

### I. DISCUSSION AND ANALYSIS OF OVERALL OPERATIONS FOR THE REPORTING PERIOD

During the reporting period, the Company focused on capital operation and product operation to optimize its asset allocation. Based on the resumption of its listing in the previous year, the Company carried out strategic adjustments and achieved its goals, such as adjustments of its capital structure and principal activities, efficiency improvement in capital operation and the further corporate reform, thereby laying a solid foundation for a sustainable development and a beneficiary cycle for the Company.

During the reporting period, revenues from principal activities amounted to RMB627,658,732, and profits from principal activities amounted to RMB196,575,422. Net profit amounted to RMB25,960,057, down 62.38% from last year. As material changes have been made in the scope of the consolidation of the Company's financial statements, there are no comparability between revenues from principal activities and profits from principal activities for the reporting period and the counterparts of last year.

Major operating policies implemented during the reporting period were as follows:

1. Improve cost control and set out practicable and effective initiatives to increase income and reduce consumption, thereby improving profitability; cut down procurement costs for various materials, components and spare parts; on the basis of without compromise to product quality and manufacture quality, achieve an improvement in designed structure of products and production process as well as a reduction in material consumption.
2. Focus on organisation and management in production to maintain a good trend for the increasing production.
3. Speed up the evolvement of its core products: during the reporting period, 6 new products of the Company passed the certification for State Level New Products.
4. Strengthen various work including improvement in the product's quality, follow-up of the key projects and enhancement of its sales team. As a result, orders for the reporting period recorded a year-on-year increase of 10.7%.
5. Put more efforts in collection of accounts, settlement of receivables and clearance of the doubtful and bad accounts left for years.
6. Streamline the management tiers and improve the control on human resource costs.

## CHAIRMAN'S STATEMENT (Continued)

### II. OPERATION DURING THE REPORTING PERIOD

#### 1. Principal business, industry and the Company's status

The Company and its subsidiaries are the major base of manufacturing, research and export of electrical transmission and transformation equipment in China and the major supplier of electrical transmission and transformation equipment used for Three Gorges Project and electricity network transformation in cities and towns. The Company's principal business is the manufacture and sale of system protection and transmission equipment including closed composite electrical appliance, high-voltage switch, power capacitor and composite mother cable.

#### 2. Operational result for the year

The Company recorded a revenue of RMB627,658,732, total profit of RMB34,617,603 and the net profit of RMB25,960,057.

Principal operating and segmental information classified by business, product or region.

#### Principal operating and segmental information classified by business or product

Business or product	Revenue from principal operations	Cost of principal operations	Gross profit margin (%)	Increase/ decrease (%)	Increase/ decrease (%)	Increase/ decrease (%)
				in revenue from principal operations as compared to the preceding year	in cost of principal operations as compared to the preceding year	in gross profit margin as compared to the preceding year
<b>1. Business</b>						
Electrical Transmission and Transformation	596,785,713	402,124,911	32.62	-34.83	-34.29	-0.54
Accommodation and catering	30,873,019	23,917,209	22.53	-13.65	-4.94	-7.1
Including: connected transactions	—	—	—	—	—	—
<b>2. Product</b>						
High-voltage switch circuit breaker	396,008,514	264,916,601	33.10	-24.46	-26.47	1.82
Power capacitor	177,339,359	119,204,064	32.78	15.25	38.69	-11.36
Closed busbar	22,331,198	16,977,194	23.98	-17.87	-13.31	-3.95
Including: connected transactions	—	—	—	—	—	—

## CHAIRMAN'S STATEMENT *(Continued)*

### II. OPERATION DURING THE REPORTING PERIOD *(Continued)*

#### Principal operations in different regions

Regions	Revenue from principal operations	<i>Unit: RMB</i> Increase/decrease (%) of revenue from principal operations as compared to the preceding year
The PRC	568,684,310	-39.31
Overseas	58,974,422	308.69

#### 3. Operation and result of the controlling company and shareholding company

<i>Unit: RMB'000</i>							
Name	Principal Business	Registered capital	Percentage of share held by the Company	Total asset	Net asset	Principal Business Income	Net profit
Jinzhou Power Capacitor Company Limited	Power Capacitor	29,420	100	298,520	48,710	177,340	13,800
Fuxin closed mother Cable Company Limited	closed mother cable	18,090	100	38,730	16,840	23,440	-2,130
Shenyang Jindu Hotel	accommodation catering	150,000	90	290,870	239,890	30,870	-7,230
Shenyang High-voltage switchgear Company Limited	Switchgear	144,920	48.95	11,325,590	45,300	526,210	13,570

#### 4. Major suppliers and customers

Total volume of purchase from the Company's top five suppliers amounted to RMB43,980,000, representing 15% of the total volume of purchase. Total volume of sales to the Company's top five customers amounted to RMB175,680,000 representing 28% of the total sales volume. None of the Company's directors, Supervisors and their associates had any interests in the Group's top five suppliers at any time during the year.

## CHAIRMAN'S STATEMENT *(Continued)*

### II. OPERATION DURING THE REPORTING PERIOD *(Continued)*

#### 5. Problems and difficulties during operation and their solutions

China's entry into WTO resulted in reduction of tariffs and explosive growth of imported goods. Consequently, the competition is more heated than ever and the price for raw material keeps increasing. Apart from these challenges, the historical problems have also impacted on the Company's capital and assets. To enhance the Company's competitiveness and market share and improve earning level of the principal business, it has adopted the following measures:

1. timely adjusted and improved marketing strategies, optimized market structure, developed and cultivated products with high quality and low cost
2. strengthened the cooperation with internationally renowned corporation such as ABB, Hitachi and AE-POWER, implemented the newly introduced technology and facilitated the development of new product
3. strengthened organization and management of production by reasonable capital control, technology renovation and extension of working time; created positive environment for development of principal business
4. revolving around the two key areas: externally on marketing and improving product quality while internally on reducing costs and improving economic benefits; improved product quality and price ratio, optimized product design and reduce administrative expenses.

### III. INVESTMENT DURING THE REPORTING PERIOD

1. As at the end of reporting period, the balance of the Company's long term investment amounted to RMB42,160,000, representing a decrease of 47.76% over the previous year. It was mainly due to the Company's disposal of 42.5% interests in Shenyang Furukawa Cable Co. Ltd.
2. During the reporting period, the Company neither had any proceeds nor situation under which the usage of proceed prior to the reporting period needed to extend to the reporting period.
3. Major projects, progress and result of significant projects using investment other than proceeds

During the period, the Company invested in the interests of Northeast Electric (Hong Kong) Co., Ltd., which is principally engaged in the investment and trade with the registered address at Room 2606, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Company contributed HK\$7,000,000, representing 9% of its registered capital of HK\$77,000,000. (For details, please refer to the announcement dated 14 July 2003.)

#### **IV. FINANCIAL STATUS AND OPERATIONAL RESULTS FOR THE REPORTING PERIOD**

##### **1. Analysis of the Company's financial status under the PRC accounting standards**

*Unit: RMB*

<b>Items</b>	<b>January-December 2003</b>	January-December 2002	<b>Reasons for the changes</b>
Profit from principal business	196,575,422	307,191,845	A
Net profit	25,960,057	69,002,412	B
Net increase/decrease in cash and cash equivalent	-73,756,609	-226,167,418	C

Reasons for the changes:

- A: This change was due to the combined financial statement scope.
- B: This change was due to the additional operating expenses during the period for the provision for the estimated liabilities arising from the joint responsibility.
- C: This change was due to the additional cash expenses arising from the repayment for the overseas borrowings of US\$26,000,000 in the corresponding period of the prior year.

*Unit: RMB*

<b>Items</b>	<b>As at 31 December 2003</b>	As at 31 December 2002	<b>Reasons for the changes</b>
Total asset	989,638,645	1,912,003,964	A
Shareholders' interests	563,694,769	535,417,927	B

Reasons for the changes:

- A: This change was due to the combined financial statement scope.
- B: This change was due to the increase of net profit and capital public reserve.

##### **2. Analysis of the Company's financial status under the generally accepted accounting principles in Hong Kong**

As at 31 December 2003, the balance of monetary fund was RMB14,550,000.

There is no obvious seasonal principle in the Company's funding requirements.

The funds were mainly satisfied by: 1) the cash inflow from the company's operations and capital operation; and 2) the borrowings from the financial institutes.

## CHAIRMAN'S STATEMENT *(Continued)*

### IV. FINANCIAL STATUS AND OPERATIONAL RESULTS FOR THE REPORTING PERIOD *(Continued)*

#### 2. Analysis of the Company's financial status under the generally accepted accounting principles in Hong Kong *(Continued)*

As at 31 December 2003, the Company had the bank loans of RMB210,920,000, representing 21.31% of the total asset. These bank loans bear fixed interests.

The debt equity ratio of the Company was 37.4% (debt equity ratio = total bank loans/total share capital and reserve \* 100%).

As at 31 December 2003, the Company had net asset of RMB 41,630,000 as security.

Please refer to Note 45 to Financial Statements for the detail of the Company's contingent liabilities.

### V. OPERATING PLAN FOR THE NEW FISCAL YEAR

The Company will make great efforts to expand the market share, accelerate the pace for development of new products and lower cost, with an aim to increase the sales revenue. The Company intended to implement the following:

1. restructure the marketing system for a reasonable layout; focus on key projects for an increase in scale of orders, thereby achieving a breakthrough in market development.
2. launch 25 new products under the plan for pilot production; strengthen technical renovation to expand principal activities, and reinforce core technologies to improve product quality; speed up development and commercialization of research achievements, and enhance core competitive edge of the Company's core products, so as to increase market shares of products.
3. further strengthen tools for financial accounting and management for an improvement in performance, and promote efficiency to cut down costs effectively; focus on improvement in recruit system to motivate human resources.

### VI. RECENT ECONOMIC PROSPECT

Although the recently increasing demand for electricity is beneficial to the Company's market development, the industry competition is more severe. The significant growth of such key raw material as iron, copper, aluminum and finished oil will result in more production cost. Facing more operational difficulties, the Company will focus on improving economic benefits, realize two "breakthroughs" in sale and new products, optimize the sales structure, increase more profitable products and improve earning levels of the Company's assets.

By order of the Board  
**Luo Hong**

Shenyang, PRC  
7 April 2004