

V. Material Matters

1. The Company recommends no profit distribution and no increase in share capital by converting from capital reserve for the interim period.
2. The Company did not make profit distribution and there was no increase in share capital by converting from capital reserve for 2000.
3. Material Litigation and Arbitration:
 - (1) On 1 June 2001, the Company received a writ from the High Court of Hong Kong in respect of a dispute relating to an overdue borrowing instituted against the Company by a banking consortium led by 中芝興業財務公司 demanding repayment of the principal of USD40,000,000 and interest of USD1,632,944.44 The Company is currently actively examining and seeking measures to be taken in relation to this matter. At present, the normal production, operations and financial position of the Company are not affected temporarily.
 - (2) None of the directors, supervisors and senior management of the Company was engaged in any material litigation or arbitration of material importance.
4. Related Parties and Connected Transactions
 - a. Related Enterprises (*Unit: Rmb'000*)

Names	Nature	Relationship	Legal representative	Registered address	Registered Capital	Shareholding
Northeast Electrical Transmission and Transformation Equipment Group Corp. ("NET")	State-owned	Holding Company	Zhou Baoyi	No. 189 Taiyuan South Street, Shenyang	1,320,000	43.57%
Fushun Porcelain Factory	State-owned	a subsidiary of the Holding Company	Lu Pusheng	2 Li Quan Road, Fushun	148,727	Nil
NET Sales Co.	State-owned	a subsidiary of the Holding Company	Shi Yanping	No. 189 Taiyuan South Street, Shenyang	1,500	Nil
NET Import and Export Co.	State-owned	a subsidiary of the Holding Company	Shi Yanping	No. 189 Taiyuan South Street, Shenyang	499	Nil

b. Connected Transactions

Parties	Nature of the transactions	Jan-June 2001 <i>Rmb</i>	Jan-June 2000 <i>Rmb</i>
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Fushun Porcelain Factory	Purchase of raw materials	6,275,406	15,964,334
Net Import and Export Co.	Purchase of raw materials	18,147,386	6,483,000
Net Import and Export Co.	Sale of products	28,811,985	517,592
NET Sales Co.	Sale of products	3,820,840	963,258

5. On 9 March 2001, the Company held an extraordinary general meeting, at which 13 people including Messrs. Xiang Yunchun, Zhou Baoyi, Huang Ping, Li Bin, Liu Yongshun, Li Jinbiao, Lu Minglin, Liu Jie, Gao Jinzhu, Guan Weili, Xing Yujiu, Gao Chuang and Kang Jinjiang were elected as members of the 3rd board of directors and Mr. Xiang Yunchun was elected as the chairman. In addition, Mr. Wu Qingwei, Ms. Liu Zhong and Ms. Liang Jie were elected at the extraordinary general meeting to be 5 members of the 3rd supervisory committee together with staff representatives Mr. Luo Guiliang and Mr. Zhang Hongliang. Mr. Wu Qingwei was appointed the chairman of the supervisory committee for three years.
6. Explanation of the implementation of the matters described in auditors' report for 2000:
 - (1) Syndicated loan: please refer to item 3 under Material Matters.
 - (2) Execution of Recovery Agreement: the Company had an amount of Rmb217,341,565.82 due from the holding company as at 31 December 2000. The holding company undertook that the outstanding amount will be settled by its interest in a Sino-foreign cable manufacturing enterprise and other valid assets. The settlement is in progress.
 - (3) Loans to a third party company: the Company appointed a lawyer to recover the loans as soon as possible through legal action. The debtor is also proposing a corresponding repayment plan.
7. Auditors: As approved at the Annual General Meeting at 6 June 2001, Moores Rowland Certified Public Accountants and Hualun Certified Public Accountants were re-appointed as international and domestic auditors respectively of the Company.
8. Income tax rate:
 - (1) Income tax rate: the Company and its subsidiaries pay income tax at 33%. The relevant government authorities have approved on 8 March 1995 that any income taxes payable by the Company and its subsidiaries after 1 January 1996 which are in excess of 15% of their taxable profits will be refunded to the respective companies. According to 'Notice of Further Implementation of "Notice of Correction of Tax Rebate Policy Formulated by Local Government" issued by the State Council' (Cai Shui [2000] No. 99) and confirmed by Liaoning Province Ministry of Finance Liao Cai Qi Han Zi [2000] No. 3 document, the Company will continue to enjoy the preferential tax treatment to which the Company pays tax at the statutory rate of 33%

and then receives tax rebate at 18% (effective 15%) until 31 December 2001.

- (2) No provision for Hong Kong profit tax was made as the Company and its subsidiaries had no taxable profits in Hong Kong during the period.

9. Trust deposits and overdue fixed deposits:

As at 30 June 2001, the Group did not have any such deposits. In addition, the Group did not use any financial instruments other than those mentioned in the balance sheet.

10. Staff quarters: The Company did not make amortization of such expense during the reporting period.
11. Purchase, sale and redemption of shares: During the reporting period, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's shares.
12. Code of best practice: During the reporting period, all the directors and supervisors of the Company strictly complied with the Code of Best Practice as set out in Appendix 14 and Practice Note 19 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
13. The Company and its controlling shareholder maintained independence in terms of personnel, assets and finance during the period.
14. During the period, the Company did not trust, contract and lease assets of other companies of material importance or vice versa.
15. During the period, the Company did not provide guarantee for others.
16. During the period, no financial trust existed.
17. During the period, no acquisition, merger and asset reorganisation happened.