

Chairman's Statement

I am pleased to present the audited results report of the Company for the year ended 31 December 2000 and expressed my gratitude to all our shareholders.

A. OPERATION REVIEW

1. Type of the industry of the Company:

c76 electricity machinery and equipment manufacturing

2. Major business, industry and position of the Company:

The Company and its subsidiaries are a major base for the manufacture, export and research of transmission and transformation machinery in the PRC. The Company is also a major PRC supplier of transmission and transformation machinery for the Three Gorges Project and project of construction and reform of electricity network in cities and villages. The Company is mainly engaged in manufacture and sale of system protection and transmission equipment including transformer, gas insulated switchgears, high-voltage disconnecter, power capacitor and enclosed busbars.

3. Operation for the year

(1) Sales income for the year totalled Rmb1,320,048,000, down 6.17% from last year. Loss of Rmb364,597,000 was recorded for the year, up 118% from last year.

(2) Sales of major products are as follows:

Type of products	Percentage in total sales		
	2000	1999	1998
Transformers, instrument transformer	56%	55.5%	55.1%
Gas insulated switchgears	14.9%	14.6%	14.4%
High-voltage disconnectors, breakers, etc.	16.5%	21.3%	21.1%
Power capacitors	10.2%	6.3%	6.7%
Enclosed busbars	1.7%	1.6%	1.5%
Others	0.7%	0.7%	1.2%
Total	100%	100%	100%

4. Problems, difficulties in operations and resolutions

Market competition has been intensified, given increase in the production capacity and manufacturing level in the industry and with more and more overseas companies and domestic joint ventures appearing. The Company was slow to adapt to market changes in respect of technological and management renovation. Imperfect management system and unhealthy operation mechanism, particularly unscientific corporate management foundation, financial control, capital operation and control measure led to inefficient capital use and deteriorating financial position.

Consequently, the Company was in unfavourable position in the competition. Market share and economic efficiency declined drastically, thus making a consecutive material loss. In view of these situations, the management adopted the following measures:

- (1) The Company stepped up technological development and adjustment of product mix and implemented the strategy of technology introduction, absorption and enhancement. Improvement and upgrade of traditional products was speeded up. In addition, the Company is committed to a breakthrough in joint investment and co-operation with foreign giants. The Company acquired Kingdom Hotel and provided new rooms for development.
- (2) In accordance with an opinion to further strengthen and reform the standard operations of overseas listed companies, the Company adopted three separation and established a standard corporate management structure.
- (3) The Company strengthened sales and marketing management and perfected the establishment of sales network and incentive and responsibility mechanism.
- (4) The Company strengthened total corporate management and enhanced integrated quality and competitiveness.

5. Reasons for material loss

- (1) Increase in selling fee of products, administrative fee and financial fee, leading to decrease of profit of Rmb62,000,000;
- (2) Increase in purchase price of major materials from last year, leading to decrease of profit of Rmb70,000,000;
- (3) Fierce market competition and supply exceeding demand, leading to decrease of sales income and selling prices of products. Benefit decreased by Rmb135,600,000;
- (4) Increase in provision for bad debts in respect of accounts receivable, other receivables and provision for loss on realisation of inventories by a total of Rmb37,800,000.

B. FINANCIAL SITUATION OF THE COMPANY

1. Comparison on major financial data:

(Under the PRC accounting regulations):

	2000 Rmb'000	1999 Rmb'000	(Decrease) (%)	Increase/ Reasons
Total assets	4,454,982	4,223,589	5.48%	Expansion of production scale
Long-term liabilities	565,729	517,236	9.37%	Increase in loans for projects
Shareholders' funds	1,125,563	1,550,659	-27.4%	Loss for the year and the housing fund carried forward
Profit on sales	167,436	303,068	44.75%	Fierce market competition led to decline of selling prices
Net profit	(363,597)	(166,837)	118%	Decrease of sales income but increase in imported raw materials

2. The board of directors of the Company discussed and approved the qualified auditors' reports prepared by Moores Rowland Certified Public Accountants on page 46 to 49 and Hualun Certified Public Accountants on page 108 to 110. It is explained that:

(1) The board of directors of the Company confirms that the 2000 financial statements prepared under "Accounting Regulations of the PRC for Enterprises" and "Accounting Regulations of the PRC for Joint Stock Companies by the Company and the Group truly and fairly reflected the financial position and operating results of the Company for 2000.

(2) In respect of the auditors' opinion (for details, please refer to statements in the auditors' report), the above opinions are based on the following uncertain factors of the Company and the explanation is as follows:

a. Syndicated loan: On 5 May 1998, the Company borrowed a syndicated loan of USD40 million (equivalent to Rmb331,124,000). In accordance with the original loan agreement, the principal of USD13,333,333 (equivalent to Rmb110,374,667) of which is due on 4 May 2001. The board of directors of the Company believes that

they will obtain the support of the relevant banks. Given improved financial position of the Company and the enhancement of recovery of the account receivable for repayment of loan, the board of directors confirms that major current banks have agreed to give further financial support to ensure sufficient capital for on-going operation of the Company.

- b. Execution of recovery agreement: in respect of the recovery agreement entered into between the Company and its holding company on 9 April 1999, the Company has efficiently executed it. In accordance with the settlement agreement entered into between the Company and the holding company on 22 December 2000, the holding Company set off its debt by the net assets of its Kingdom Hotel of Rmb344,843,000, representing 68% of the debt confirmed in the recovery agreement. On 31 December 2000, the Company had Rmb217,341,565.82 receivable from the holding company. For the remaining debt, the holding company has undertaken to make repayment by the transfer of its assets of the interests of Shenyang Guhe Cable Company Limited and other valid assets. Acquisition of interests held by Chinese party of Shenyang Guhe Cable Company Limited has been in progress. The Directors believe the account receivable will be collected according to the recovery agreement.
- c. On-going operation of the Company stated in auditors' report: in conclusion, the board of directors believes that the operation of the Company will continue. It is forecast that there will be an increase demand in domestic market in 2001 and increased investment in infrastructure and technological renovation of electricity industry. The near completion of "renovation of two networks", development in western China, and "electricity transmission to eastern China from western China" will trigger market demand. Funds raised by export will continue to increase. Given that the management of the Company has stepped up management measures, assets reorganisation, development of sales network in western China and launched new products as well as the co-operation with a number of foreign famous companies and the strict cost control, the Directors expected an improved financial position for 2001. The Company and its subsidiaries have been undertaken by major current banks for financial support. Therefore, the board of directors believes that the operation and financial positions of the Company for 2001 will be improved.
- d. Loans to a third party company: please refer to note 24 to the financial statements. As at the date of this report, the Company has not received the repayment of loans and interest accrued from the relevant company. The Company has obtained a pledge of security over properties and interests of the relevant party. The Company will adopt all possible measures to recover the loans.

C. INVESTMENT

1. Use of proceeds :

The Company issued and listed H shares and A shares in July and November 1995 respectively in Hong Kong and Shenzhen. Approximately Rmb458.2 million and Rmb145.55 million were raised respectively, amounting to Rmb603.840 million in total. As at 31 December 1999, the Company made 8 investments from the proceeds

in the projects disclosed in the prospectives of H shares and A shares, totalling Rmb215.7 million. The Company made further four investments with accumulated investment of Rmb30 million. According to the prospectus, the Company repaid proceed and loan of Rmb126 million and used Rmb30 million as working capital of the Company.

During the year, according to Recovery Agreement entered into on 9 April 1999 and the approval of a resolution at the extraordinary general meeting held on 13 June 2000. NET used its assets to set off its debt of Rmb178.79 million. It was outstanding debt of Rmb23.35 million.

2. During the reporting period, a total of Rmb 92.25 million from non- proceeds raised was invested as follows: (unit: Rmb 0'000)

No.	Items	Budgeted total investment	Investment during the year	Current status	Remarks
1	500KVGIS 項目 500KV GIS	19,210	3,414	In progress	Financed by State Development Bank
2	Super high pressure electrical transmission and transformation machinery – Trade Commission 500KV transformers	13,000	5,000	In progress	Approved by State Economic and
3	500 KV instrument transformers improvement	2,453	811	In progress	State loan
Total		34,663	9,225		

3. The Company is mainly to invest in the following two projects in 2001. (Unit Rmb0'000)

No.	Items	Budgeted total investment	Investment during the year	Current status	Remarks
1.	Super high pressure transmission and transformation machinery-500kV transformers			In progress	Approved by State Economic and Trade Commission
2	500 KV GIS			In progress	Financed by State Development Bank
Total	32,210	12,600			

D. BUSINESS DEVELOPMENT PLAN FOR 2001

It is forecast that there will be an increased demand in domestic market in 2001 and increased investment in infrastructure and technological renovation of electricity industry. The near completion of "renovaton of two networks", "development in western China", and "electricity transmission to eastern China from western China" will trigger market demand. Facing this opportunity and the challenge of fierce competition, the Company endeavours to make a turnaround profit and has adopted strategies and measures as follows:

- (1) The Company will launch product research and development with a view to change in market demand and technological development trend in the industry. For the development and application of super high pressure and direct current electrical transmission and transformation equipment, it is aimed at gradually possessing advanced and competitive products. Developed products will be further promoted and attract orders. The Company is to strengthen its sales and marketing management comprehensively. Domestic market will be reinforced, especially for the development in and services provided for western China. Market development of western Asia and South America will be emphasised.
- (2) Asset reorganisation will be strengthened during the year. By separation of non-operating assets and auxiliary production assets from principal operating assets, the asset structure will be improved and the asset quality will be upgraded.
- (3) While the introduction of advanced corporate management measures, improvement of organisation and fundamental management are undertaken, financial control will be stressed. The Company is to perfect its budgeted financial control system as well as material purchase and tender management so as to establish a comprehensive and unified capital management system. In addition, the Company is to efficiently control and reduce costs. Various expenses will be strictly controlled. The Company will also step up its control on investments and subsidiaries and to enhance capital operation and efficiency as well as its consolidated quality and core competitiveness.
- (4) Following the supply of products in relation to Three Gorges project and the production co-operation with international famous companies, the Company is to procure joint investment co-operation, introduction and absorption of advanced technology, upgrade of product quality and technology, improvement of product mix as well as corporate restructuring.