projects did not make concrete progress and with no capital input. On 16 January 2001, the ninth session of the 3rd Board of Directors meeting of the Company resolved to change the use of proceeds of RMB60 million as capital input of the Chinese party intended for the production of steam turbine generators which was part of the total investment of RMB160 million intended for joint ventures with foreign partners to produce hydro turbine generator sets and steam turbine generators as additional working capital of the Company. Such resolution had been approved at the Extraordinary General Meeting of the Company held on 6 March 2001.

As at 31 December 2000, the balance of proceeds amounted to approximately RMB318,054,300.

#### **4. WORK REPORT OF BOARD OF DIRECTORS**

##### **(1) Board meetings and resolutions during the reporting period**

The Board of Directors of the Company held six meetings during the year.

1. The third session of the 3rd Board of Directors was held on 3 March 2000 at which the resolution of the establishment of "Dongfang Large and Medium Electrical Machinery Company Limited" was considered and passed.



2. The fourth session of the 3rd Board of Directors meeting was held on 19 April 2000 at which the resolutions including the administrative policies of Administrative Regulations of Production Management for Subsidiaries, the Administrative Regulations for Labour and Human Resources Management, the Administrative Regulations of Asset Management for Subsidiaries, the Administrative Regulations of Financial Management for Subsidiaries and the Administrative Regulations of Internal Auditor Management for Subsidiaries; the internal system in respect of the transfer of four items of provisiuous; the proposal with respect to the handling of bad debts of account receivables and loss in assets; the Financial Statements for the year 1999; Profit After Taxation Appropriation Plan for the year 1999; Re-appointment of auditors; convening of Annual General Meeting, Annual Report 1999 and its summary, the Supervisors remuneration for the year 1999 and the appointment of authorised representative of Secretary to Board of Directors were considered and approved. The resolutions of the meeting were published on China Security Post , Shanghai Security Daily in PRC and Wen Wei Po and Hong Kong iMail in Hong Kong on 20 April 2000.
3. The fifth session of the 3rd Board of Directors meeting was held on 15 June 2000 at which the following resolutions were considered and passed: the use of Company's capital plan; establishment of a strategic development committee, an asset management committee and the relevant institutions.
4. The sixth session of the 3rd Board of Directors meeting was held on 25 August 2000 at which the following resolutions were considered and passed: Interim Financial Statements (unaudited); Interim Report and the announcement of resolutions on newspapers and Investment plan to establish Dongfang Tool and Mould Company Limited, the issuance of H share certificates and the confirmation of the list of substantial shareholders. The resolutions of the meeting were published on China Security Post and Shanghai Security Daily in PRC and Wen Wei Po and Hong Kong iMail in Hong Kong on 28 August 2000.
5. The seventh session of the 3rd Board of Directors meeting was held on 9 November 2000 at which the resolution of investment in Sichuan Dongfang Jiaxin Engineering Construction Supervision Company Limited and the resolution of participating in the placing of legal person ordinary shares of Baoshan Iron and Steel Corporation were considered and passed.





6. The eighth session of the 3rd Board of Directors meeting was held on 1 December 2000 at which the resolution of appointing Mr. Zhang Tiande as the Company's Deputy General Manager was considered and passed.

**(2) Execution of Profit Distribution Plan for the reporting period**

Upon approval by the Shareholders at the Company's 1999 Annual General Meeting, the Company transferred 10% of profit after taxation to the statutory surplus reserve and 5% of profit after taxation to the statutory public welfare fund.

**5. MANAGEMENT AND STAFF**

**(1) Directors, Supervisors and Senior Management**

**1) Changes in directors, supervisors and senior management**

Mr. Zhang Tiande was appointed at the eighth session of the 3rd Board of Directors meeting as the Company's Deputy General Manager by the Board of Directors held on 1 December 2000.

On 16 January 2001, as result of work reallocation, Mr. Liu Shigang resigned from his position as the Vice Chairman and Director of the 3rd Board of Directors; Mr. Zhong Shusen and Mr. Li Hongdong resigned from the position as directors of the 3rd Board of Directors; Mr. Yang Shijie resigned from the position of the Chairman and Supervisor of the Supervisory Committee; Mr. Si Zefu resigned from the position of General Manager; and Mr. Zhong Shusen from the position of Deputy General Manager. Mr. Zhu Yuanchao was elected as the Company's Vice Chairman of the 3rd Board of Directors and the Company's General Manager, and Mr. He Jianhua was appointed as Deputy General Manager and Chief Engineer of the Company by the Board of Directors at the ninth session of the 3rd Board of Directors meeting.

Mr. Tian Wu was no longer acted as the Secretary to the Board of Directors with effect from 16 February 2001 due to work reallocation. Mr. Gong Dan, the Company's director, was appointed as the Secretary to the Board of Directors at the tenth session of the 3rd Board of Directors meeting.

On 6 March 2001, Mr. Zhang Jilie, Mr. Zhang Tiande and Mr. He Jianhua were elected as directors, and Mr. Li Hongdong was elected as supervisor at the Extraordinary General Meeting. On the same day, Mr. Li Hong Dong was elected as the Chairman of the third Supervisory Committee at the seventh session of the 3rd Supervisory Committee meeting.

The announcement of the above information was published on Shanghai Security Daily in PRC and Wen Wei Po and Hong Kong iMail in Hong Kong on 17 January 2001, 17 February 2001 and 7 March 2001 respectively.



## 2) Current directors, supervisors and senior management

### **Executive Directors**

Mr. Si Zefu, aged 42, is currently the Chairman of the Company and Secretary to the Party Committee, General Manager of DFEW. Mr. Si graduated from Shanxi Machinery College with specialisation in metallurgy in July 1983. He was admitted to Qinghua University in September 1993 and graduated with a MBA degree from the School of Business Administration in July 1995. Mr. Si holds the title of Senior Engineer. He joined DFEW in August 1983 and had been Vice Secretary and Secretary to the League Party Committee of DFEW, Deputy Head, Head and General Secretary to the party committee of the Casting Plant; Deputy Director and Secretary to the Party Committee of the Production Department of DFEW and the Company; Deputy Head of DFEW; Director, Deputy General Manager of the Company and Deputy Mayor of Deyang City.

Mr. Zhu Yuanchao, aged 44, is currently the Vice Chairman, and General Manager of the Company. Mr. Zhu graduated from the faculty of Electrical Engineering of Hefei Industrial University specialised in electrical engineering. He joined DFEW in 1982 and engaged in electrical machinery design, technology and management. He had been the Deputy Head of Electrical Equipment Department, Deputy Director, Vice Chief Engineer, Deputy General Manager and Chief Engineer of the Chief Engineer Office. Mr. Zhu holds the title of Senior Engineer.

Mr. Qin Zejun, aged 56, is currently the Director and Executive Deputy General Manager of the Company. Mr. Qin graduated from the faculty of Kinetic Engineering of Huazhong University of Science and Technology where he specialised in Hydraulic machinery. He joined DFEW in 1967 and was involved in the manufacturing technology of hydro turbines. He had been the Deputy Head and Head of the Administration Office, Head of the Personnel Department, Secretary to the party Committee and Head of the Hydro Turbine Manufacturing Workshop at DFEW and Assistant to the Factory Director of DFEW. Since February 1991, Mr. Qin has been Deputy Factory Director. He holds the title of Senior Engineer.

Mr. Han Zhiqiao, aged 42, is currently the Director and Deputy General manager of the Company. Mr. Han graduated from the faculty of Irrigation of Shanxi Machinery College specialised in water power generating equipment. He joined DFEW in 1983 and engaged in product sale and technological service. He had been the Deputy Head and Head of Sale Service Department. Mr. Han holds the title of Senior Engineer.

Mr. Gong Dan, aged 38, is currently the Director, Deputy General Manager and the Secretary to the Board of Directors of the Company and the Chairman of Dongfang Electrical Machinery Control Equipment Company Limited. Mr. Gong graduated from Anhui Industrial College specialised in casting. He attended the postgraduate program in the Faculty of Economic Management of Sichuan University specialised in modern economic management in 1993 and graduated in 1997. He joined in DFEW in 1983 and had been Technician, Secretary to the Administration Office. He was mainly in charge of management of young workers and had been the Deputy Head and Head to the League Party Committee, head of Young Worker's Office, Head of Organisation Department. Mr. Gong holds the title of Senior Political Administrator.

Mr. Zhang Tiande, aged 47, is currently a Director and Deputy General Manager of the Company and is the Chairman of DEFM Large and Medium Electrical Machinery Company Limited and Dongfang Electrical Machinery Tool and Mould Company Limited. Mr. Zhang graduated from Huabei Water Power College specialised in water power generating equipment. He joined DFEW in 1971 and engaged in product sale and technological service and production management. He had been the Deputy Head, Head and Deputy Department Head of the Sale Service Department Head of the Sale Service Department, and Production Head of the Company and the Chairman and the General Manager of DEFM Large and Medium Electrical Machinery Company Limited. He holds the title of Senior Engineer.

Mr. He Jianhua, aged 38, is currently a Director and Deputy General manager and Chief Engineer of the Company. Mr. He graduated from the Faculty of Electrical Engineering of Chongqing University specialised in electrical engineering. He attended the master postgraduate program in the Faculty of Electrical Engineering of Huazhong Polytechnic University between September 1987 and July 1990 and obtained a master's degree. He joined DFEW in 1984 and engaged in design of electrical machinery and technological development. He had been Deputy Head, Deputy Chief Engineer, Chief Designer and Deputy Department Head of the Electrical Equipment Department, and Deputy Chief Engineer of the Company. He holds the title of Senior Engineer.

#### **Non-executive Directors**

Mr. Zhou Hongxi, aged 54, is currently the Director and Deputy Factory Director of DFEW. He graduated from the Department of Mechanical Engineering of Wuhan Institute of Mechanical Engineering where he specialised in casting. He joined DFEW in 1970 and was mainly engaged in casting operations and general administration. He had been the Deputy Head of the Refining Workshop, Head of the Casting Workshop, Head of the Planning Department, and Assistant to the Factory Director of DFEW. He was appointed to his current position in 1993. He holds the title of Senior Economist.

Mr. Zhang Jile, aged 37, is currently a Director of the Company and Executives Deputy Factory Director of DFEW. Mr. Zhang graduated from Wuhan Technical College specialised in corporate management. He joined DFEW in 1984 and has been engaged in corporate management. He had been Secretary to Factory Office, Deputy Division Head, Division Head, Deputy Officer and Officer of the Office of General Manager, Assistant to General Manager and Production Head of Planning Department, Chairman and General Manager of DFEM Control Equipment Company Limited. He holds the title of Senior Economist.

Mr. Sun Xiaoliang, aged 67, is currently a Director of the Company and the Chairman of China enterprise Share Restructuring management consultant Company. Mr. Sun had been the Division Head, Deputy Director of the General Office and Director of the Policy and Research Office of the PRC Ministry of First Machinery Industry and also a member and Department Head of the State Structural Reform Commission for several terms. In February 1993, he was appointed General Manager of China Enterprise Share Restructuring Management Consultant Company. Mr. Sun also holds the position of Researcher of the Industrial Economy Research Institute of Chinese Academy of Social Sciences, Professor of the Law School of Foreign Trade and Economics University and Non-executive Director of Kunming Machine tool Company Limited and Jilin Chemical Industrial Company Limited.

Ada Ying Kay Wong, aged 41, is a partner of Philip K.H. Wong, Kennedy Y. H. Wong & Co.. She is currently an independent non-executive Director of the Company and holds a B. A. (Hons.) degree from Pomona College, Claremont, California, U.S.A. and has passed the Common Professional Examination and the Solicitors' Final Examination, College of Law, Lancaster Gate, UK. She is also an independent non-executive director of Hengnan International Group Co. Ltd., Council Member of the Hong Kong Award for Young People, member of Hong Kong Policy Research Institute.

## **Supervisors**

Mr. Li Hongdong, aged 51, is currently the Chairman of the Supervisory Committee of the Company, Deputy Secretary to the Party Committee and Secretary to Discipline Committee and Chairman of Labour Union of DFEW. Mr. Li graduated from Xian Jiaotong University specialised in welding. He joined DFEW in 1969 and engaged in welding technology and corporate management. He had been the Deputy Head and Head of the Organisation Department and Deputy Chairman of Labour Union. Mr. Li holds the title of Senior Engineer.

Madam Feng Yunmin, aged 49, is currently the supervisor and the Head of the Audit Department of the Company. She joined DFEW in 1969 and has been taking up accounting work since 1975. Ms. Feng was appointed the Deputy Head of the Finance Department and the Head of the Supervisory Department. She obtained a diploma in accounting from Xinan Finance University and holds the title of Senior Accountant.

Mr. Xiao Shide, aged 50, is currently the supervisor of the Company Deputy Secretary to the Discipline Committee and the Head of the Discipline Committee Office of DFEW. Mr. Xiao joined DFEW in 1981 and was responsible for personnel management and supervision. He has been the Deputy Head, Head of the Personnel Division and Deputy Head of the Supervisory Division. Mr. Xiao graduated from the Faculty of Engineering Management of Jiansu Technical College. Mr. Xiao holds the title of Economist.

### **3) Term of office of each of the directors, supervisors and senior management**

The term of office of Messrs. Zhong Tiande, Zhang Jilie, He Jianhua, Li Hongdong is from 6 March 2001 to 27 December 2002, and the term of office of other directors and Supervisors is three years commencing from 28 December 1999.

### **4) Shareholding of the directors, supervisors and senior management**

None of the directors, supervisors and management held any shares of the Company since the issue and listing of the Company's shares.

As at 31 December 2000, none of the directors, supervisors or senior management or their connected persons had any interest in the shares or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) as recorded in the register required to be kept under section 29 of the SDI Ordinance.

## 5) Remuneration of the Directors and Supervisors

The total remuneration paid to directors and supervisors of the Company in 2000 amounted to RMB371,400. 11 were paid in the range from RMB20,000 to RMB40,000, 3 were paid less than RMB20,000.

## (2) Employees

As at 31 December 2000, the Company has 6,781 employees of which 3,955 are for production, 42 are for sales, 966 are technicians, 52 are for accounting, 379 are for administration. Among the total number of employees, 1,684 hold degree higher than diploma, 465 hold medium level degree, 2,646 hold high school or technical school certificate, 365 hold senior titles, 755 holds medium titles and 476 hold junior titles. In addition, there were a total of 810 employees in the subsidiaries of the Company.

## 6. RESULTS AND PROFIT APPROPRIATIONS

Details of the Company's results for the year ended 31 December 2000 and the state of the affairs of the Company as at that date prepared under HKGAAP and PRC GAAP are set out in the financial statements on pages 46 to 80 and pages 82 to 165 respectively. No interim dividend was declared or paid by the Company. The directors recommended the profit for the year ended 31 December 2000 prepared under PRC GAAP be appropriated as follows:

|   | RMB'000 |
|---|---------|
| (1) Transfer to statutory surplus reserve     | 326     |
| (2) Transfer to statutory public welfare fund | 163     |

No final dividend to be declared for the year, no capital reserve to be transferred to increase share capital. The above proposal is subject to the approval by the shareholders at the Annual General Meeting.

## 7. OTHER MATTERS

### (1) Major customers

An analysis of the Group's major customers for the year ended 31 December 2000 prepared under HKGAAP is as follows:

|                       | Percentage to total turnover(%) |
|-----------------------|---------------------------------|
| The top customer      | 13.18                           |
| The top five customer | 48.71                           |

None of the Company's shareholders (who to the knowledge of the directors own more than 5% of the Company's share capital), directors or supervisors of the Company is directly or indirectly interested in the top five customers of the Group.

(2) Major suppliers

For the year ended 31 December 2000, the aggregate purchase of raw materials from the Group's top five suppliers is less than 30% of the total purchase for the year.

None of the Company's shareholders (who to the knowledge of the directors own more than 5% of the Company's share capital), directors or supervisors of the Company is directly or indirectly interested in the top five suppliers of the Group.

(3) Financial summary

The financial summary of the Group for the five years ended 31 December 2000 prepared under HKGAAP is set out on page 166 of this Annual Report.

(4) Net assets per share

Net assets per share of the Company determined under HKGAAP and under PRC GAAP are set out in the section headed "Major Accounting Data and Business Data" of this Annual Report.

(5) Fixed assets

Movements in fixed assets during the year are set out in note 12 and note 14 to the financial statements prepared under HKGAAP and PRC GAAP respectively.

(6) Borrowings and interest capitalisation

Particulars of bank loans and other loans are set out in note 24 to the financial statements prepared under HKGAAP and note 19, 27 and 28 to the financial statements prepared under PRC GAAP. Interest capitalised by the Company during the year amounted to RMB2,663,000.

(7) Reserves

Movements in reserves during the year are set out in note 23 to the financial statements prepared under HKGAAP.

(8) The details of the subsidiaries are set out in note 14 to the financial statements prepared under HKGAAP.

(9) Directors' and supervisors' interests in contracts

At the end of the year or at any time during the year, none of the directors or supervisors was materially interested directly or indirectly in any contract of significance of the Company except the service contracts mentioned below.

(10) Directors', supervisors' and senior management's interests in subscription for shares or debentures

At no time during the year was the Company a party to any arrangements to enable the directors, supervisors or senior management of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

(11) Directors' and supervisors' service contracts

Each of the directors and supervisors has entered into a three-year service agreement with the Company. Save as aforementioned, none of the directors has a service contract with the Company which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation). Particulars of the directors' and supervisors' emoluments are set out in note 7 to the financial statements prepared under HKGAAP.

(12) Substantial shareholder's interests in contracts

On 25 February 1994, the Company entered into a service agreement with DFEW which was effective retrospectively from 1 January 1994 for a period of ten years for the provision of utility services, electronic office equipment, office space, communication services and the procurement of materials for DFEW. Under the same agreement, DFEW is responsible for, inter alia, the construction, maintenance and management of the staff quarters of the Company and for the provision of services for environmental hygiene, procurement and management of office equipment, canteen services, security, staff welfare and management of retired employees, packaging and transportation of finished products and medical care etc.

(13) Retirement plan

Particulars of the retirement plan of the Company are set out in note 28 to the financial statements prepared under HKGAAP.

(14) Purchase, sale or redemption of the Company's shares

No purchase, sale or redemption of the share of the company was made by the Company during the year.

(15) Pre-emptive rights

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

(16) The Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

(17) Auditors

During the year, Pan China (Schinda) Certified Public Accountants of the PRC and Deloitte Touche Tohmatsu of Hong Kong were appointed as the statutory and international auditors of the Company respectively and have audited the accompanying financial statements prepared under the PRC GAAP and HKGAAP. The re-appointment of Pan China (Schinda) Certified Public Accountants and Hong Kong Deloitte Touche Tohmatsu as the statutory and international auditors of the Company for the next year respectively will be submitted to the forthcoming General Meeting for consideration and approval.

(18) Announcement of annual results

The Chinese version of the 2000 Annual Results was published on 9 April 2001 in the Shanghai Security Daily in the PRC and in Wen Wei Po in Hong Kong; the English version was published on the same day in the Hong Kong iMail in Hong Kong.

By order of the Board

**Si Zefu**

*Chairman of the Board of Directors*

6 April 2001