

# CHAIRMAN'S STATEMENT

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

During the reporting period, the Company focused on capital operation and productive operation in a proactive manner. Based on continuous profitability, the Company optimised its asset allocation and enhanced operating management to overcome the potential increase in expenses, and thereby accomplished adjustments to asset structure and principal activities. A steadily increasing momentum was maintained, laying a solid foundation for a further leap in development.

During the reporting period, revenues from principal activities amounted to RMB346.94 million. Net profit after extraordinary items amounted to RMB8.42 million. Major operating policies implemented during the reporting period were as follows:

- (1) Focus on scheduling, coordination, organization and command force to solve the delivery imbalance in key workflows and production of main parts. Production balance was improved thanks to preparation for reasonable production schedule and effective resource allocation.
- (2) Enhance training for its sales team and improve order quality to increase future total annual order quantity. An accumulated order amount of RMB520 million was recorded during the reporting period, representing an increase of 20% over last year.
- (3) Conduct VEC management which is taken as an emphasis and cut-in point to improve corporate management, cut down cost and increase efficiency. The Company introduced measures for overall improvement in order quality, design quality with a view to reducing material consumption, control on procurement price and specialised management. Thus, the impact arising from price increase in raw materials was minimised with improved economic benefit.
- (4) As for development of new products, the Company completed development of 12 new products and 1 non-planned product together with 2 developments in progress during the reporting period. At the same time, the Company formulated and carried out a number of measures for product quality improvement. Progress was made with improved product quality.
- (5) Put more efforts in capital operations. In an active view, the Company completed a series of asset disposals and acquisitions with desirable progress. Taking efforts in its productive management activities, the Company revised the Management System for Material Procurement. Furthermore, an internal audit has been carried out in all subsidiaries, and the management tiers were streamlined and the control on human resource costs was improved.

II. OPERATION DURING THE REPORTING PERIOD

(1) the scope of principal business and its status of operation

1. 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 in China. The Company's principal business is the manufacture and sale of system protection and transmission equipment including High-voltage isolated switch, power capacitor and closed busbar.
2. Operational result for the year

The Company recorded a revenue of RMB346,938,363, total profit of RMB11,741,656 and the net profit of RMB2,238,310.

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

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

*Unit: RMB*

By business or product	Revenue from principal operations	Cost of principal operations	Gross profit margin (%)	Increase/ decrease (%) in revenue from principal operations as compared with the preceding year	Increase/ decrease (%) in cost of principal operations as compared with the preceding year	Increase/ decrease (%) in gross profit margin as compared with the preceding year
<b>1. By Business</b>						
Electrical Transmission and Transformation	307,895,233	219,542,958	28.7	-48.41	-45.40	-12.02
Logistics	8,486,135	6,111,692	27.98	-	-	-
Accommodation and catering	30,556,995	23,960,931	21.59	-1.02	0.18	-4.17
Including: connected transactions	-	2,198,400	-	-	-	-
<b>2. By product</b>						
High-voltage switch circuit breaker	82,783,817	72,108,310	12.90	-79.10	-72.78	-61.03
Power capacitor	184,602,197	116,159,778	37.08	4.10	-2.55	13.12
Closed busbar	34,011,180	26,497,322	22.09	52.30	56.08	-7.88
Others	6,498,039	4,777,549	26.48			
Including: connected transactions	-	2,198,400	-	-	-	-

# CHAIRMAN'S STATEMENT (Continued)

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

### (1) the scope of principal business and its status of operation (Continued)

#### 3. Principal operations by regions

Unit: RMB0'000

Region	Income from principal operations	Increase / decrease of principal operations over last year (%)
Northeast	5,902.34	—
Northern (inclusive of Shandong)	9,529.85	—
Central	2,814.13	—
East	2,957.24	—
South	3,384.70	—
Southwest	1,339.84	—
Others	8,765.74	—
Total	34,693.84	—

Notes: As there were significant changes in the scope of consolidated statements in the reporting period, the income from principal operations by region lacks comparableness over the corresponding period last year.

### (2) Operation and result of the controlling company and shareholding company

Unit: RMB0'000

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	2,942	100	28,449	5,175	19,210	254
Fuxin closed mother Cable Company Limited	Closed busbar	1,809	100	4,882	1,688	3,468	4
Shenyang Jindu Hotel	Accommodation and catering	15,000	90	28,407	23,498	3,056	-497
Shenyang Suntime High-voltage Electric Co. Ltd.	Insulated Switchgear,	US\$2,150	74.4	32,407	17,913	2,893	205
Shenyang Suntime Storage and Logistics Co. Ltd.	Storage, Transportation,	17,000	95	16,587	16,254	849	47
Shenyang Chengtai Energy Power Co. Ltd.	Wind, water, electric services.	9,000	95	10,987	84,172	650	88
New Northeast Electric (Jinzhou) Power Capacitors Co. Ltd.	Lightning arrester, power capacitor	US\$1,000	52	13,807	8,285	6,675	-17
錦州錦容電器有限責任公司 (Jinzhou Jinrong Electric Company Limited)	High-voltage capacitor	300	69.75	2,430	1,110	4,233	446
Northeast Electric (Hong Kong) Company Limited	Investment	US\$90	100	7,441	2,289		40
瀋陽東北電日立輸變電設備有限公司 (Shenyang Northeast Electric Hitachi Power Transmission Equipment Company Limited)	Circuit Interrupter Manufacturing	831	49	895	882		-18
Weida High-voltage Electric Company Limited	Investment	US\$12,626	20.8	71,992	32,367	65,188	7,237

Note: The above figures reflected the income from principal operations and net profit of Shenyang Suntime High-voltage Electric Co. Ltd., Shenyang Suntime Storage and Logistics Co. Ltd. and Shenyang Chengtai Energy Power Co. Ltd. for January to December.

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

#### (3) Major suppliers and customers

Total volume of purchase from the Company's top five suppliers amounted to RMB30.27million, representing 13.7% of the total volume of purchase. Total volume of sales to the Company's top five customers amounted to RMB48.09 million, representing 14% of the total sales volume.

#### (4) Problems and difficulties during operations and their solutions

1. Due to the existing production capacity is difficult to satisfy the requirements of increasing production and income, equipment upgrading and renovation has become an urgent problem. The Company plans to step by step carry out projects of equipment upgrading and renovation as well as product upgrading on systemic, comprehensive and target-oriented basis from 2005, so as to sharpen the competitive edges of the Company and its products, laying a solid foundation for its sustainable operation and future development.
2. With the price of main raw materials for production remained in high level, the increasing pressure in terms of capital and price from the supplying market led directly to increased difficulty in procurement and escalated material costs. As such, the Company strengthened the budget control under a well-established, strict and ordered management system. Without compromise to the product performance and quality, the Company systemically developed substitution of materials and component parts, improved product design and production process so as to minimise cost.
3. In view of product quality not suitable for market requirements, the Company strengthened internal audit on operation of quality management system. While rectifying the found problems in quality system, the Company organised on-spot specific study for key issues, whereby opinions on rectification were summarised for implementation of rectification measures. To solve key quality problems, the Company carried out target-oriented activities to tackle key problems of technological quality, and progress was made accordingly.

#### (5) Impact of change in operational environment and macro policies on the Company

As affected by adjustments to macro policies, certain infrastructure projects have been reduced. To address it, the Company made timely communication with customers to keep informed, aiming to secure orders from projects with capital adequacy and reduce unnecessary selling expenses. The Company also broadened marketing channels to increase the orders with high margin. Furthermore, the Company reinforced the assessment on order quality to improve the balance in ordered products and expected profitability.

## CHAIRMAN'S STATEMENT (*Continued*)

### 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 RMB81.02 million, representing a decrease of 92.17% over the previous year mainly attributable to the additional investment in associated companies.
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. Significant projects invested by non-raised funds, project progress and revenue during the reporting period.

For details of investment and asset acquisitions, please refer to the second item of the paragraph "Assets Acquisition" set out in section 11.

### IV. FINANCIAL CONDITIONS AND OPERATING RESULTS DURING THE REPORTING PERIOD

#### (1) Analysis of the Company's financial conditions under the PRC Accounting Rules and Regulations

Items	2004	2003	Unit: RMB
			Increase or decrease (%)
1. Total asset	<b>1,356,156,532</b>	989,638,645	37.04
2. Shareholders' Interests	<b>770,526,078</b>	563,694,769	36.69
3. Profits of principle operations	<b>92,721,941</b>	196,575,422	-52.83
4. Net profit	<b>2,238,310</b>	25,960,057	-91.38
5. Net increase in cash and cash equivalents	<b>47,134,098</b>	-73,756,609	—

Reasons for the increase or decrease:

1. As compared with the end of the reporting period in the previous year, subsidiaries were incorporated in the scope of consolidation in the reporting period, resulting in the increase in total assets.
2. During the reporting period, the Company made investment externally. As the cost of investment was lower than the recognised equity interests, capital reserve was increased.
3. Due to the changes in scope of consolidated statement, the income from principal operations decreased significantly during the reporting period, leading to the decline in the profit from principal operations.
4. Due to the substantial income incurred from disposal of equity interests was included in the previous reporting period, the said income was not incorporated in the reporting period.
5. As compared with the previous reporting period, the cash flow incurred in investment decreased significantly during the reporting period, resulting in the significant changes in increase/decrease amount in total cash as compared with the previous reporting period.

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

**(2) Analysis of the Company's financial conditions under HK GAAP**

As at the end of the reporting period, the balance of monetary fund was RMB61.68 million.

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

The sources of funds mainly came from: 1) the cash inflow from the company's operations and capital operation; and 2) the borrowings from the financial institutions.

As at the end of reporting period, the Company had bank loans of RMB213.08 million, representing 15.76% of the total asset. These bank loans bear fixed interests.

The debt equity ratio of the Company was 27.63% (debt equity ratio = total bank loans / total share capital and reserve × 100%).

As at the end of reporting period, the Company's pledged net asset amounted to RMB36.01 million.

Please refer to Note 44 to financial statements for details of the Company's contingent liabilities.

**V. THE BOARD'S EXPLANATION FOR OPINION GIVEN BY THE ACCOUNTANTS**

The Board of Directors (the "Board") of the Company considered and accepted the auditors' report with a qualified opinion prepared by Deloitte Touche Tomatsu Certified Public Accountants Ltd. The Board hereby confirms that the Company's 2004 annual financial statements prepared under relevant policies including the Accounting Standards for Business Enterprises (《企業會計準則》) and Accounting Standard for Joint Stock Limited Companies (《股份有限公司會計制度》) has truthfully, accurately and fairly, in all material respects, reflected the Company's financial position and operating results in 2004.

**(1) Statement of Qualified Opinion on Classification of gain on disposal and the Investment Income from Shenyang High-voltage Switchgears Co. Ltd. ("Shenyang High-voltage").**

As stated, the Board approved the sale of 48.95% equity interests in Shenyang High-voltage held by the Company to a connected company on 15 March 2004. The premium of the consideration for the transfer over the audited net assets of Shenyang High-voltage attributable to the Company based on its shareholding as at 31st December, 2003, which amounted to RMB1.87 million, was charged into the capital reserve (the price difference of the connected transaction). However, the Company did not make a valuation on its equity interests in Shenyang High-voltage on the date of completion of the sale. Therefore, the auditors issued a qualified opinion on whether the Company shall charge all of RMB1.87 million into its capital reserve. In addition, due to the failure to conduct necessary audit procedures to determine operating income and loss of Shenyang High-voltage at the time of completion of the sale, we can not differentiate the Company's income from investment in Shenyang High-voltage and income from sale of the equity which are recognised on equity method.

## CHAIRMAN'S STATEMENT (*Continued*)

### V. THE BOARD'S EXPLANATION FOR OPINION GIVEN BY THE ACCOUNTANTS (*CONTINUED*)

**(1) Statement of Qualified Opinion on Classification of gain on disposal and the Investment Income from Shenyang High-voltage Switchgears Co. Ltd. ("Shenyang High-voltage").** (*Continued*)

According to the auditors' report from January to February 2004 prepared by Beijing Zhong Cai Certified Public Accountants, Shenyang High-voltage recorded operating profit of RMB20,000 from January to February 2004. Accordingly, the Board considers that it is relatively proper to charge into its capital reserve all of the premium amounting to RMB1.87 million due to sale of equity in Shenyang High-voltage (the price difference of the connected transaction). The accuracy of the classification of investment income will not be significantly affected. Furthermore, upon completion of the sale, the Company will no longer hold any equity interest in Shenyang High-voltage and hence the future operating results of the Company will not be affected.

**(2) Statement on Emphasis Matter with respect to the Litigation Lodged by China Development Bank (the "Bank") on the Debt of RMB150 million**

The auditors recommend that attention be brought to note that the Bank lodged an appeal to Beijing Higher People's Court against Shenyang High-voltage, a former associated Company of the Company for its failure to repay the debt due on 31 May 2004. At present, no ruling has been made. Therefore, the outcome of the ruling may have a material impact on the Company. However, the content of this paragraph has no impact on the published audit opinion.

The lawyer made a legal opinion in relation to the matter that the transfer of equity interests is legally valid without breach of forceful provisions of the PRC laws. Following the litigation initiated by the Bank was overruled by Beijing Higher People's Court, the Bank failed to make new petition for appeal and provide new exhibits. On the other hand, its litigation petition against the Company was not legally connected with the guarantee contract suit. Therefore, the litigation initiated by the Bank the court shall be dismissed. Hence, the outcome of the suit will not affect significantly the overall operating results of the Company.

### VI. OPERATING PLAN FOR THE NEW YEAR

From the market view, the PRC will have 80 million kW additional installed capacity during the late three year of its 10th Five-year Plan, representing an annual growth of 27 million kW. Based on the approved installed capacity, it is expected that the annual growth in installed capacity will amount to over 30 million kW during the period from 2008 to 2010. Such a market environment provides favourable opportunities for the industry.

**(1) Business Target**

The Company expects to achieve a growth in both principal operating revenue and net profit for 2005 over last year.

### VI. OPERATING PLAN FOR THE NEW FISCAL YEAR *(Continued)*

#### (2) Key Tasks

1. The Company will strengthen marketing management to achieve a growth of orders not less than that of market with escalating market share, aiming at maintaining and advancing its position in the industry.
2. With more efforts in collection of receivables, the Company will strictly carry out the capital management system.
3. The Company will introduce a performance assessment system, linking the staff's income with their operating results to secure effective implementation of budget goals.
4. The Company will press ahead stringent specialized management under controlled costs and expenses. Processing control will be adopted for implementation of budget. The Company will conduct regular internal audits on financial management system, where the completion of income and expense objectives as well as the reasonableness of costs will be reviewed to achieve effective supervision and management.
5. The Company will promote effective management activities and equipment upgrading and renovation, so as to build up a virtuous cycle and operating environment for sustainable development, paving a way to a noticeable improvement in profitability and competitive edges. On such basis, the Company will lay out its corporate plan in the long run given its internal and external conditions, laying a foundation for a leap in the future development.