

Significant Events

1. During the reporting period, none of the directors, supervisors and senior management was engaged in any material litigation or arbitration of material importance.
2. During the reporting period, none of the directors, supervisors and senior management was penalized by supervising departments.
3. During the reporting period, there was no change in controlling shareholder, no change in the board of directors, and no change in the General Manager of the Company. The board of directors appointed Mr. Luo Hong as Secretary to the Board. Mr. Gao Jinzhu is no longer the Deputy General Manager due to job changes.
4. Acquisition and disposal of assets of the Company during the period:

Acquisition of Kingdom Hotel: in order to settle the amount due from Northeast Electrical Transmission and Transformation Equipment Group Corporation Limited ("NET") and its subsidiaries of the aggregate Rmb509,540,000 as at 31 December 1998, the Company and Shenyang High-voltage Switchgears Limited, a wholly-owned subsidiary of the Company, entered into an "Acquisition and Disposal of Shenyang Kingdom Hotel Agreement" with NET on 22 March 2000. Pursuant to the acquisition agreement, the Company and Shenyang High-Voltage Switchgears Limited, a wholly-owned subsidiary of the Company, agreed to acquire 90% and 10% respectively of the equity interest of Kingdom Hotel from NET for a consideration of net assets of Kingdom Hotel of Rmb344,843,000 as at 31 December 1999.

5. Connected transactions :

For the year, details of the connected transactions and on-going connected transactions are set out on note 34 to the financial statements. These transactions were approved by the board of directors of the Company. The independent directors of the Company have, in such capacity, reviewed the connected transactions which occurred during the year and confirmed that such transactions have been entered into by the Company in the ordinary and usual course of business; and on normal commercial terms; and in accordance with the terms of the relevant agreements governing such transactions.

6. Material Connected Transactions:

- (1) Account receivables from the holding company and execution of the recovery agreement: please refer to item B2(2)b of the Chairman's Statements.
- (2) Retirement Benefits paid on behalf of NET: please refer to note 34 to the financial statements of the auditors' report. The transactions were considered and approved at the extraordinary general meeting held on 17 July 2000.

- (3) Advanced payment of staff fund on behalf of NET and execution of loan agreement: please refer to note 34 to the financial statements. The transaction was voted down at the extraordinary general meeting on 17 July 2000. The board of directors of the Company has stepped up to recover the amount. The holding company will make repayment by disposal of relevant assets.

The above-mentioned connected transactions were announced in relevant newspapers. For details, please refer to "Summary of Shareholders' General Meeting" as set out in this report.

7. During the period, the Company maintained complete independence in terms of personnel, assets and finance from the controlling shareholder.

8. Staff quarters:

The Company disclosed the staff quarter reform plan in its 1998 annual report. During the reporting period, the Company is to bear approximately Rmb1.1 million. For details, please refer to "Housing Fund" set out in note 11 to the financial statements.

9. In compliance of Cai Ci [2000] No. 295 document, the impact on the financial position and earnings of the Company from housing allowance expenditure is as follows:

The Company has conformed to the standard regulation of the State policy to assess prices and sell staff accommodation and to adopt individual account system.

- (1) The financial position was affected to a greater extent for the period. After the cancellation of housing fund management system, the balance of the existing housing fund will be adjusted. Approximately Rmb61.5 million will be written off from the net assets.

- (2) The operating results for the year was not affected. Approximately Rmb10 million will be charged as cost of housing fund each year for the past financial years and for the financial years onwards.

10. Income tax rate: the Company and its subsidiaries pay income tax at 33%. The relevant government authorities have approved on 8 March 1995 that any income taxes payable by the Company and its subsidiaries after 1 January 1996 which are in excess of 15% of their taxable profits will be refunded to the respective companies. According to 'Notice of Further Implementation of "Notice of Correction of Tax Rebate Policy Formulated by Local Government" issued by the State Council' (Cai Shui [2000] No.99) and confirmed by Liaoning Province Ministry of Finance Liao Cai Qi Han[2000] No.3 document, the Company will continue to enjoy the preferential tax treatment to which the Company pays tax at the statutory rate of 33% and then receives tax rebate at 18% (effective 15%) until 31 December 2001.

11. 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.
12. Trust deposits and overdue fixed deposits: As at 31 December 2000, the Group did not have any such deposits. In addition, the Group did not use any financial instruments other than those mentioned in the balance sheet.
13. Recent economic development: the Company has assessed the significant impact on the operations of the Company after the PRC's entry into World Trade Organisation("WTO"). After the PRC's entry into the WTO, the operations of the Company will be affected to a certain extent. Firstly, extensive co-operation and exchange brought by competition will provide favourable conditions for strength enhancement, weakness improvement, rationalisation and use of resources. Secondly, lower import tax makes declined cost of imported parts and components, thus making an efficient lower cost. Thirdly, there will be a smooth channel for export and it will expand the room for earnings of the Company. After the PRC's entry into the WTO, the industry of the Company will face certain challenges. Comparing with foreign similar company, the Company has a relatively small scale, more staff, heavier burden and higher costs. The operation of the Company will experience more difficulties in the operation.

By order of the Board
Xiang Yongchun

Shenyang, the PRC, 20 April 2001