Notes to Financial Statements

1. PRINCIPAL ACTIVITIES

Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 16 February 1993 as a joint stock limited liability company. The Company was granted the status of a Sino-foreign joint stock limited company on 13 May 1998.

The principal activity of the Company is investment holding. The activities of the subsidiaries and associates are described in notes 14 and 15 of the financial statements respectively.

The Company's holding company is Northeast Electrical Transmission and Transformation Equipment Group Corporation ("NET"), a state owned enterprise established in the PRC. The Company's directors consider NET to be the ultimate holding company.

The Company and its subsidiaries are herein collectively referred to as the "Group".

2. BASIS OF PREPARATION

During the years ended 31 December 1999 and 2000, the Group incurred significant losses of Rmb168,336,000 and Rmb364,737,000 respectively. Principally as a result of the losses, at 31 December 2000, the Company is not in compliance with certain financial covenants in respect of a syndicated bank loan of US$40,000,000 (equivalent to Rmb331,124,000). In addition, according to the loan agreement signed by the Company and the syndicate the Company has to repay the loan in three equal instalments in May 2001, 2002 and 2003. Under the current financial position of the Company and the Group (the Company and the Group have net current liabilities of Rmb5,287,000 and Rmb305,028,000 as at 31 December 2000 respectively), the Company does not have adequate financial resources to repay the loan in accordance with the terms of the loan agreement. However, the directors are of the opinion that the Company will have sufficient funds available to meet liabilities as they fall due having duly considered the following factors:

* the syndicate which has lent the Company US$40,000,000 (equivalent to Rmb331,124,000) will grant a waiver in respect of breach of certain financial covenants given by the Company;

* it is possible that the syndicate will grant an extension in respect of the Company's repayment of loan instalment which will be due in May 2001;

* with the expansion of sales distribution network in the Western region, the introduction of a number of new products, signing up of working agreements with a number of foreign companies, the continuous conscious effort to reduce costs and the improvement in internal operational controls by the setting up of subsidiaries, the Group's financial performance is expected to improve in 2001; and

* the success of the asset transfer arrangement (as explained in note 18) with NET.

On this basis, the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practices issued by the Hong Kong Society of Accountants, except as noted in the auditors' report on pages 46 to 49.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

A company is a subsidiary if more than 50% of the voting capital is held for the long term or if the composition of the board of directors is controlled by the Company.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The Company's investments in subsidiaries are stated at cost less any provision, for diminution in value which is expected to be other than temporary, considered necessary by the directors. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Associates

An associate is a company, not being a subsidiary or joint venture, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates.

The Company's investments in associates are stated at cost less any provision, for diminution in value which is expected to be other than temporary, considered necessary by the directors. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(c) Property plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation of property, plant and equipment is calculated to write off the cost of the assets, less estimated residual value at 3% of cost over their estimated useful lives using the straight line method. The useful lives of the property, plant and equipment are estimated as follows:

Land use rights	over the lease term of 50 years
Buildings	20 to 50 years
Hotel property	50 years
Plant, machinery and equipment	8 to 20 years
Motor vehicles and others	6 to 17 years

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the profit and loss account whilst improvements are capitalised and depreciated over their expected useful lives.

The carrying amounts of property, plant and equipment are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Construction in progress

Construction in progress represents factory buildings, plant and machinery and other property, plant and equipment under construction and is stated at cost. Cost comprises all direct and indirect costs relating to the acquisition or construction of plant and machinery. Direct costs include interest costs and foreign exchange differences incurred in connection with funds borrowed to finance these projects during the construction period prior to the commissioning date.

Construction in progress is transferred to property, plant and equipment when the asset is capable of producing saleable quality output in commercial quantities on an ongoing basis notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate PRC authorities.

(e) Other investments

Investment securities held for an identified long term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised as an expense in the period in which the decline occurs.

The profit or loss on disposal of investment securities is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the securities.

Interest income derived from debenture investments is accounted for on the accrual basis. Dividends from other long term investments are accounted for to the extent of cash received.

(f) Inventories

Inventories comprise raw materials, work in progress and finished goods and are stated at the lower of cost, calculated on the weighted average basis, and net realisable value. Cost, in the case of work in progress and finished goods, comprises materials, direct labour and an appropriate proportion of production overheads.

Net realisable value is determined by reference to proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions, less estimated selling expenses.

(g) Other deferred items

The comparative figures of other deferred items comprise deferred employee housing benefits and other deferred expenditure.

Pursuant to a reorganisation agreement in 1994 ("Reorganisation"), any losses arising from sale of employee quarters held in the Group's books but brought forward as at 1 January 1995 are borne by NET (note 20(a)). Employee housing benefits carried in the Group's books represent the loss on disposal of employee quarters purchased after 1 January 1995 and sold to employees at preferential prices calculated based on prevailing local regulations. The loss on disposal is amortised on a straight line basis over 20 years which reflects the directors' estimation of the average service period of the employees. During the year, the unamortised balance up to 1 July 2000 was written off to accumulated losses and discretionary common reserve as required by the Ministry of Finance and the local government regulations. The expenditure incurred subsequent to 1 July 2000 is recognised in the profit and loss account.

Other deferred expenditure represents loan arrangement fees that are amortised on a straight line basis over the period of the relevant loans.

(h) Research and development expenses

Research and development expenses are recognised in the profit and loss account in the year in which they are incurred.

(i) Retirement benefits

The Group contributes to a defined contribution retirement scheme set up by the authorities in the respective city in which the entity is located. The annual contributions, based on certain percentages of the payroll costs, are made to the respective local governments which then undertake to assume the pension obligations to all retired employees of the Group. Such schemes are available to all employees of the Group. Contributions to the schemes and other benefits provided to employees who retired after 1 January 1995 are charged to profit and loss account as incurred.

Pursuant to the Reorganisation, benefits payable to former employees of the Group who retired before 1 January 1995 are borne by NET.

(j) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(k) Deferred taxation

Deferred taxation is accounted for at the current rate of taxation, using the liability method, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

(l) Foreign currencies

The Group maintains its books and records in Renminbi.

Transactions in foreign currencies are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at rates of exchange quoted by the People's Bank of China at the balance sheet date.

Foreign currency translation differences directly relating to funds borrowed to finance the construction of property, plant and equipment are capitalised during the construction period. All other exchange differences are dealt with in the profit and loss account.

(m) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Provision of hotel accommodation, food and beverage and entertaining facilities are recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

4. TURNOVER

	Turnover		**Operating loss**	
	2000	**1999**	**2000**	**1999**
	Rmb'000	**Rmb'000**	**Rmb'000**	**Rmb'000**
Sale of goods	1,294,611	1,396,522	(273,211)	(81,451)
Hotel accommodation, food and beverage and entertaining services income	25,437	10,404	(1,384)	(205)
	1,320,048	1,406,926		
Sales tax	(8,126)	(8,876)		
	1,311,922	1,398,050	(274,595)	(81,656)

Turnover represents the value of goods sold, net of value added tax ("VAT") and service income. VAT represents tax assessed on the Group's turnover at the statutory rate of 17%.

Substantially all of the Group's sales and services income are derived from the PRC and the income earned outside the PRC is insignificant.

5. OTHER NET INCOME

	2000	1999
	Rmb'000	Rmb'000
VAT refunds		350
New product, export and other tax refunds	-	
	3,570	
Profit on sale of raw materials	808	4,102
(Loss) income from other investments	(1,646)	369
Others	13,513	18,458
	12,675	26,849

In 1999, VAT refunds of Rmb350,000 were granted by the provincial government. These refunds have been taken to the profit and loss account in the financial year in respect of which they were granted. As such refunds are granted at the discretion of the relevant PRC authorities, the quantum of such refunds in the future, if any, is uncertain. No VAT was refunded to the Group in 2000.

6. OPERATING LOSS

(a) Operating loss is stated after charging (crediting) the following:

	2000 Rmb'000	1999 Rmb'000
Cost of inventories sold	1,120,964	1,100,983
Depreciation of property, plant and equipment	103,319	74,248
Loss on disposal of property, plant and equipment	1,185	657
Auditors' remuneration	1,800	2,700
Staff costs	125,910	198,889
Retirement benefits	40,922	27,812
Research and development expenses	2,435	3,923
Amortisation of other deferred items	6,993	5,096
Provision for doubtful debts	36,343	58,382
(Written back) provision for slow moving inventories	(1,166)	6,000
Provision for diminution in value of long term investment	2,596	-
Profit on disposal of long term investment	(950)	-
Emoluments paid to:		
Directors	239	211
Members of supervisory committee	72	61

(b) Directors' and supervisors' emoluments

	2000 Rmb'000	1999 Rmb'000
Directors' emoluments:		
Salaries and other benefits	146	128
Bonuses	48	53
Retirement scheme contributions	45	30
	239	211
Supervisors' emoluments:		
Salaries and other benefits	49	45
Bonuses	8	5
Retirement scheme contributions	15	11
	72	61

During 2000, each of the executive directors and supervisors of the Company received emoluments which were individually below the equivalent amount of HK$1,000,000 in Renminbi. None of the directors has waived the right to receive his emoluments (1999: Nil).

No emoluments were paid or payable to non-executive directors during the year (1999: Nil).

The five highest paid individuals of the Group for both 1999 and 2000 were directors whose total emoluments are included above.

7. FINANCE COST

	2000 Rmb'000	1999 Rmb'000
Interest income from:		
Banks	22,793	23,336
Third party: provision for interest previously recognized	-	
	(3,010)	
A related party	13,246	21,229
	36,039	41,555
Interest incurred in respect of bank and other loans:		
Wholly repayable within five years	145,754	137,348
Not wholly repayable within five years	414	1,307
	146,168	138,655
Less: Amount capitalised in construction in progress	(14,012)	(10,772)
	96,117	86,328

Interest expenses were capitalised at annual rates ranging form 7% to 10% (1999: 7% to 11%).

8. TAXATION

(a) Income tax

	2000 Rmb'000	1999 Rmb'000
Current taxation:		
Company	-	-
Subsidiaries	3,367	7,469
Associates	-	-
Refund of tax	(3,065)	(5,410)
	302	2,059

The Company and its subsidiaries are subject to income tax at the statutory rate of 33% (1999: 33%). However, in respect of income taxes after 1 January 1996, the relevant PRC authorities have approved on 8 March 1995 that any income taxes payable by the Company and its subsidiaries in excess of 15% of their respective taxable profits will be refunded to the Company and the respective subsidiaries.

According to the latest rulings issued by the State Council, the Company and its subsidiaries still enjoy the preferential rate of 15% until the end of 2001.

The Company has no taxable profit for the year (1999: Nil). The associates are still in their tax exemption period and therefore have no taxable profit (1999: Nil).

No Hong Kong profits tax has been provided as the Group had no taxable profit in Hong Kong (1999: Nil).

(b) Deferred taxation

As at 31 December 2000, the Company and the Group had no significant deferred tax asset or liability (1999: Nil).

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of Rmb364,082,000 (1999: Rmb8,802,000) which has been dealt with in the financial statements of the Company.

10. DIVIDEND

No dividend has been paid or proposed in 2000 (1999: Nil).

11. LOSS PER SHARE

The calculation of loss per share is based on the Group's loss attributable to shareholders of Rmb364,737,000 (1999: loss of Rmb168,336,000) and the 873,370,000 shares in issue during the year (1999: 873,370,000).

No diluted earnings per share is presented as the Group does not have any dilutive potential shares.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Land use Rights Rmb'000	Buildings Rmb'000	Hotel property Rmb'000	Plant, Plant, machinery and equipment Rmb'000	Motor Motor vehicles and others Rmb'000	Total Rmb'000
Cost						
At 1 January 2000	169,955	737,727	-	823,112	85,612	1,816,406
Additions	-	31,446	-	16,116	10,913	58,475
Acquisition of a subsidiary	-	-	361,952	15,823	831	378,606
Transferred from construction in progress (note 13)	-	1,723	-	11,799	36,430	49,952
Reclassification	-	(3,295)	-	(215,982)	219,277	-
Disposals	-	(47,489)	-	(6,265)	(36,510)	(90,264)
At 31 December 2000	169,955	720,112	361,952	644,603	316,553	2,213,175
Accumulated depreciation						
At 1 January 2000	16,234	198,405	-	378,609	39,728	632,976
Charge for the year	3,408	29,144	3,582	31,075	36,110	103,319
Acquisition of a subsidiary	-	-	930	2,492	83	3,505
Reclassification	-	3,126	-	(123,480)	120,354	-
Disposals	-	(11,933)	-	(1,745)	(17,645)	(31,323)
At 31 December 2000	19,642	218,742	4,512	286,951	178,630	708,477
Net book value						
At 31 December 2000	150,313	501,370	357,440	357,652	137,923	1,504,698
At 31 December 1999	153,721	539,322	-	444,503	45,884	1,183,430

The Company's property, pant and equipment comprise motor vehicles, movements of which are as follows:

	Cost Rmb'000	Accumulated depreciation Rmb'000	Net book value Rmb'000
At 1 January 2000	1,142	373	769
Movements during the year	933	392	541
At 31 December 2000	2,075	765	1,310

(a) All of the Group's buildings are located in the PRC. The relevant authorities have granted the Group the rights to use the land for fifty years effective from 31 May 1994.

(b) Included under buildings are employee quarters with a net book value of Rmb22,500,000 (1999: Rmb26,300,000) which are currently being rented to certain employee members. Of these quarters, approximately Rmb12,660,000 (1999: Rmb12,660,000) were brought forward from 1 January 1995 (note 3(g)).

(c) At 31 December 2000, the net book value of property, plant and equipment pledged as security for the Group's loans amounted to Rmb664,359,000 (1999:Rmb791,819,000) (notes 28 and 31(b)).

13. CONSTRUCTION IN PROGRESS

Group

	2000 Rmb'000	1999 Rmb'000
At beginning of year	91,303	89,887
Additions	121,799	49,061
Acquisition of a subsidiary	50	-
Transferred to property, plant and equipment (note 12)	(49,952)	(47,645)
Disposal	(7,413)	-
At end of year	155,787	91,303

Accumulated capitalised interest included in construction in progress at 31 December 2000 amounted to approximately Rmb21,183,000 (1999: Rmb12,415,000).

14. SUBSIDIARIES

Company

	2000 Rmb'000	1999 Rmb'000
Unlisted investments, at cost	1,385,884	1,052,524
Amounts due from subsidiaries	62,381	91,333
	1,448,265	1,143,857
Provision for diminution in value	(356,500)	-
	1,091,765	1,143,857

All of the subsidiaries are established and operating in the PRC and are limited liability companies except for Shenyang Hua Kang Restaurant & Food Entertainment Ltd., which is a Sino-foreign joint venture.

The Group's principal subsidiaries at 31 December 2000 are as follows:

	Registered capital	Cost of investment		Percentage of shareholding held		Principal activities
		2000	1999	2000	1999	
	Rmb million	Rmb million	Rmb million	%	%	
Held by the Company:						
Shenyang Transformers Ltd.	320	619	619	100	100	Manufacture of transformers
Shenyang High-Voltage Switchgears Ltd.("SHV")	145	359	336	100	100	anufacture of switchgear, circuit breakers and disconnectors
Jinzhou Power Capacitors Ltd.	20	35	35	100	100	anufacture of surge arrestors and power capacitors
Fuxin Enclosed Busbars Ltd.	18	48	48	100	100	Manufacture of enclosed busbars
Kingdom Hotel Shenyang	150	310	-	90	-	Provision of hotel and catering services
Shenyang Hua Kang Restaurant & Food Entertainment Ltd. ("Shenyang Hua Kang")	25	15	15	60	60	Provision of entertainment services
		1,386	1,053			

	Registered capital	Cost of investment		Percentage of shareholding held		Principal activities
		2000	1999	2000	1999	
	Rmb million	Rmb million	Rmb million	%	%	
Held by a subsidiary:						
Kingdom Hotel Shenyang	150	34	-	10	-	Provision of hotel and catering services
Jinzhou Jinrong Electrical Equipment Co, Ltd.	3	2	-	51	-	Manufacture of electrical equipment
Shenyang Shenbian Middle Transformer Ltd.	20	17	-	85	-	Manufacture of transformers and reactors
Shenyang Shenbian Electric Equipment Ltd.	10	8	-	75	-	Manufacture of transformers and transmission equipment and accessories
Shenyang Shenbian ITU Manufacturing Ltd.	120	113	113	95	95	Manufacture of current transformers (ITU)
		174	113			

During the year, the percentage holding held by a subsidiary in Jinzhou Jinrong Electrical Equipment Manufacture Co., Ltd. has been increased from 35% to 51.25% . As the effects on the Group was considered to be insignificant, the consolidated financial statements for the year did not include that subsidiary.

15. ASSOCIATES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Unlisted shares, at cost	6,480	5,468	4,068	4,068
Share of profits of associates (note 30)	1,453	1,600	-	-
Share of net assets	7,933	7,068	4,068	4,068

All of the associates are established and operating in the PRC. The following are the principal associates at 31 December 2000:

	Registered capital	Cost of investment		Percentage of shareholding held		Principal activities
		2000	1999	2000	1999	
	Rmb million	Rmb million	Rmb million	%	%	
Held by the Company:						
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	8.0	4.0	4.0	49	49	Manufacture of transformers and transmission equipment
Held by a subsidiary:						
Lingrong Insulation Material Factory	2.2	0.7	0.7	32	32	Manufacture of insulated materials
Jinzhou Jinrong Electrical Equipment Co, Ltd.	3.0	1.5	0.5	51	35	Manufacture of electrical equipment
Jinzhou Jinrong Reactor Manufacture Co., Ltd.	0.5	0.2	0.2	35	35	Manufacture of reactors

16. OTHER INVESTMENTS

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost:				
Unlisted government debentures	1,470	600	-	-
Unlisted other investments	20,599	22,644	10,000	10,000
	22,069	23,244	10,000	10,000
Provision for diminution in value	(6,014)	(3,420)	-	-
	16,055	19,824	10,000	10,000

Unlisted other investments represent the Group's interests in various PRC enterprises of which Rmb10,000,000 as at 31 December 2000 (1999: Rmb10,000,000) represents an equity interest of 8.61% in Jinzhou City Co-operative Bank.

17. DEFERRED ASSET

Following a change in the VAT legislation effective from 1 January 1994, the Group has an input tax credit relating to inventories as at 31 December 1993 which can be recovered by offsetting against VAT payable by the respective subsidiaries over a five year period commencing from 1994.

The relevant PRC tax authorities have confirmed that the input tax credit outstanding as at 31 December 2000 of Rmb1,838,000 (1999: Rmb2,436,000) can be recovered by 31 December 2001.

18. AMOUNTS DUE FROM THE HOLDING COMPANY AND OTHER RELATED COMPANIES

NET and other related companies are defined in notes 1 and 34 respectively. The net amount due from NET and other related companies amounting to Rmb217,341,000 at 31 December 2000 (1999: Rmb545,067,000) represents approximately 19% of the Group's net assets (1999: 35%) as follows:

	GroupCompany			
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Due from NET	73,081	57,010	58,706	59,872
Due from other related companies	159,082	510,456	74,550	350,940
Due to other related companies	(14,822)	(22,399)	-	-
Net amount receivable	217,341	545,067	133,256	410,812
et amount receivable comprises:				
(a) Trade accounts due from:				
NET Sales Co.	21,428	32,160	-	-
NET Import and Export Co.	28,528	32,898	-	-
Others	20,699	5,966	-	-
Included under trade debtors (note 22)	70,655	71,024	-	-
(b) Trade accounts due to:				
Fushun Porcelain Factory	(5,013)	(20,301)	-	-
NET Import and Export Co.	(7,800)	-	-	-
Others	(2,009)	(2,098)	-	-
Included under trade creditors (note 26)	(14,822)	(22,399)	-	-

(c)	Non-trade accounts due from:				
	NET	73,081	57,010	58,706	59,872
	NET Finance Co.				
	- deposits placed (note 35(e))	78,319	366,308	64,384	279,687
	- interest receivable	10,060	72,664	9,970	71,075
	Others	48	460	196	178
	Included under long term assets	161,508	496,442	133,256	410,812
	Net amount receivable	217,341	545,067	133,256	410,812

A recovery agreement was signed between the Company and NET on 9 April 2000, the key features of which were as follows:

* NET undertook to guarantee the Rmb509,540,000 outstanding at 31 December 1998.

* In respect of trade receivables, all balances aged more than one year at 31 December 1998 amounting to about Rmb20,000,000 would be repaid by 31 December 1999.

* The principal amounts and all interest payable thereon in respect of non-trade accounts will be fully settled within the three years to 31 December 2001 in the ratio of 50%, 25% and 25% respectively.

* All repayments are intended to be in cash.

* All trade accounts will be interest free, whilst interest will be charged on the non-trade accounts outstanding at the beginning of each year at rates approximating the then prevailing borrowing rate charged by PRC banks.

* In the event that the amounts due cannot be settled by way of cash, NET has undertaken to transfer ownership of certain of its assets that may be acceptable to the Group.

* NET has also granted the Company the right to set off any unsettled indebtedness against any future dividends that may be payable to NET.

On 22 March 2000, NET reconfirmed the above mentioned agreement and extended its guarantee to cover all balances owing to the Group at 31 December 1999 of Rmb545,067,000. On the same date, the Group made a press announcement on its acquisition of entire equity interest in a subsidiary of NET which owned and operated the Kingdom Hotel in Shenyang ("Kingdom Hotel"). The property covered by the acquisition represents the majority of the floor area of the whole building, while the remaining portion is still owned by NET. The acquisition was approved by the non-controlling shareholders of the Company in the extraordinary general meeting held on 13 June 2000 and became effective on 30 June 2000. 90 % of the equity interest in the Kingdom Hotel was taken up by the Company and the remaining 10% was taken up by SHV, a wholly-owned subsidiary of the Company. The consideration for the acquisition amounting to Rmb344,843,000 was satisfied by way of a set off of part of the debts owed by NET and other related companies to the Group.

The consideration of Rmb344,843,000 is principally based upon a valuation of the property of Kingdom Hotel by Sallmans (Far East) Limited ("Sallmans"). The valuation by Sallmans is on the open market basis and assumes that the Kingdom Hotel's property would be converted into a wholly office building.

The directors are of the opinion that the property can be converted as assumed by Sallmans and that the valuation thereof by Sallmans is appropriate. Since the acquisition of Kingdom Hotel by the Company, it has been operating as a hotel continuously which is principally engaged in the provision of hotel and catering services. No conversion has been made to change Kingdom Hotel to a wholly office building. The directors are of the opinion that following the completion of more office buildings in Shenyang City, the return from the letting of office spaces would be negatively affected. In addition, Kingdom Hotel has been granted a four star grading. Therefore, the plan to convert the hotel into an office building was abandoned.

Although NET had partially settled its indebtedness by way of the above asset transfer, NET was finally unable to repay 75% of the total non-trade balance due to the Group on or before 31 December 2000 according to the requirement as stated in the above-mentioned recovery agreement. The directors are of the opinion that NET is currently unable to repay the remaining debt by cash. On 22 December 2000, a new debt settlement agreement has been signed by the Company, NET and NET Finance Company. The key features of which are as follows:

* Among the committed repayment of Rmb509,540,000 as agreed in the recovery agreement, after the setting off of acquisition of Kingdom Hotel the balance will be repaid in the following ways:

- the acquisition of certain assets of wholly-owned subsidiaries of NET, Shenyang Cable Factory and Fushun Porcelain Factory, provided that they are acceptable to the Company;

- future dividend payable to NET based on its shareholding in the Company; and

- other assets owned by NET which are considered acceptable to the Company.

* The recovery agreement signed on 9 April 1999 was automatically terminated when the new debt settlement agreement became effective. The Company waived all its right to claim NET for compensation arising from its inability to comply with the obligations under the terms of the recovery agreement.

The directors are negotiating with NET to settle the indebtedness by way of further assets transfer. These transfers are still in progress.

The directors are of the opinion that NET will transfer further acceptable assets to the Group in the future to settle the remaining indebtedness. Accordingly, no provision has been made in these financial statements against the amount due from NET and other related companies of Rmb217,341,000 at 31 December 2000.

19. LONG TERM DEPOSIT

Long term deposit of Rmb165,562,000 at 31 December 2000 (1999: Rmb165,586,000) represents a United States Dollar ("US$") 20 million placement with Liaoning Trust and Investment Corporation ("Liaoning Trust"). Liaoning Trust is a third party non-bank financial institution registered in the PRC. This deposit earns interest at London Inter-bank Offer Rate ("LIBOR") plus 1.275% per annum. Further details on the restriction on the use of this deposit are stated in 31(a).

20. OTHER DEFERRED ITEMS

Other deferred items comprise:

	Group		Company	
	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000
Net employee housing benefits (a)	-	27,036	-	-
Others (b)	1,752	4,692	1,752	4,692
	1,752	31,728	1,752	4,692

(a) Following a directive from the PRC government to restructure housing for its employees, during 1998, the Group sold quarters to certain of its employees. During 1999, no staff quarters were sold to its employees. Details of such sales up to 31 December 2000 are as follows:

	Brought forward from Recorganisation Rmb'000	Purchased after Recorganisation Rmb'000
Net book value of employee quarters sold up to 1 January 2000	36,800	45,434
Transferred during the year	-	
	29,854	
	36,800	75,288
Net deficit arising from sale up to 1 January 2000	25,390	27,036
Amount incurred during the year	-	31,463
Deficit recharged to NET	(25,390)	-
Amortisation for the year (up to 30 June 2000)	-	(1,140)

	-	57,359
Set off to accumulated losses (Note 30)	-	(16,783)
Set off to discretionary common reserve (Note 30)	-	(40,576)
	-	-

(i) The net deficit of Rmb25,390,000 (1999: Rmb25,390,000) pertaining to employee quarters purchased before the Reorganisation has been recharged to NET in accordance with the terms of the Reorganisation. The loss on disposal of employee quarters purchased after the Reorganisation is amortised on a straight line basis over 20 years which reflects the directors' estimation of the average service period of the employees. During the year, the unamortised balance up to 1 July 2000 was written off to accumulated losses and discretionary common reserve in accordance with the requirements of Cai Qi (2000) No.295 document "Notice of the Financial Arrangement during the Reform of Corporate Staff Quarter System" issued by the Ministry of Finance and other local requirements. The expenditure incurred subsequent to 1 July 2000 is recognised in the profit and loss account.

(b) In May 1998, the Group incurred arrangement, agency and related fees in respect of certain syndicated loans (note 31(a)). This expenditure is being amortised over the term of the syndicated loans of three years.

	Group and Company	
	2000	**1999**
	Rmb'000	**Rmb'000**
At beginning of year	4,692	8,288
Transferred from other debtors during the year	2,315	-
Amortisation for the year	(5,255)	(3,596)
At end of year	1,752	4,692

21. INVENTORIES

Group

	2000	**1999**
	Rmb'000	**Rmb'000**
Raw materials	136,033	153,630
Work in progress	99,445	138,956
Finished goods	116,991	152,558
	352,469	445,144
Provision for slow moving inventories	(41,305)	(42,471)
	311,164	402,673

At 31 December 2000, the carrying amount of inventories that are carried at net realisable value amounted to Rmb19,299,000 (1999: Rmb8,703,000).

22. TRADE DEBTORS

Group

	2000 Rmb'000	1999 Rmb'000
Other related companies (note 18(a))	70,655	71,024
Third parties	1,095,195	1,149,455
	1,165,850	1,220,479
Provision for doubtful receivables from third parties	(142,297)	(108,893)
	1,023,553	1,111,586

The turnover of the Group was mainly delivered from contract sales. The Group applies different credit policies to different customers. In general, sales invoices are issued when goods are delivered to and inspected by customers. Majority part of the invoiced value is due on presentation. The remaining portion represents quality assurance deposit and is due upon the expiry date of the quality assurance period.

The ageing analysis of trade receivables as at 31 December 2000 was as follows:

Group

	2000 Rmb'000	1999 Rmb'000
Within 1 year	660,504	746,852
1 to 2 years	208,469	228,452
2 to 3 years	103,500	79,341
Over 3 years	122,722	94,810
Third parties	1,095,195	1,149,455
Related companies (Note 18(a))	70,655	71,024
	1,165,850	1,220,479
Provision for doubtful debt on amounts due from third parties	(142,297)	(108,893)
	1,023,553	1,111,586

Ageing of amount due from related companies is: within 1 year: Rmb13,863,000, 1 to 2 years: Rmb4,089,000, 2 to 3 years: Rmb6,847,000, over 3 years: Rmb7,586,000.

23. DEPOSITS, OTHER DEBTORS AND PREPAYMENTS

The Group's deposits, other debtors and prepayments are stated net of a provision for doubtful receivables of Rmb70,241,000 (1999: Rmb67,302,000) (Company: 2000 and 1999: Nil).

24. LOANS TO A THIRD PARTY COMPANY

During August to September 1998, loans of Rmb96,000,000 were granted to a third party company ("borrower"). These loans were secured, bear interest of 15% per annum and were repayable before 15 September 1999.

However, the borrower failed to make repayment on the specified repayment date and no interest has been received. Subsequently, the Company entered into a new agreement with the borrower to extend the date of repayment to 31 December 2000 with a renewed pledge of security over certain of the property interests of another third party company which has a common shareholder with the borrower. The property which had been pledged for a loan of Rmb50,000,000 was replaced with a pledge of the shareholding in that third party company, which is owned by a shareholder of the borrower. According to the audited financial statements of that company as at 31 December 2000 prepared in accordance with PRC Accounting Regulations, the fair value attributable to the pledged shareholding was approximately Rmb126,176,000. Therefore, the Company considered that it was not necessary to make a provision for doubtful debts against the loans. No repayment of the principal and interest has been received by the Company to date.

For prudence, no interest has been accrued for the year. Interest amounting to Rmb3,010,000 recognised in previous years had been provided for in 1999.

25. CASH AND BANK BALANCES

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cash and current account balances	294,667	196,095	73,962	14,811
Deposits with banks	104,344	192,275	104,344	192,275
	399,011	388,370	178,306	207,086

Included in the bank balances at 31 December 2000, a sum of Rmb165,562,000 (1999: Rmb163,196,000) was used as security against certain short term bank loans granted. (note 28).

26. TRADE CREDITORS

	Group	
	2000	1999
	Rmb'000	Rmb'000
Other related companies (note 18(b))	14,822	22,399
Third parties	702,551	364,331
	717,373	386,730

The ageing analysis of trade payable as at 31 December 2000 was as follows:

Group		
	2000	1999
	Rmb'000	Rmb'000
Within 1 year	596,318	266,484
1 to 2 years	26,425	43,643
2 to 3 years	33,196	25,139
Over 3 years	46,612	29,065
Third parties	702,551	364,331
Related companies (Note 18(b))	14,822	22,399
	717,373	386,730

Ageing of amount due to related companies is: within 1 year: Rmb10,124,000, 1 to 2 years: Rmb489,000, over 3 years: Rmb4,209,000.

27. OTHER CREDITORS AND ACCRUALS

The Group's other creditors and accruals do not include loans from third parties (1999: Rmb20,300,000 which are interest free).

28. BANK AND OTHER LOANS

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Short term bank loans				
- Secured against				
* Deposits (note 25)	164,350	156,300	164,350	156,300
* Property, plant and equipment (note12(c))	536,830	416,330	-	-
	701,180	572,630	164,350	156,300
- Guarantees	671,484	17,260	-	8,000
- Unsecured	-	692,913	-	-
	1,372,664	1,282,803	164,350	164,300

Included in the short term bank loans at 31 December 2000 are US dollar denominated loans of Rmb165,516,000 (equivalent to US$20,000,000) (1999: Rmb165,591,000) bearing annual interest of about 8% (1999: 7%). The remaining balance of the short term loans are denominated in Renminbi and bear interest ranging from about 5% to 9% per annum (1999: 6% to 9%).

29. SHARE CAPITAL

Company

	2000	1999
	Rmb'000	Rmb'000
Registered, issued and fully paid-up capital:		
615,420,000 ordinary 'Domestic' shares of Rmb1 each, of which:		
- Non-listed	471,820	471,820
- Listed "A" shares	143,600	143,600
	615,420	615,420
257,950,000 ordinary "H" shares of Rmb1 each	257,950	257,950
	873,370	873,370

(a) As at 31 December 2000, non-listed Domestic shares represent shares held by NET and other legal persons in the PRC.

(b) Listed Domestic "A" shares represent shares listed on the Shenzhen Stock Exchange. On 26 January 1999, 113,600,000 employee shares were listed on the Shenzhen Stock Exchange for open circulation.

(c) Shares listed on the Stock Exchange of Hong Kong Limited are denoted as "H" shares.

(d) All the Domestic and "H" shares rank pari passu in all respects.

30. RESERVES

	Capital reserve RMB'000	Statutory Common Reserve RMB'000	Statutory provident fund RMB'000	Discretionary Common Reserve RMB'000	Retained profit/ (accumulated loss) RMB'000	Total RMB'000
Group						
At 1 January 1999	603,394	46,356	31,441	73,000	88,434	842,625
Loss for 1999	-	-	-	-	(168,336)	(168,336)
Transfer to reserves	-	880	368	-	(1,248)	-
At 31 December 1999	603,394	47,236	31,809	73,000	(81,150)	674,289
Loss for 2000	-	-	-	-	(364,737)	(364,737)
Transfer from other deferred assets (Note 20(a))	-	-	-	(40,576)	(16,783)	(57,359)
Transfer to reserves	-	49	-	-	(49)	-
At 31 December 2000	603,394	47,285	31,809	32,424	(462,719)	252,193

Included in the accumulated loss is an amount of Rmb1,453,000 (1999: Rmb1,600,000), being the retained profit attributable to associates (Note 15).

Company

At 1 January 1999	603,394	46,356	31,441	-	-	681,191
Loss for 1999	-	-	-	-	(8,802)	(8,802)
At 31 December 1999	603,394	46,356	31,441	-	(8,802)	672,389
Loss for 2000	-	-	-	-	(364,082)	(364,082)
At 31 December 2000	603,394	46,356	31,441	-	(372,884)	308,307

(a) Capital reserve represents premium on issue of shares net of issuing expenses and an amount arising as a result of the original restructuring of the Group. Capital reserve can only be used to increase share capital.

(b) According to their respective Articles of Association, the Company and each of its subsidiaries are required to transfer 10% of their profit after taxation to the statutory common reserve until the reserve reaches 50% of the registered capital. The statutory common reserve shall only be used for the following purposes:

* to make up losses;

* to expand production facilities; or

* to be converted into capital. The Company and each of its subsidiaries may, with the sanction of a resolution of shareholders in general meeting, convert their statutory common reserve into capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the par value of each share. When converting the statutory common reserve into capital, the amount of such reserve remaining unconverted must not be less than 25% of the registered capital of the Company and each of its subsidiaries.

The transfer to this reserve for the year represents an understatement of last year. None of the subsidiaries earned any profit for the year and therefore, no transfer to this reserve has been made for the year ended 31 December 2000 (1999: 10%).

(c) According to their respective Articles of Association, the Company and each of its subsidiaries are required to transfer 5% to 10% of their profit after taxation to the statutory provident fund. This fund should be used for the collective welfare of the employees of the respective companies.

No transfer to this reserve has been proposed by the directors for the year ended 31 December 2000 (1999: 5%)

(d) According to their respective Articles of Association, the Company and each of its subsidiaries shall transfer at their discretion a certain percentage of their profit after taxation, to the discretionary common reserve. The discretionary common reserve may be used for the same purposes as the statutory common reserve.

No transfer to the discretionary common reserve has been proposed by the directors for the year ended 31 December 2000 (1999: Nil).

(e) As at 31 December 2000, the distributable reserves of the Company amounted to Rmb Nil (1999: Rmb Nil).

31. LONG TERM BANK LOANS

	Group 2000 Rmb'000	Group 1999 Rmb'000	Company 2000 Rmb'000	Company 1999 Rmb'000
Bank loans				
- US$ loans	331,124	331,172	331,124	331,172
- Rmb loans	471,760	367,310	-	-
	802,884	698,482	331,124	331,172
Others	2,965	-	-	-
	805,849	698,482	331,124	331,172
Current portion of long term bank loans	(240,835)	(151,210)	(110,375)	-
	565,014	547,272	220,749	331,172

(a) US$ bank loans of Rmb331,124,000 (1999: Rmb331,172,000) represent loans of US$40,000,000 borrowed from a syndication of banks in May 1998. These loans were borrowed in two equal tranches of US$ 20,000,000 each. One of the tranches bears interest at London Inter-bank Offer Rate ("LIBOR") plus 1.275% and the other at LIBOR plus 1.475% per annum.

One of the tranches is unsecured whilst the other is guaranteed by Liaoning Trust for which the Company has placed deposits of US$20,000,000 (equivalent to Rmb165,562,000) as security (note 19). These deposits cannot be withdrawn until the syndicated loans have been fully repaid.

The principal sum of the syndicated loans is to be repaid in three equal successive annual instalments. The first instalment is due thirty-six months after 5 May 1998. Interest on the loans is repayable on a half yearly basis and there has been no default in interest payment by the Company. Under the current financial position of the Company and the Group (the Company and the Group have net current liabilities of Rmb5,287,000 and Rmb305,028,000 at 31 December 2000 respectively), the Company does not have sufficient financial resources to meet the repayment schedule as stated in the loan agreement.

Principally as a result of the losses incurred during the previous year and the current year, the Company has breached certain financial covenants given to the syndicate in connection with these loans. Accordingly, these loans are technically fully repayable on demand. The Company is currently in negotiation with the syndicate to waive the compliance of these financial covenants and to apply for an extension of the maturity date of the first instalment which will be due in May 2001. The directors believe that the negotiations will be successful. Consequently, no adjustment has been made to reclassify the long term portion of the loan which will be payable after 2001 to current liabilities as at 31 December 2000.

In connection with these loans, the Shenyang Municipal People's Government has given an undertaking to the syndicate that it shall maintain, at all times, not less than 50% of its beneficial shareholding in the Company (held through NET), as long as the loans remain outstanding.

(b) Rmb loans of Rmb471,760,000 (1999: Rmb367,310,000) at 31 December 2000 are unsecured except for Rmb34,000,000 (1999: Rmb18,000,000) which is secured against property, plant and equipment (note 12(c)). These loans bear interest ranging from 4% to 10% per annum (1999: 4% to 10%).

(c) The maturity profile of the Group's long term bank loans is as follows:

	Group		Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Within one year	240,835	151,210	110,375	-
In the second year	159,840	125,944	110,375	73,594
In the third to fifth year	195,174	369,328	110,374	257,578
After the fifth year	210,000	52,000	-	-
	805,849	698,482	331,124	331,172

32. CAPITAL COMMITMENTS

The Group has the following capital commitments which are principally for construction costs or purchase of property, plant and equipment:

	2000	1999
	Rmb'000	Rmb'000
Contracted but not provided for	35,040	44,109
Authorised but not contracted for	55,000	184,391
	90,040	228,500

33. CONTINGENT LIABILITIES

At 31 December 2000, no guarantee was given by the Group to any company outside of the Group (1999: Nil) whilst guarantees amounting to Rmb216,007,000 (1999: Rmb204,345,000) were granted by the Company in respect of banking facilities used by its subsidiaries.

34. RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under the ultimate holding company, NET, and as consistent with prior years, will continue to transact with certain other related companies. Other related companies refer to corporations in which NET is a substantial shareholder or is able to exercise significant influence.

Other than as mentioned elsewhere in these financial statements, the following significant related party transactions were carried out during the year. The non-executive directors of the Company have confirmed that these transactions were carried out on normal commercial terms arranged in the ordinary course of the Group's business.

	Group	
	2000	**1999**
	Rmb'000	**Rmb'000**
Sale of finished products to related parties	22,015	35,294
Purchase of raw materials and spare parts from related parties	33,199	29,862
Rental paid to a related party (i)	300	1,400
Service fees for use of employee quarters and other facilities due to NET	1,754	185

The directors are of the opinion that the following transactions were not carried out in the ordinary course of the Group's business:

	2000	1999
	Rmb'000	Rmb'000
Settlement of staff loans on behalf of NET (ii)	(414)	12,200
Benefits for retirees incurred on behalf of NET (iii)	5,908	9,229

(i) Rental payment to a related party

On 12th August, 1999, Shenyang Hua Kang, a subsidiary of the Company, entered into a lease agreement with a wholly owned subsidiary of NET, which was engaged in property development. Pursuant to the lease agreement, the annual rental payable by Shenyang Hua Kang is Rmb1.4 million for the lease of the bowling alleys and office spaces for the use of Shenyang Hua Kang. The ownership of such properties has been transferred to Kingdom Hotel subsequently. The lease agreement has been expired on 31 March 2000.

As stated in note 18, Kingdom Hotel has become a wholly-owned subsidiary of the Group after the effectiveness of the acquisition. Therefore, the leasing is not constituted as a related party transaction thereafter.

During the year, rental payment of Rmb300,000 has been made by Shenyang Hua Kang to Kingdom Hotel.

(ii) Amount paid on behalf of NET to employees

On 20th August, 1996, the Shenyang Municipal People's Government had granted NET the approval to issue corporate bonds to the employees of, inter alia, NET and its subsidiaries (including the Group), for general working capital requirements of NET and its subsidiaries. As NET and its subsidiaries were unable to repay to the employees of the Group the amount of corporate bonds issued upon maturity, the Group entered into a loan agreement with NET on 10th October 1999, pursuant to which the Company agreed to pay the amount due to the employees of the Group under the corporate bonds for and on behalf of NET.

On 31 December 1999, the total amount paid by the Group was Rmb12,200,000 (equivalent to approximately HK$11,400,000) which is unsecured and carries an annual interest rate of 6%. Pursuant to the loan agreement, NET should settle the principal amount of Rmb12,200,000 together with accrued interest by 10 October, 2000. However, a resolution relating to the implementation of this loan agreement has been voted down on an extraordinary general meeting held on 17 July 2000. The balance outstanding as at 31 December 2000 has been revised to Rmb11,786,000. The amount outstanding under the loan agreement has still not been repaid up to the date of approval of the financial statements.

(iii) Retirement Benefits paid on behalf of NET

Prior to the listing of the shares of the Company in July 1995 and during the reorganisation of the Group in 1994, in order to provide financial support for the Group, NET has undertaken to the Company that it will pay a certain portion of the benefits for retirees of the Group who had made arrangements for retirement before 1st January, 1995. As at 31st December, 1999, there were approximately four thousand retirees who received such Retirement Benefits and the number of such retirees would not exceed this number in the future. The Retirement Benefits comprise medical expenses provided for such retirees incurred on a cost recovery basis. The Retirement Benefits to be borne by NET was to be settled by way of set off against the dividends of the Company that may be payable to NET. Since the Company had not distributed any dividends for the past four years ended 31 December 2000, there were no dividends to set off the amount comprising the Retirement Benefits. The Retirement Benefits incurred on behalf of NET had arisen from the undertaking given by NET. In view of the outstanding status of the Retirement Benefits incurred on behalf of NET and other debts owed by NET to the Company, a debt settlement agreement dated 22 December 2000 has been entered into by the Group, NET and another related company. Details of which are stated in note 18.

As NET intends to provide financial support for the Group, the Retirement Benefits incurred on behalf of NET is unsecured and non-interest bearing. The Company would incur Retirement Benefits on behalf of NET until there were enough dividend to set off the amount due.

(iv) As stated in Note 18, the remaining part of the building acquired through Kingdom Hotel during the year is still under the ownership of NET (NET Property). Upon completion of the acquisition, NET and Kingdom Hotel entered into a Property Management Agreement whereby Kingdom Hotel provides certain management services relating to the NET Property. Under the Property Management Agreement, NET and Kingdom Hotel enter into transactions in relation to the NET Property which include the sharing of services of the following:

1) the water supply and electricity supply;

2) central air conditioning;

3) repair, maintenance and management of common are including roof-top, external wall, weight bearing structure, staircase, corridors, lobby, main gate and lifts;

4) repair, maintenance, operation and management of the common facilities, including shared water pipes, drainage, sewage chimney, illumination facilities, antenna, central air conditioning, heating system, boiling room of the heating system, high pressure water pump room, building fire fighting facilities and lifts, telephone, facsimile and computers;

5) maintenance and management of the greenbelt, plants and architectural decoration;

6) sanitation of the common area, including cleaning, garbage collection and delivery of the public area and common area and snow shuffling;

7) traffic control and car park management;

8) preserve public order, including security service such as safety monitoring, patrol and security guard on shift; and

9) management of engineering drawings in connection with the property, files of residence and information concerning the acceptance test.

The property management service of the NET Property provided by Kingdom Hotel is for a term of 3 years upon entering into the Property Management Agreement. The property management service fee is as follows:

1) Kingdom Hotel will charge NET a property management service fee of RMB16 per square metre according to the net floor area;

2) a standard annual adjustment from a reduction of 5% to an increase of 10% will be made to the property management service fee; and

3) a late payment surcharge of 1% of the property management fee will be chargeable against NET.

During the year, Kingdom Hotel provided property management services to and received management fee directly from third party companies which leased the NET Property. Therefore, in practical NET and Kingdom Hotel did not carry out any connected transactions.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash inflow (outflow) from operating activities:

	2000 Rmb'000	1999 Rmb'000
Loss before taxation	(366,471)	(166,384)
Dividend income from long term investments	-	(369)
Provision for diminution in value of long term investment	2,596	-
Share of profits of associates	(4,241)	(1,600)
Interest income	(36,039)	(41,555)
Interest expense	146,168	127,883
Depreciation of property, plant and equipment	103,319	74,248
Exchange gain	-	(114)
Loss on disposal of property, plant and equipment	1,185	657
Profit on disposal of long term investment	(950)	-
Amortisation of employee housing benefits	-	1,500
Amortisation of other deferred expenditure	6,993	3,596
Decrease in inventories	92,955	59,250
Increase in amount due from NET	(40,863)	(16,924)
Decrease in net amount due from related companies (excluding deposits placed with a related company)	-	8,562
Increase in debtors, deposits and prepayments	(271,444)	(131,974)
Increase in creditors and accruals	429,432	10,251
Net cash inflow (outflow) from operating activities	62,640	(72,973)

(b) Acquisition of subsidiary during the year

	2000
	Rmb'000
Consideration (Note18)	344,843
Less: Net assets acquired	
Property, plant and equipment	375,100
Construction in progress	50
Inventories	1,446
Accounts receivable	5,952
Other receivables	1,089
Cash and bank balances	1,721
Short term loan	(30,330)
Accounts payable	(4,124)
Other payable	(6,061)
	344,843
Surplus or deficit on acquisition	-

(c) Analysis of cash inflow on acquisition of subsidiary

	2000
	Rmb'000
Cash consideration paid on acquisition	-
Cash and cash equivalent acquired	1,721
Net cash inflow on acquisition of subsidiary	1,721

The subsidiary acquired during the year contributed Rmb9,894,000 to the Group's net cash inflow from operating activities, paid Rmb1,137,000 for net cash outflow from returns on investments and servicing of finance, spent Rmb11,585,000 in investing activities and received Rmb1,770,000 from financing.

(d) Analysis of changes in financing during the year:

	Share capital and capital reserve Rmb'000	Minority interests Rmb'000	Bank and Other loans Rmb'000	Total Rmb'000
At 1 January 1999	1,476,764	16,692	1,715,329	3,208,785
Minority interest's share of loss	-	(107)	-	(107)
Net cash inflow from financing activities	-	(862)	265,956	265,094
At 31 December 1999	1,476,764	15,723	1,981,285	3,473,772
Minority interest's share of loss	-	(2,036)	-	(2,036)
Other	-	(292)	-	(292)
Acquisition of subsidiary	-	-	30,330	30,330
Net cash inflow from financing activities	-	5,418	167,613	173,031
At 31 December 2000	1,476,764	18,813	2,179,228	3,674,805

(e) Reconciliation of cash and cash equivalents

	2000 Rmb'000	1999 Rmb'000
Cash and bank balances (note 25)	399,011	388,370
Deposits with a related company (included in amounts due from related companies) (note 18(c))	78,319	366,308
Deposits with other non-bank financial institutions (note 19))	165,562	165,586
	642,892	920,264
Deposits maturing more than three months from date of placement	(446,413)	(718,389)
Cash and cash equivalents	196,479	201,875

(f) Major non-cash transaction

During the year the Group had acquired a subsidiary, Kingdom Hotel Shenyang, at a consideration of Rmb344,843,000, which was satisfied by way of a set off of the amounts due from the vendors to the Group (Note 18).

36. COMPARATIVES

Certain comparatives have been extended or reclassified to conform with the current year's presentation.

37. POST BALANCE SHEET EVENT

Regarding the Company's negotiation with NET to settle the remaining indebtedness due from the NET group and related companies as at 31 December 2000 by way of further assets transfer (Note 18), approval has been obtained from the Finance Bureau of Liaoning Province in February 2001 to proceed with the asset revaluation, pursuant to a letter Liao Cai Qi Han Zi (2001) No.5 document. Other procedures in respect of the asset transfer are still in progress.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 April 2001.