

Notes to Accounts

For the year ended 31 December 2000 (Prepared in accordance with PRC Accounting Regulations)

I. INTRODUCTION

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 company. The Company was granted the status of a Sino-foreign joint stock limited company on 13 May, 1998. The Company and its subsidiaries ("the Group") are located in Liaoning Province of the PRC.

The principal activity of the Company is investment holding. The activities of the subsidiaries and the associated companies are shown in note V (1) and note IV (6) of the financial statements respectively.

The Company's holding company is Northeast Electrical Transmission & 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".

II. PRINCIPAL ACCOUNTING POLICIES

1. Basis of preparation

The financial statements have been prepared in accordance with Accounting Standards for Enterprises and Accounting Regulations for Joint Stock Enterprises of the PRC and on a going concern basis.

For the years ended 31 December 1999 and 31 December 2000, the Group incurred significant losses of Rmb166,836,722 and Rmb363,597,324.39 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). The syndicate has the right to request the Company to repay the loan in full immediately. 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. The first instalment of US\$13,333,333.33 (equivalent to Rmb10,374,666.64) will be due on 4 May 2001. Up to the date of approval of this report, the Company does not have adequate financial resources to repay the loan. The Company had requested for an extension of the maturity date of the first instalment and the request is still in progress. However, the directors consider that it is appropriate to prepare the financial statements on a going concern basis having duly considered the following factors:

- (1) 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;

- (2) 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;
- (3) 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 of the internal operational controls through the setting up of subsidiaries, the Group's financial performance is expected to improve in 2001; and
- (4) the remaining amount due from NET and related companies can be settled through the success of the asset transfer arrangement with NET.

2. Accounting period

The Group adopts the Gregorian calendar which starts from 1 January to ends on 31 December as its accounting year.

3. Reporting currency

The Group uses the Renminbi ("Rmb") as its reporting currency.

4. Principal of recording and basis of pricing

The Group adopts the accrual basis of accounting. Unless otherwise stated, all assets are stated at their historical costs of acquisition.

5. Foreign currencies

Transactions in foreign currencies are translated into Renminbi at exchange rates stipulated by People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at exchange rates stipulated by People's Bank of China at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account. Foreign currency translation differences directly relating to funds borrowed to finance the construction of fixed assets are capitalised during the construction period.

6. Cash equivalents

Cash equivalents comprise highly liquid investments which are readily convertible to cash and with insignificant risk of changes in value.

7. Provision for doubtful debts

Liability method is adopted to account for doubtful debts. Provision for doubtful debts is made after management has fully assessed the ageing analysis and collectibility of the accounts receivable and other receivables. The Company's bad debt provision is made according to the following basis:

0 to 2 years	Nil
2 to 3 years	40%
3 to 4 years	60%
Over 4 years	100%

8. Inventories

Inventories comprise raw materials, work in progress, finished goods and low value consumables and are calculated on the weighted average basis. Cost, in the case of work in progress and finished goods, comprises raw materials, direct labour and an appropriate 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.

Provision for loss on realisation of inventories is made for irrecoverable costs resulting from damaged inventories, partly or wholly obsolete inventories, or when selling price of the inventory is lower than its cost. Provision for loss on realisation of inventories is based on the difference between cost and net realisable value of the related item.

9. Long term investments

Long term investments comprise long term equity and debenture investments.

Long term equity investments include investments in subsidiaries, associated companies and other equity investments.

A subsidiary is a company in which the Group has an interest of more than 50% of the voting rights. This investment is accounted for by the equity method of accounting in the Company's financial statements and is consolidated in the Group's financial statements at year end.

A company in which the Group has a long term investment of between 20% to 50% of the equity interest and over which the Group is in a position to exercise significant influence in management is equity accounted for by the Group and the Company. Investments in associated companies are recorded at to the actual consideration paid or definite value invested.

Investment in a company in which the Group holds an equity interest of less than 20% or where the Group is not in a position to exercise significant influence over the management of the investee company is stated at cost.

Long term debenture investments are recorded based on the actual consideration paid and the related interest income is accrued when due.

Provision for permanent diminution in value is made when the realisable value of the investment is less than the book value as a result of permanent decline in market price or prolonged deteriorating business operations of the investee company.

10. Fixed assets and depreciation

Fixed assets represent capital assets with value of more than Rmb2,000 and useful lives over one year. Fixed assets are recorded at original cost or revalued cost.

Fixed assets are depreciated over their estimated useful lives on straight line basis after taking into account their residual value estimated at 3% of cost.

The estimated useful lives of fixed assets are as follows:

Buildings	20-50 years
Plant, machinery and equipment	8-20 years
Motor vehicles and others	6-17 years

11. Construction in progress

Construction in progress represents capital assets such as factory buildings, plant and machinery and other fixed assets under construction and installation and testing and is stated at cost. Cost comprises all direct and indirect costs relating to the acquisition or construction of buildings and plant and machinery and 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 fixed assets 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.

12. Intangible asset and amortisation

Intangible asset represents cost of the land use right and is amortized, using the straight line method, over the lease term of 50 years.

13. 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 the profit and loss account as incurred.

Pursuant to a reorganisation agreement in 1994 ("Reorganisation"), benefits payable to former employees of the Group who retired before 1 January 1995 are borne by NET.

14. Research and development expenses

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

15. Housing fund

Pursuant to the Reorganisation, any losses arising from sale of employee quarters brought forward as at 1 January 1995 will be borne by NET. Following regulations issued by the Ministry of Finance and Shenyang Finance Bureau, the net deficit in respect of employee quarters purchased after the Reorganisation is carried in the housing fund account. According to 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 its supplementary regulations and other local requirements, the unamortised balance up to the date as specified in the document was written off to accumulated losses and discretionary common reserve. The amounts written off to accumulated losses and discretionary common reserve during the year was Rmb16,782,122.03 and Rmb44,715,312.04 respectively (Note IV (11)).

16. Long term deferred expenditure

Long term deferred expenditure represents deferred expenses with amortisation period over one year and are amortised on a straight line basis over the period of their useful lives.

17. Revenue recognition

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership to customers, when the Company ceases to exercise its right to manage and control the goods and when the revenue and costs can be measured reliably.
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

18. Income tax

Tax liability method is adopted to account for the income tax of the Company and its subsidiaries.

19. Basis of preparation of consolidated financial statements

The consolidated financial statement is prepared in accordance with document (1995) No.11 "Provisional Regulations for Consolidated Financial Statement" issued by the Ministry of Finance of the PRC.

The consolidated financial statement includes the financial statements as at 31 December 2000 of the Company and its subsidiaries.

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

All significant inter-company balances and transactions between the Group have been eliminated in the preparation of the consolidated financial statement.

Subsidiaries accounted for in the consolidated financial statements during the year are detailed in Note V (1).

III. TAXATION

Taxation type	Computation basis	Tax rate
Valued added tax	Revenue from sale of goods	17%
Sales tax	Income from provision of services	5% - 10%
Enterprise income tax	Assessable profits	33%
Urban maintenance and construction tax	Value added tax and sales tax payable	7%

Income tax charge for the year is as follows:

	2000	1999
	Rmb	Rmb
Company	-	-
Subsidiaries	3,367,055.78	7,469,056.00
Associated companies	-	-
Refund of tax	(3,064,973.47)	(5,410,487.00)
Total	302,082.31	2,058,569.00

The tax refund was received by certain subsidiaries which are set-up in the Economic and Technology Development Zone as a result of the preferential taxation policy. The Company and its subsidiaries are subject to income tax at the statutory rate of 33%. According to the rulings issued by the State Council, the Company still enjoys the preferential rate of 15% until the end of year 2001.

IV. EXPLANATION TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (UNIT: RMB)

1. Cash and Bank Balances

	2000 Rmb	1999 Rmb
Cash	239,806.17	56,546.00
Cash in bank		
Deposit used as security	165,562,000.00	163,195,706.00
Other deposits	233,209,587.51	225,118,046.00
 Total	 399,011,393.68	 388,370,298.00

Cash and bank balances at 31 December 2000 included the following foreign currencies:

Type of foreign currency	Original amount	Exchange rate	Rmb equivalent
United States Dollars ("US\$")	20,857,817.95	8.2781	172,663,102.77
Hong Kong Dollars ("HK\$")	1,028,728.66	1.0606	1,091,069.62
 Total			 173,754,172.39

2. Accounts receivables and other receivables

(i) Accounts receivable

Ageing of amount due from third parties:	2000			1999		
	Rmb	%	Provision for doubtful debts	Rmb	%	Provision for doubtful debts
Within 1 year	658,923,832.26	61	-	746,852,352.00	65	-
1 to 2 years	208,469,130.36	19	-	228,451,836.00	20	-
2 to 3 years	103,499,885.24	9	(36,406,067.88)	79,340,972.00	7	(14,083,260.00)
3 to 4 years	42,078,083.07	4	(25,246,849.85)	94,809,797.00	8	(94,809,797.00)
Over 4 years	80,644,092.10	7	(80,644,092.10)	-	-	-
 Sub-total	 1,093,615,023.03	 100	 (142,297,009.83)	 1,149,454,957.00	 100	 (108,893,057.00)
 Amount due from other related parties (Note V(5))	 70,654,999.04	 -	 -	 71,024,306.00	 -	 -

Total	1,164,270,022.07	(142,297,009.83)	1,220,479,263.00	(108,893,057.00)
Provision for doubtful debts	(142,297,009.83)		(108,893,057.00)	
Net accounts receivable	1,021,973,012.24		1,111,586,206.00	

(i) Accounts receivable

The five largest outstanding balances due from third parties are all trade receivables, details are as follows:

Ageing	Name of customer	2000 Rmb	Within		
			1 year Rmb	1 to 2 years Rmb	2 to 3 years Rmb
	China Machinery & Equipment Import & Export Company	32,901,668.00 31,052,200.00	- 31,052,200.00	32,901,668.00 -	- -
	China Aidi Hu'nan Huadi International Trade Company	23,414,256.59 23,119,070,20	- 23,119,070,20	23,414,256.59 -	- -
	Beijing Fu Yi Tong Import & Export Company	22,978,226.51	-	-	22,978,226.51

(ii) Other receivables

Ageing of amount due from third parties	2000		1999		Provision for doubtful debts		Provision for doubtful debts	
	Rmb	%	Rmb	%	Rmb	%	Rmb	%
Within 1 year	173,360,503.27	46	-	111,675,934.00	34	-	-	-
1 to 2 years	100,572,756.09	27	-	137,924,356.00	43	-	-	-
2 to 3 years	35,954,701.99	10	(14,383,346.81)	26,740,539.00	8	(18,998,915.00)	-	-
3 to 4 years	24,536,444.10	6	(14,721,866.46)	48,303,085.00	15	(48,303,085.00)	-	-
Over 4 years	41,136,044.96	11	(41,136,044.96)	-	-	-	-	-
Total	375,560,450.41	100	(70,241,258.23)	324,643,914.00	100	(67,302,000.00)		

doubtful debts (70,241,258.23) (67,302,000.00)

Net other receivables 305,319,192.18 257,341,914.00

All of the Company's other receivables outstanding at 31 December 2000 is due within one year, except for the loans to a third party company as mentioned below.

Included in other receivables as at 31 December 2000 are loans of Rmb96,000,000 which were granted to a third party company ("borrower"). These loans were lent to that company and 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. The directors have also undertaken to liquidate the secured assets and recover the debt if no cash repayment is received by 31 December 2000. However, no repayment of the principal and interest has been received to date. Properties pledged for the loan amounting to Rmb50 million were replaced by a pledge of shareholding in the above third party company, which is owned by a common shareholder of the borrower. As shown in the audited accounts of that company as at 31 December 2000, the audited net assets of that company was Rmb129,172,537.99, of which 97.68% was attributable to that shareholder.

The Company did not take any action to liquidate the secured assets to recover the remaining loan. For prudence, no interest has been accrued in respect of the year ended 31 December 2000 and the interest recognised in previous years has been provided for in 1999. The directors are of the opinion that the debt can be recovered from the secured assets and therefore no provision was made.

Other than the loans of Rmb96,000,000 granted to a third party company mentioned above, the other four largest other receivables at 31 December 2000 are as follows:

Unit	Ageing						Reason for outstanding balance
	Total Rmb	Within 1 year Rmb	1 - 2 year Rmb	2 - 3 years Rmb	3 - 4 years Rmb	Over 4 years Rmb	
Shenbian No. 5 Sub-factory	7,864,657.10	2,085,156.31	4,823,956.15	955,544.64	-	-	Sales of raw materials
7,414,939.16	2,267,035.70	317,609.00	1,464,139.04	2,976,546.35	389,609.07		
Shengao South Factory	7,414,939.16	2,267,035.70	317,609.00	1,464,139.04	2,976,546.35	389,609.07	Sales of raw materials
7,389,002.46	3,015,301.67	3,528,291.19	845,409.60				
Shenbian No. 4 Sub-factory	7,389,002.46	3,015,301.67	3,528,291.19	845,409.60	-	-	Sales of raw materials
	6,969,668.91	887,826.81	6,081,842.10				

Shenbian No. 7 Sub-factory	6,969,668.91	887,826.81	6,081,842.10	-	-	-	Sales of raw materials
----------------------------	--------------	------------	--------------	---	---	---	------------------------

3. ADVANCES TO SUPPLIERS

Ageing analysis of advances to suppliers is as follows:

Ageing:	2000		1999	
	Rmb	%	Rmb	%
Within 1 year	283,153,841.22	71	85,037,557.00	92
1 to 2 years	55,168,941.31	14	7,372,065.00	8
2 to 3 years	38,191,741.74	10	3,000.00	-
Over 3 years	21,392,991.34	5	-	-
Total	397,907,515.61	100	92,412,622.00	100

The five largest advances to suppliers at 31 December 2000 are all due to purchase of raw materials. Details are as follows:

Name of customers	Amount Rmb	Outstanding period	Reason for outstanding
Shun Xing Electricity & Transmission & Transformation Co., Ltd.	12,452,345.72	1-2 年	Purchase of raw materials
	12,452,345.72	1-2 years	
	10,600,000.00	Within 1 year	Purchase of raw materials
	10,600,000.00		
	8,561,175.00	Within 1 year	Purchase of raw materials
8,561,175.00			
7,656,325.55	1-2 years	Purchase of raw materials	
7,656,325.55			
6,574,670.84	1-2 years	Purchase of raw materials	
6,574,670.84			

4. INVENTORIES AND PROVISION FOR LOSS ON REALIZATION

Item	2000		1999	
	Cost Rmb	Provision Rmb	Cost Rmb	Provision Rmb
Raw materials	134,009,248.27	(23,244,686.71)	152,351,744.00	(17,599,680.00)
Low value consumables	2,024,084.85	-	1,278,139.00	-
Work in progress	99,444,731.30	(450,127.58)	138,956,345.00	(18,711,618.00)
Finished goods	116,991,423.98	(17,610,228.60)	152,557,989.00	(6,159,512.00)
Total	352,469,488.40	(41,305,042.89)	445,144,217.00	(42,470,810.00)

Provision for loss on realisation of inventories is based on the difference between the cost and the net realisable value of inventories at year end.

5. DEFERRED EXPENSES

Item	1 Jan 2000 Rmb	Additions Rmb	Amortization Rmb	31 Dec 2000 Rmb
Heating expenses	-	1,943,174.88	(979,669.52)	963,505.36
Insurance	-	11,931,708.91	(10,420,885.30)	1,510,823.61
Others	423,468.00	-	(136,856.08)	286,611.92
Total	423,468.00	13,874,883.79	(11,537,410.90)	2,760,940.89

Note: Heating expenses and insurance are incurred and amortised continuously.

6. LONG TERM INVESTMENTS

Consolidated	1 Jan 2000		31 Dec 2000		Provision Rmb
	Balance Rmb	Provision Rmb	Increase Rmb	Decrease Rmb	
Other equity investments	22,642,480.00	(3,419,236.00)	-	(2,042,915.00)	20,599,565.00 (6,014,965.33)
Investments in associated companies	7,067,996.00	-	865,564.99	-	7,933,560.99 -
Investments in debentures	600,607.00	-	869,341.00	-	1,469,948.00 -

Total	30,311,083.00	(3,419,236.00)	1,734,905.99	(2,042,915.00)	30,003,073.99	(6,014,965.33)
-------	---------------	----------------	--------------	----------------	---------------	----------------

	Company 1 Jan 2000 Balance Rmb	Increases Rmb	Decreases Rmb	31 Dec 2000 Balance Rmb
Other equity investments	10,000,000.00	-	-	10,000,000.00
Investments in associated companies	4,068,349.00	309,657.25	-	4,378,006.25
Investments in subsidiaries	1,148,756,445.00	333,358,700.00	(446,774,487.66)	1,035,340,657.34
Total	1,162,824,794.00	333,668,357.25	(446,774,487.66)	1,049,718,663.59

(i) Other equity investments

Name of investee	Equity interest %	Consolidated 2000 Rmb	Company 2000 Rmb
Jinzhou City Co-operative Bank	8.61	10,000,000.00	10,000,000.00
Northern Securities Stocks Co., Ltd.	1.36	-	-
Bank of Communications	0.84	1,000,000.00	-
Shenyang Risk & Credit Co., Ltd.	1.60	1,000,000.00	-
Others		8,599,565.00	-
Total		20,599,565.00	10,000,000.00
Provision for diminution in value		(6,014,965.33)	-
Long-term investments - net		14,584,599.67	10,000,000.00

(ii) Investments in associated companies

Name of investee	Company	1999	2000	1999
Consolidated	2000	Rmb	Rmb	Rmb
	Rmb	Rmb	Rmb	Rmb
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	4,068,349.00	4,068,349.00	4,378,006.25	4,068,349.00
Lingrong Insulation Material Factory	700,000.00	700,000.00	-	-
Jinzhou Jinrong Electrical Equipment Co., Ltd.	1,537,500.00	525,000.00	-	-
Jinzhou Jinrong Reactor Manufacture Co., Ltd.	175,000.00	175,000.00	-	-
Cost of Investment	6,480,849.00	5,468,349.00	4,378,006.25	4,068,349.00
Share of profits of associated companies	1,452,711.99	1,599,647.00	-	-
Total	7,933,560.99	7,067,996.00	4,378,006.25	4,068,349.00

Details of the associated companies all of which are established and operating in the PRC are as follows:

	Registered capital2000 Rmb million%	Percentage of shareholding held Principal 1999activities %
Held by the Company		
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	8.00 8.0049.00	49.0049.00 49.00Manufacture of transformers and transmission equipment

Held by a subsidiary

2.20	32.00	32.00	
Lingrong Insulation Material Factory	2.20	32.00	32.00 Manufacture of insulated materials
Jinzhou Jinrong Reactor Manufacture Co., Ltd.	0.50 0.50	35.00 35.00	35.00 Manufacture of electrical equipment
Jinzhou Jinrong Electrical Equipment Co., Ltd.	3.00 51.25	35.00 51.25	35.00 Manufacture of reactors

Note: the holding in Jinzhou Jinrong Reactor Manufacture Co. Ltd. held by a subsidiary was increased from 35% to 51.25% in September 2000. As its total assets, amounted to Rmb13,140,000, represented only 0.3% of the consolidated total assets, it was not material to consolidate in the consolidated financial statements of the year.

(iii) Investments in debentures

Type of debenture	Face value Rmb	Annual Interest %	Purchased Price Rmb	Maturity date
Electricity bonds	359,871.00	10.00	359,871.00	2001
Treasury bonds	1,900.00	6.00	1,900.00	2001
Others	1,108,177.00	10.00	1,108,177.00	2002
Total	1,469,948.00		1,469,948.00	

(iv) Investments in subsidiaries

Item	At beginning of year Rmb	Additions Rmb	Disposals Rmb	At balance sheet date Rmb
Unlisted investments at cost	1,052,524,800.00	333,358,700.00	-	1,385,883,500.00
Amount due from subsidiaries	173,764,272.00	-	(28,536,484.05)	145,227,787.95
Share of subsidiaries' reserves	(77,532,627.00)	-	(418,238,003.61)	(495,770,630.61)
Total	1,148,756,445.00	333,358,700.00	(446,774,487.66)	1,035,340,657.34

Details of the Company's subsidiaries are described in Note V(1).

7. FIXED ASSETS AND ACCUMULATED DEPREICATION

Item	Buildings Rmb	Plant, machinery and equipment Rmb	Motor vehicles and others Rmb	Total Rmb
Cost				
At 1 January 2000	737,726,239.00	823,112,233.00	85,611,680.00	1,646,450,152.00
Reclassification	(3,294,548.42)	(215,982,494.14)	219,277,043.51	0.95
At 1 January 2000	734,431,690.58	607,129,738.86	304,888,723.51	1,646,450,152.95
Transferred from construction in progress	1,723,396.53	11,799,242.94	36,429,700.12	49,952,339.59
Additions	393,397,940.18	31,939,211.94	11,743,503.45	437,080,655.57
Disposals	(47,489,576.87)	(6,265,596.96)	(36,510,127.21)	(90,265,301.04)
At 31 December 2000	1,082,063,450.42	644,602,596.78	316,551,799.87	2,043,217,847.07

Accumulated depreciation					
At 1 January 2000	198,404,650.00	378,608,789.00	39,728,010.00	616,741,449.00	
Reclassification	3,126,451.82	(123,479,748.81)	120,353,296.05	(0.94)	
At 1 January 2000	201,531,101.82	255,129,040.19	160,081,306.05	616,741,448.06	
Charge for the year	33,655,531.57	33,566,655.58	36,192,747.92	103,414,935.07	
Disposals	(11,932,857.91)	(1,744,960.62)	(17,644,906.91)	(31,322,725.44)	
At 31 December 2000	223,253,755.48	286,950,735.15	178,629,147.06	688,833,657.69	
Net book value					
At 31 December 2000	858,809,694.94	357,651,861.63	137,922,652.81	1,354,384,189.38	
At 31 December 1999	539,321,589.00	444,503,444.00	45,883,670.00	1,029,708,703.00	

- (a) All the Group's buildings are located in the PRC.
- (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.
- (c) At 31 December 2000, the net book value of fixed assets pledged as security for the Group's loans amounted to Rmb664,359,151 (1999: Rmb791,818,918).

8. CONSTRUCTION IN PROGRESS

Project name	1 Jan 2000 Rmb	Additions Rmb	Transferred to fixed assets Rmb	31 Dec 2000 Rmb	Source of funds	Completion/ progress percentage
Hydroelectric project	41,804,040.61	31,976,785.57	(33,604,752.07)	40,176,074.11	Bank	73
Insulation workshop	1,785,568.00	1,370,310.70	-	3,155,878.70	Bank	95
Transformer substations	7,621,632.00	37,099.00	(2,173,000.00)	5,485,731.00	Bank	95
Boiler house	7,592,158.00	4,544,120.10	-	12,136,278.10	Bank	95
Kingdom Hotel 24 & 25/F	-	11,316,088.21	-	11,316,088.21	Bank	90

Transformer	2,614,109.00	46,563,222.33	-	49,177,331.33	Bank	37
Others	29,885,831.05	18,628,101.21	(14,174,587.52)	34,339,344.74	Bank & internal	
Total	91,303,338.66	114,435,727.12	49,952,339.59	155,786,726.19		

In 2000, interest expenses of approximately Rmb14,012,264.01 (1999: Rmb10,772,256) were capitalized as part of construction in progress at annual rates ranging from 7% to 10% (1999: 7% to 11%).

9. INTANGIBLE ASSET

	Original cost Rmb	1 Jan 2000 Rmb	Amortization for the year Rmb	31 Dec 2000 Rmb	Remaining life
Land use rights	169,955,235.00	153,720,950.00	3,407,543.37	150,313,406.63	44 years

The relevant authorities have granted the Group the rights to use the land for fifty years effective from 31 May 1994.

10. OTHER LONG TERM ASSETS

Consolidated	Company 2000 Rmb	1999 Rmb	2000 Rmb	1999 Rmb
Long term deposit	165,562,000.00	165,586,000.00	165,562,000.00	165,586,000.00
Amount due by NET NET and other related parties (Note V (5))	161,508,536.80	496,441,713.00	133,256,033.30	410,812,251.00
Total	327,070,536.80	662,027,713.00	298,818,033.30	576,398,251.00

Long term deposit of Rmb165,562,000 at 31 December 2000 (1999: Rmb165,586,000) represented a 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. For further details on the restriction on use of this deposit refer to Note 18 (a).

11. HOUSING FUND

The net deficit of 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 net deficit in respect of employee quarters purchased after the Reorganisation is carried in the housing fund account. According to the requirements issued by the Ministry of Finance and other local requirements, the subsidiaries' unamortised balances up to the date as specified in the document were written off to accumulated losses and discretionary common reserve. These changes reduced shareholders' equity of the subsidiaries and the Company had made adjustments in provision for diminution in value of long term investment and accumulated losses accordingly.

	Brought Forward From Reorganisation Rmb	Purchased after Reorganisation Rmb
Net book value of employee quarters sold up to 1 January 2000	36,800,000.00	45,434,000.00
Transferred during the year	-	29,854,221.46
Net book value of employee quarters sold up to 31 December 2000	36,800,000.00	75,288,221.46
Net deficit arising from sale at beginning of year	25,390,000.00	30,035,785.24
Changes during the year	-	31,461,648.83
Net deficit arising from sale	25,390,000.00	61,497,434.07
Of which:		
Deficit recharged to NET	25,390,000.00	-
Written off to accumulated losses	-	16,782,122.03
Written off to discretionary common reserve	-	44,715,312.04
At end of year	-	-

12. LONG TERM DEFERRED EXPENDITURE

Item	1 January 2000 Rmb	Additions Rmb	Amortization Rmb	31 December 2000 Rmb	Original Cost Rmb
Input tax credit	2,436,763.00	-	(598,432.43)	1,838,330.57	
Arrangement, agency and related fees	4,692,256.00	2,315,219.00	(5,255,606.15)	1,751,868.85	13,103,603.49
Total	7,129,019.00	2,315,219.00	(5,854,038.58)	3,590,199.42	

- (a) In May 1998, the Group incurred arrangement, agency and related fees in respect of certain syndicated loans (Note 18(a)). This expenditure is being amortized over the term of the syndicated loans of three years.
- (b) 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 1994. The relevant PRC tax authority has confirmed that the input tax credit outstanding as at 31 December 2000 of Rmb1,838,330.57 can be recovered in 2001.

13. SHORT TERM LOANS

Item	2000 Rmb	1999 Rmb
Secured against		
* fixed deposits	164,350,000.00	156,300,000.00
* fixed assets	536,830,000.00	416,330,000.00
Sub-total	701,180,000.00	572,630,000.00
Unsecured	-	692,913,249.00
Guaranteed	671,484,231.71	17,260,000.00
Total	1,372,664,231.71	1,282,803,249.00

Details of loans overdue at 31 December 2000 are as follows:

	Principal Lender	Notes
Industrial & Commercial Bank of China	10,000,000.00	Extended in 2001
China Merchant Bank	1,810,000.00	Extended in 2001
China Construction Bank	11,000,000.00	Extended in 2001
	1,000,000.00	Extended in 2001
Agricultural Bank	1,000,000.00	Extended in 2001
Total	24,810,000.00	

Included in the short term loans at 31 December 2000 are US\$ denominated loans of Rmb 165,516,031.71 (equivalent to US\$19,994,447.00) (1999: Rmb165,590,968.00) bearing annual interest of about 7%) bearing annual interest of about 8%. The remaining balance of the short term loans are denominated in Renminbi and bear interest ranging from 5% to 9% per annum (1999: 6% to 10%).

14. ACCOUNTS PAYABLE

Ageing	At balance sheet date Rmb	Amount due to related parties Rmb	Amount due to third parties Rmb
Within 1 year	559,640,338.68	14,821,970.02	544,818,368.66
1 - 2 years	26,424,714.51	-	26,424,714.51
2 - 3 years	33,196,432.38	-	33,196,432.38
Over 3 years	46,612,061.69	-	46,612,061.69
Total	665,873,547.26	14,821,970.02	651,051,577.24

15. TAXES PAYABLE/(REFUNDABLE)

Item	2000 Rmb	1999 Rmb
Value added tax refundable	(15,873,955.28)	(14,700,205.00)
Income tax (refundable)/payable	(1,389,583.54)	(1,340,554.00)
City construction tax (refundable)/payable	(901,652.92)	1,426,818.00
Business tax payable	175,457.83	226,956.00
Others	1,532,312.91	1,382,839.00
Total	(16,457,421.00)	(13,004,146.00)

16. Accrued Expenses

17. Current Portion of Long Term Loans

Included in the year end balance of Rmb240,834,666.67 was an amount of US\$13,333,333.33 (Rmb110,374,666.67) bank syndicate loan which is due within one year.

18. Long Term Loans

(a) Details of the US\$ loans are as follows:

US\$ bank loans of Rmb331,124,000.00 (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*(r)) 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 IV (10)). 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.

The first instalment of the loan repayment will be due in May 2001. As the Company did not have sufficient fund to repay the instalment, it had requested the syndicate for an extension of repayment and it was still in progress. The portion which will be due in May 2001 had been reclassified to the current portion of long term loan.

Principally as a result of the losses in 1999 and 2000, the Company has breached certain financial covenants given to the syndicate in connection with these loans. If the request for extension of repayment was not granted by the syndicate, 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. The directors believe that it is possible that the syndicate will grant such an extension. Consequently, no adjustment has been made to reclassify these long term loans to current liabilities 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:

Rmb loans due after 1 year:

Rmb loans due within 1 year

Total Rmb loans of Rmb471,760,000.00 at 31 December 2000 are unsecured except for Rmb 34,000,000 which is secured against fixed assets (Note IV 18(b)). These loans bear interest ranging from 4% to 10% per annum. (1999: 4% to 10%).

19. SHARE CAPITAL

The share capital of the Company is divided into the following classes of ordinary shares with par value of Rmb1 each:

Item	2000	1999
	Rmb	Rmb
Non-listed Domestic shares		
State shares	450,520,000.00	450,520,000.00
Legal person shares	21,300,000.00	21,300,000.00
Sub-total	471,820,000.00	471,820,000.00
Listed shares		
'H' shares	257,950,000.00	257,950,000.00
Domestic 'A' shares	143,600,000.00	143,600,000.00
Sub-total	401,550,000.00	401,550,000.00
Total number of shares in issue	873,370,000.00	873,370,000.00

- (a) Listed Domestic 'A' shares represent shares listed on the Shenzhen Stock Exchange. On 26 January 1999, 113,600,000 employee shares were eventually listed on the Shenzhen Stock Exchange for open circulation.
- (b) Shares listed on the Stock Exchange of Hong Kong Limited are denoted as 'H' shares.
- (c) All the Domestic and 'H' shares rank pari passu in all respects.

20. CAPITAL SURPLUS

Capital surplus which can only be used to increase the Company's share capital comprises:

Item	2000 Rmb	1999 Rmb
Share premium-net of listing expenses	115,547,484.00	115,547,484.00
Capital surplus arising on original restructuring of the Group in 1994	487,846,237.00	487,846,237.00
Total	603,393,721.00	603,393,721.00

21. ACCUMULATED FUND

	Statutory common reserve Rmb	Statutory provident fund Rmb	Discretionary common reserve Rmb	Total Rmb
Balance at 1 January 2000	47,236,581.99	31,807,704.00	73,000,000.00	152,044,285.99
Transferred for the year	48,853.15	-	-	48,853.15
Housing fund	-	-	(44,715,312.04)	(44,715,312.04)
Balance at 31 December 2000	47,285,435.14	31,807,704.00	28,284,687.96	107,377,827.10

- (a) 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. 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 transfer of a subsidiary made in last year.

21. ACCUMULATED FUND

- (b) According to their respective Articles of Association, the Company and each of its subsidiaries are required to allocate 5% to 10% of their profit after taxation to the statutory provident fund. No transfer to this fund have been proposed by the directors for the year ended 31 December 2000.
- (c) 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 discretionary common reserve have been proposed by the directors for the year ended 31 December 2000 (1999: nil).

22. (ACCUMULATED LOSSES)/UNDISTRIBUTED PROFIT

	Consolidated Rmb	Company Rmb
At beginning of year	(78,149,960.00)	(76,902,265.42)
Loss for the year	(363,597,324.39)	(363,597,324.39)
Effect of the balance of housing fund written off to undistributed profit	(16,782,122.03)	*(61,497,434.07)
Transfer to statutory common reserve	(48,853.15)	-
Transfer to statutory provident fund	-	-
At end of year	(458,578,259.57)	(501,997,023.88)

* the effect of the written off of the balance of housing fund to undistributed profit because of the written off of the unamortised housing fund by subsidiaries reduced the shareholders' equity. The long term investment and undistributed profit of the Company were also reduced accordingly.

23. SALES REVENUE AND COST OF SALES

(i) Sales revenue

	2000 Rmb	1999 Rmb
Items		
Transformers	763,931,084.86	779,961,246.00
High-voltage breakers	403,768,252.91	505,138,020.00
Power capacitors	106,763,259.38	88,992,368.00
Catering and entertainment	25,437,539.50	-
Others	20,148,054.73	32,834,531.00
Total	1,320,048,191.38	1,406,926,165.00

(ii) Cost of sales

	2000	1999
	Rmb	Rmb
Items		
Transformers	619,977,751.44	643,862,479.00
High-voltage breakers	411,711,125.44	367,531,787.00
Power capacitors	79,564,216.14	63,592,738.00
Catering and entertainment	14,321,248.76	-
Others	18,911,287.34	19,995,688.00
Total	1,144,485,629.12	1,094,982,692.00

24. OTHER OPERATING INCOME

	2000	1999
	Rmb	Rmb
Items		
Profit on sale of raw materials	808,030.47	4,101,614.00
Others	11,679,439.69	15,459,410.00
Total	12,487,470.16	19,561,024.00

25. FINANCIAL EXPENSES/(INCOME)

	2000	1999
	Rmb	Rmb
Items		
Interest income from:		
Banks	(22,792,876.40)	(23,336,391.00)
Third party: provision for interest previously recognized	-	3,010,000.00
A related party	(13,246,403.40)	(21,229,429.00)
	(36,039,279.80)	(41,555,820.00)
Interest expense	132,156,450.36	127,885,480.00
Exchange gain	(280,485.32)	(12,000.00)
Exchange loss	138,168.51	115,068.00
Others	6,032,945.72	5,750,975.00
Total	102,007,799.47	92,183,703.00

26. INVESTMENT INCOME/(LOSS)

	Consolidated		Company	
	2000	1999	2000	1999
	Rmb	Rmb	Rmb	Rmb
Interest on debentures	(2,913.50)	38,541.00	-	-
Share of subsidiaries' loss	-	-	(356,300,888.10)	(158,035,038.00)
Share of associated companies' profit	4,241,561.07	1,599,647.00	309,653.85	-
Others	(1,642,803.93)	330,722.00	-	190,000.00
Total	2,595,843.64	1,968,910.00	(355,991,234.25)	(157,845,038.00)

27. NON-OPERATING INCOME

Items	2000	1999
	Rmb	Rmb
Value added tax refunds	-	350,000.00
New product, export and other tax refunds	-	3,570,000.00
Others	1,833,314.43	2,998,960.00
Total	1,833,314.43	6,918,960.00

28. DIVIDEND

The directors do not intend to propose any dividend for the year. The profit appropriation of subsidiaries was related to the net profit of last year.

29. The cash paid in respect of operating activities of Rmb159,066,192.62 was mainly paid for selling, general and administrative expenses.
30. The cash received from other investing activities of Rmb1,721,555.37 was the cash balances of Kingdom Hotel at the acquisition date when this subsidiary was acquired by the Company.
31. Cash received in respect of other financing activities of Rmb56,393,398.35 was fund raised from borrowings from institutions other than bank and financial institutions to the Company.

V. RELATED PARTIES AND RELATED TRANSACTIONS

(1) The registered capital and the percentage of shareholding owned by the Company in respect of related parties controlled by the Company are shown below.

All of these entities below are registered in the PRC:

Company	Status of company	Relationship	Legal representative	Principal activities	Registered capital Rmb'000	Percentage share holding 2000 %	1999 %
Shenyang Transformers Ltd.	Limited liability company	Subsidiary		Manufacture of transformers			
Shenyang High-voltage Switchgears Ltd.	Limited liability company	Subsidiary	Gao Jinzhu	Manufacture of switchgears, circuit breakers and disconnectors			
Jinzhou Power Capacitors Ltd.	Limited liability company	Subsidiary		Manufacture of surge arrestors and power capacitors			
Jinzhou Jinrong Electrical Equipment Co., Ltd.	Limited liability company	Subsidiary of Jinzhou Power Capacitors Ltd.		Manufacture of reactors			
Company	Status of company	Relationship	Legal representative	Principal activities	Registered capital Rmb'000	Percentage share holding 2000 %	1999 %
Fuxin Enclosed Busbars Ltd.	Limited liability company	Subsidiary	Zhou Renlao	Manufacture of enclosed busbars			
Kingdom Hotel Shenyang	Sino-foreign joint venture	Subsidiary	Huang Ping	Provision of hotel and catering services			
Shenyang Hua Kang Restaurant &	Sino-foreign joint venture	Subsidiary	Xiang Yongchun	Provision of entertainment services			

Company	Status of company	Relationship	Legal representative	Principal activities	Registered capital Rmb'000	Percentage share holding 2000 %	1999 %
Entertainment Ltd.							
Shenyang Shenbian ITU Manufacturing Ltd.	Limited liability company	Subsidiary of Shenyang Transformers Ltd.	Liang Xiangdong	Manufacture of transformers (ITU)			
Shenyang Shenbian Special Electric Equipment Ltd.	Limited liability company	Subsidiary of Shenyang Transformers Ltd.		Manufacture of transformers and transmission equipment and accessories			
Shenyang Shenbian Middle Transformer Ltd.	Limited liability company	Subsidiary of Shenyang Transformers Ltd.		Manufacture of transformers and reactors			

Note: All of the abovementioned subsidiaries except Jinzhou Jinrong Electrical Equipment Co., Ltd. have been included in the consolidated financial statements for the year ended 31 December 2000.

(2) The registered capitals of the related parties that are directly or indirectly controlled by the Company are as follows:

Name of enterprise	2000 Rmb	1999 Rmb
Held by the Company:		
Shenyang Transformers Ltd.	619,136,829.00	619,136,829.00
Shenyang High-voltage Switchgears Ltd. ("SHV")	358,747,636.00	335,747,636.00
Jinzhou Power Capacitors Ltd.	34,895,337.00	34,895,337.00
Fuxin Enclosed Busbars Ltd.	47,624,998.00	47,624,998.00
Kingdom Hotel Shenyang	310,358,700.00	-
Shengyang Hua Kang Restaurant & Entertainment Ltd.	15,120,000.00	15,120,000.00
Total	1,385,883,500.00	1,052,524,800

Held by a subsidiary:

Shenyang Shenbian ITU Manufacturing Ltd.	113,494,200.00	113,494,200.00
Shenyang Shenbian Middle Transformer Ltd.	17,000,000.00	-
Shenyang Shenbian Special Electric Equipment Ltd.	7,500,000.00	-
Jinzhou Jinrong Electrical Equipment Co., Ltd.	1,600,000.00	-
Kingdom Hotel Shenyang	34,484,300	-

The entire equity interest in Kingdom Hotel Shenyang was acquired from NET. 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 registered capital of Kingdom Hotel before the acquisition was Rmb20 million. Its registered capital was increased to Rmb150 million after the acquisition and the status of the company was changed to sino-foreign limited liability company. These changes have been approved by the relevant government departments.

- (3) There is no change in the Company's shares held by NET which controls the Company. NET is a state-owned enterprise established in the PRC with a registered capital of Rmb1,320,000. The legal representative of NET is Zuo Changlin. The value of shares held and the percentage shareholding of NET at 1 January 1999 and 31 December 2000 are as follows:

	Rmb	%
Shares in the Company held by NET	450,520,000.00	51.58

(4) 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 of 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.

	2000	1999
	Rmb	Rmb
Sales of finished goods:		
NET Import and Export Co.	16,363,247.86	6,446,067.00
NET Sales Co.	5,822,818.81	23,980,697.00
NET Xiamen Co.	(170,940.17)	-
Others	-	4,866,769.00
Sub-total	22,015,126.50	35,293,533.00

Purchase of raw material and spare parts:

	2000	1999
	Rmb	Rmb
Fushun Porcelain Factory	18,299,017.63	25,585,482.00
NET Equipment Co.	760,254.99	1,106,106.00
NET Industrial Development Co.	6,152,051.50	-
	6,359,257.33	-
	1,628,465.81	3,170,987.00
Sub-total	33,199,047.26	29,862,575.00
Settlement of staff loans on behalf of NET	(414,082.94)	12,199,501.00
Benefits for retirees incurred on behalf of NET	5,907,610.72	9,228,676.00
Rental paid to a related party	300,000.00	1,400,000.00
Service fees for use of employee quarters and other facilities due to NET	1,754,471.91	185,722.00
Sub-total	7,547,999.69	23,013,899.00

(5) Balance with related parties

	Consolidated Company			
	2000	1999	2000	1999
	Rmb	Rmb	Rmb	Rmb
Due from NET	73,081,432.18	57,010,131.00	58,706,022.83	59,872,293.00
Due from other related parties	159,082,103.66	510,455,888.00	74,550,010.47	350,939,958.00
Due to other related parties	(14,821,970.02)	(22,399,311)	-	-
Net amount receivable	217,341,565.82	545,066,708.00	133,256,033.30	410,812,251.00
Net amount receivable comprises:				
Trade accounts due from:				
NET Sales Co.	21,428,068.28	32,159,727.00	-	-
NET Import & Export Co.	28,527,694.50	32,898,282.00	-	-
Others	20,699,236.26	5,966,297.00	-	-
Included under accounts receivable	70,654,999.04	71,024,306.00	-	-
Trade accounts due to:				
Fushun Porcelain Factory	(5,012,890.60)	(20,301,024.00)	-	-
NET Import & Export Co.	(7,800,000.00)	-	-	-
Others	(2,009,079.42)	(2,098,287.00)	-	-
Included under accounts payable	(14,821,970.02)	(22,399,311.00)	-	-
Non-trade accounts due from:				
NET	73,081,432.18	57,010,131.00	58,706,022.83	59,872,293.00
NET Finance Co.				
- Deposits placed	78,318,615.12	366,308,484.00	64,383,520.97	279,687,039.00
- Interest receivable	10,060,250.00	72,664,099.00	9,970,250.00	71,074,587.00
	88,378,865.12	438,972,583.00	74,353,770.97	350,761,626.00
Others	48,239.50	458,999.00	196,239.50	178,332.00
Included under other long term assets	161,508,536.80	496,441,713.00	133,256,033.30	410,812,251.00
Net amount receivable	217,341,565.82	545,066,708.00	133,256,033.30	410,812,251.00

Regarding the amount receivable from NET and the related parties, a recovery agreement was signed between the Company and NET on 9 April 1999. However, NET had not fully honoured its obligation under the above recovery agreement. As disclosed in the Company's 1999 annual report, NET had undertaken to transfer all the equity interest in Kingdom Hotel at a consideration of Rmb344,843,000 to the Company as it could not settle the indebtedness by cash consideration. It was first used to settle the deposits and interest receivable placed by the Group with NET Finance Company, then used to settle the remaining indebtedness. The consideration was therefore used to offset partially the receivables from NET and the related parties. The consideration of Rmb344,843,000 is principally based upon a valuation of the property by Sallmans (Far East) Limited ("Sallmans") and Zhonghe Certified Public Accountants. The valuation by them was based on the open market basis and it was assumed that the property would be converted into a wholly office building. 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 the competition in the rental market of office buildings in Shenyang district is becoming more serious. In addition, Kingdom Hotel has been granted a four star grading. Therefore, it is appropriate to continue the hotel business in order to have a better return.

A new debt settlement agreement was signed on 22 December 2000 between the Company, NET and NET Finance Company. The key features of which are as follows:

- (i) 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 in wholly-owned subsidiaries of NET such as 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.
- (ii) 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 assets had not been valued by an independent professional valuer and are subject to the approval of relevant government authority and non-controlling shareholders of the Company. As the transfer is still in progress, no provision has been made in these financial statements against the amount due from NET and other related companies amounting to Rmb217,341,565.82 (comprised of trade receivables of Rmb70,654,999.04, trade payables of Rmb14,821,970.02 and other receivables of Rmb161,508,536.80) at 31 December 2000.

VI. MAJOR TRANSACTIONS

During the year, the Company had acquired the entire interest in a subsidiary, Kingdom Hotel Shenyang, which was satisfied by way of an asset transfer with NET. The consideration of acquisition Rmb344,843,000 was used to set off the amounts due from NET and related companies.

VII. COMMITMENTS

The Company has no commitment.

VIII. POST BALANCE SHEET EVENTS

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 V(5)), 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.

IX. CONTINGENT LIABILITIES

At 31 December 2000, no guarantee was given by the Group to any company outside the Group whilst guarantees amounting to Rmb216,007,231.17 (1999: Rmb204,345,000) were granted by the Company in respect of banking facilities used by its subsidiaries.

X. ANALYTICAL REVIEW FOR ITEMS THAT HAVE VARIANCES OF OVER 30% WHEN COMPARED WITH LAST YEAR

The major reasons for the significant variances for the items in the consolidated financial statements of the Company as at 31 December 2000 and 31 December 1999 were mainly due to the acquisition of 3 subsidiaries during the year.

(1) Consolidated financial statements

1. the increase in advances to suppliers by 331% was due to invoices not received yet;
2. the increase in provision for permanent diminution in value of long term investments by 76% was due to the increase in provision during the year;
3. the increase in construction in progress by 71% was due to increase in investment of the Transformer Project and other projects;
4. the decrease in other long term assets by 51% was due to the set off of consideration in acquisition of Kingdom Hotel with the amount due from NET;

5. the increase in accounts payable by 93% was due to the increase in unsettled material purchases;
6. the decrease in accrued expenses by 44% was due to the decrease in unpaid loan interest at the balance sheet date;
7. the increase in current portion of long term liabilities by 60% was due to one-third of the loan from syndicate will be matured within one year;
8. due to keen market competition, the Company increased the use of imported raw materials and the sales prices were kept constant in order to increase its competitiveness and market share. This led to the decrease in sales revenue by 7%, the increase in cost of sales by 5% and profit on sales decrease by 45%.
9. the increase in selling expenses by 73% was due to the increase in business trips, marketing, consultancy and transportation expenses. The transportation expenses increased about Rmb40 million during the year.

(2) The Company

1. the decrease in general and administrative expenses by 75% was due to the Company received reimbursement of the expenses from the subsidiaries. These were eliminated in the consolidated financial statements;
2. the increase in financial expenses by 297% was due to the decrease in interest income received from NET and related companies.

XI. APPROVAL OF ACCOUNTS

The accounts for the year were approved by the board of directors on 20 April 2001.