



## VII. FINANCIAL REPORT

### **Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited Audited report for six months ended on 30 June 2002.**

De Shi (Jing) Shen Bao Zi (02) No. 284

To the shareholders of Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited:

We were engaged to audit the accompanying balance sheet of Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited (“the Company”) and the consolidated balance sheet of the Company and its subsidiaries (“the Group”) as of June 30, 2002 and the related statements of income and cash flows of the Company and the Group for the period from January 1, 2002 to June 30, 2002. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Independent Auditing Standards for Chinese Certified Public Accountants. Our audit included such tests of the accounting records and such other auditing procedures, as we considered necessary in the practical circumstances of the Company.

The scope of our audit was limited in respect of the Group’s former subsidiary, Shenyang Transformers Ltd. (“Shenyang”), which was disposed of during the period. The loss incurred by Shenyang during the period from 1st January 2002 up to the date of disposal (“Loss Incurred by Shenyang for the Period”) was RMB9,882,150.53 which was included in the condensed consolidated income statement based on unaudited management accounts. As disclosed in note 55, the gain on disposal of Shenyang is calculated based on the sales proceeds less net asset value of Shenyang at 31st December, 2001 and Loss Incurred by Shenyang for the Period. Accordingly, for the purpose of our audit, we were unable to conclude as to whether Loss Incurred by Shenyang for the period and also the related gain on disposal of Shenyang amounting to RMB47,495,680.59 were free from material misstatement. In addition, other financial information of Shenyang for the period from 1st January, 2002 up to the date of disposal required for the preparation of the condensed consolidated cash flow statement and the notes to the condensed financial statements are not available, the related assets and liabilities at 31st December, 2001 of Shenyang were used to prepare the relevant disclosures included in the notes to the interim financial report and the condensed consolidated cash flow statements. Accordingly, for the purpose of our audit, we were unable to conclude as to whether the movements disclosed in the condensed consolidated cash flow statement and the net cash inflow from disposal of Shenyang amounting to RMB44,691,436.01 were free from material misstatement. Any adjustment to these figures would affect the classification of the condensed consolidated income statement, the movements disclosed in the condensed consolidated cash flow statement, the net cash inflow from disposal of Shenyang stated in note 55.

We are of the opinions that except for the potential consequence arising from above factors, this financial report of the Company was prepared in compliance with the relevant requirements of Enterprise Accounting Principles (企業會計準則) and Enterprise Accounting System (企業會計制度) and can fairly reflect financial position of the Company and its subsidiaries in any material aspects as at 30 June 2002 and operating results and cash flow of the Company and the Group for six months ended on 30 June 2002. The accounting method we adopted for this period was consistent with the one used before.

As stated in note 55, the Company transferred 100% of its interest in Shenyang Transformers to Northeast Construction & Installation Corporation. According to the agreement entered into by the Company, Shenyang Transformers to Northeast Construction & Installation Corporation and Shenyang National Industrial Assets Management Company, RMB150 million of transfer price was paid by Shenyang National Industrial Assets Management Company on behalf of Shenyang Transformers to Northeast Construction & Installation Corporation. After completion of this transfer, Shenyang National Industrial Assets Management Company will be the shareholder of Shenyang Transformers.

Deloitte Touche Tohmatsu  
Certified Public Accountants Ltd.

**Cui Jing      Huang Jingsheng**  
Chinese Certified Public Accountants

27 August 2002



## BALANCE SHEET

As at 30 June 2002

Unit: RMB

Assets	Note	Group		Company	
		Closing	Opening	Closing	Opening
<b>CURRENT ASSETS:</b>					
Cash and bank balances	7	101,012,280.69	314,473,122.66	2,124,570.63	72,226,746.46
Notes receivable	8	3,210,000.00	1,172,538.56	—	—
Accounts receivable	9,11	435,530,008.52	879,024,651.96	—	—
Other receivables	10,11	284,411,149.22	405,558,184.63	207,776,786.35	200,068,007.14
Advances to suppliers	12	22,215,401.06	302,074,666.82	—	—
Inventories	13	165,029,473.96	378,254,629.79	—	—
Deferred expenses	14	3,050,394.21	2,211,090.82	—	—
Total current assets		<u>1,014,458,707.66</u>	<u>2,282,768,885.24</u>	<u>209,901,356.98</u>	<u>272,294,753.60</u>
<b>LONG TERM INVESTMENTS:</b>					
Long term equity investments	16	14,541,392.79	17,418,741.46	289,653,091.80	398,773,416.27
Long term debenture investment	17	2,007.00	1,160,207.00	—	—
Total long term investments	15	<u>14,543,399.79</u>	<u>18,578,948.46</u>	<u>289,653,091.80</u>	<u>398,773,416.27</u>
<b>FIXED ASSETS:</b>					
Fixed assets — at costs	18	1,189,776,237.44	2,104,399,270.76	2,100,071.00	2,078,771.00
Less: Accumulated depreciation	18	337,620,518.84	761,926,548.02	1,004,439.00	911,517.00
Fixed assets — net book value		<u>852,155,718.60</u>	<u>1,342,472,722.74</u>	<u>1,095,632.00</u>	<u>1,167,254.00</u>
Less: Provision for impairment on fixed assets	18	91,409,255.62	154,382,891.10	—	—
Fixed assets — net of provision	18	<u>760,746,462.98</u>	<u>1,188,089,831.64</u>	<u>—</u>	<u>—</u>
Construction in progress	19	13,217,202.52	151,753,788.30	—	—
Total fixed assets		<u>773,963,665.50</u>	<u>1,339,843,619.94</u>	<u>1,095,632.00</u>	<u>1,167,254.00</u>
<b>INTANGIBLE AND OTHER ASSETS:</b>					
Intangible asset	20	60,142,303.85	147,303,665.32	—	—
Long term deferred expenditure	21	6,208,476.40	6,856,913.78	250,000.00	264,999.99
Other long term assets	21	74,000,000.00	74,000,000.00	82,620,899.00	82,620,899.00
Total intangible and other assets		<u>140,350,780.25</u>	<u>228,160,579.10</u>	<u>82,870,899.00</u>	<u>82,885,898.99</u>
<b>TOTAL ASSETS</b>		<u><u>1,943,316,553.20</u></u>	<u><u>3,869,352,032.74</u></u>	<u><u>583,520,979.78</u></u>	<u><u>755,121,322.86</u></u>

The notes form an integral part of these financial statements.

**BALANCE SHEET (continued)**

As at 30 June 2002

Unit: RMB

Liabilities and owners' equity	Note	Group		Company	
		Closing	Opening	Closing	Opening
<b>CURRENT LIABILITIES:</b>					
Short term loans	22	433,710,000.00	1,276,703,040.04	—	67,900,000.00
Notes payable	23	11,500,000.00	32,650,000.00	—	—
Accounts payable	24	341,260,596.43	757,507,300.28	—	—
Advances from customers	25	76,235,567.71	247,407,532.43	—	—
Wages payable		276,459.07	—	—	—
Welfare payable		5,730,772.79	12,285,328.20	—	—
Dividends payable	26	2,366,556.44	4,195,243.94	—	—
Taxes payable	27	15,424,656.37	(4,868,445.73)	—	2,158,000.00
Others payable	28	7,867,132.88	8,010,350.93	—	—
Other creditors	29	109,949,387.72	316,278,867.29	10,949,702.71	3,614,208.48
Accrued expenses	30	4,810,359.48	7,037,310.08	2,000,000.00	2,000,000.00
Current portion of long term loans	31	184,626,800.00	498,258,879.02	66,216,800.00	361,148,879.02
Total current liabilities		1,193,758,288.89	3,155,465,406.48	79,166,502.71	436,821,087.50
<b>LONG TERM LIABILITIES:</b>					
Long term loans	32	233,241,387.08	357,408,951.01	—	—
Specific payable	33	1,751,071.80	23,381,559.65	—	—
Total long term liabilities		234,992,458.88	380,790,510.66	—	—
Total liabilities		1,428,750,747.77	3,536,255,917.14	79,166,502.71	436,821,087.50
Minority interest		10,211,328.36	14,795,880.24	—	—
<b>OWNERS' EQUITY:</b>					
Paid-up capital (shares)	34	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Capital surplus	35	762,890,209.93	614,774,930.23	762,890,209.93	614,774,930.23
Surplus reserve fund	36	108,587,124.40	108,587,124.40	150,796,591.00	150,796,591.00
Including: Statutory surplus reserve fund	36	32,210,803.10	32,210,803.10	31,439,722.00	31,439,722.00
Unappropriated profits	37	(1,240,492,857.26)	(1,278,431,819.27)	(1,282,702,323.86)	(1,320,641,285.87)
Total owners' equity		504,354,477.07	318,300,235.36	504,354,477.07	318,300,235.36
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>1,943,316,553.20</b>	<b>3,869,352,032.74</b>	<b>583,520,979.78</b>	<b>755,121,322.86</b>

The notes form an integral part of these financial statements.



## PROFIT AND PROFIT APPROPRIATION

Unit: RMB

Items	Note	Group		Company	
		From 1 January 2002 to 30 June 2002	From 1 January 2001 to 30 June 2001 (Unaudited)	From 1 January 2002 to 30 June 2002	From 1 January 2001 to 30 June 2001 (Unaudited)
1. Revenues from					
principal operations	38	585,374,156.33	611,252,828.76	—	—
Less: Costs from					
principal operations	39	396,271,910.07	496,440,020.39	—	—
Tax and addition from principal operations	40	4,005,981.18	2,602,896.95	—	—
2. Profits from principal operations		185,096,265.08	112,209,911.42	—	—
Add: Other operating profits	41	10,033,747.25	9,489,356.66	—	—
Less: Operating expense		53,914,005.41	76,781,374.68	—	—
Administrative expense		104,335,205.01	112,960,783.05	1,038,698.38	2,136,898.95
Financial expense	42	40,251,173.12	38,434,179.27	281,185.93	1,833,494.39
3. Operating income		(3,370,371.21)	(106,477,068.92)	(1,319,884.31)	(3,970,393.34)
Add: Investment income	43	47,462,654.56	506,482.43	39,258,846.32	(101,699,024.77)
Subsidy income	44	480,016.03	1,465,773.32	—	—
Non-operating income	45	1,883,447.55	386,567.45	—	—
Less: Non-operating expense	46	1,740,921.05	1,745,247.62	—	—
4. Total profits		44,714,825.88	(105,863,493.34)	37,938,962.01	(105,669,418.11)
Less: Income tax	47	4,541,809.06	230,366.75	—	—
Minority interest		2,234,054.81	(424,441.98)	—	—
5. Nets profits		37,938,962.01	(105,669,418.11)	37,938,962.01	(105,669,418.11)
Add: Closing undistributed profits		(1,278,431,819.27)	(458,578,259.57)	(1,320,641,285.87)	(501,997,023.88)
6. Profits available for distribution		(1,240,492,857.26)	(564,247,677.68)	(1,282,702,323.86)	(607,666,441.99)
Less: Transfer to statutory surplus reserve		—	—	—	—
Transfer to statutory public welfare fund		—	—	—	—
7. Profits available for distribution to shareholders		(1,240,492,857.26)	(564,247,677.68)	(1,282,702,323.86)	(607,666,441.99)
Less: Dividend payable for preferred shares		—	—	—	—
Transfer to discretionary surplus reserve		—	—	—	—
Dividend payable for ordinary shares		—	—	—	—
Dividend for ordinary shares converted into capital		—	—	—	—
8. Undistributed profits		<u>(1,240,492,857.26)</u>	<u>(564,247,677.68)</u>	<u>(1,282,702,323.86)</u>	<u>(607,666,441.99)</u>

The notes form an integral part of these financial statements.

Details of proceeds from disposal of investment unit are set out in Note 43.

**CASH FLOW STATEMENT**

From 1 January 2002 to 30 June 2002

Unit: RMB

Items	Note	Group		Company	
		Current Period	Previous Period	Current Period	Previous Period
1. Cash flows from operating activities:					
Cash received from sales of goods or rendering of services		560,316,733.67	754,214,316.17	—	—
Refund of tax		480,016.03	1,465,773.32	—	—
Other cash received relating to operating activities		1,045,416.24	14,023,167.48	7,221,686.66	165,243.39
Sub-total of cash inflows		561,842,165.94	769,703,256.97	7,221,686.66	165,243.39
Cash paid for goods and services		(382,234,931.89)	(527,293,045.45)	—	—
Cash paid to and on behalf of employees		(7,150,548.72)	(89,759,913.22)	—	—
Taxes paid other than value added tax and income tax		(2,819,589.20)	(7,540,871.02)	—	—
Other cash paid relating to operating activities		(276,618,600.23)	(42,791,745.45)	(10,081,376.56)	(2,065,276.95)
Sub-total of cash outflows		(668,823,670.04)	(667,385,575.14)	(10,081,376.56)	(2,065,276.95)
Net cash flows from operating activities		(106,981,504.10)	102,317,681.83	(2,859,689.90)	(1,900,033.56)
2. Cash flows from investing activities:					
Proceeds from sale of long term investments		—	9,740.00	—	—
Cash received from disposed of subsidiary	48	44,691,436.01	506,482.43	150,000,000.00	—
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		—	—	—	—
Cash received from other investing activities		—	—	—	—
Sub-total of cash inflows		44,691,436.01	516,222.43	150,000,000.00	—
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(3,355,795.12)	(67,665,336.39)	(21,300.00)	(3,600.00)
Cash paid to acquire equity investments		—	—	—	—
Cash paid to other investing activities		—	(369,441.98)	—	—
Sub-total of cash outflows		(3,355,795.12)	(68,034,778.37)	(21,300.00)	(3,600.00)
Net cash flows from investing activities		41,335,640.89	(67,518,555.94)	149,978,700.00	(3,600.00)
3. Cash flows from financing activities:					
Cash received from equity investments		—	—	—	—
Proceeds from borrowings		—	435,568,170.17	—	1,930,000.00
Other proceeds relating to financing activities		—	1,611,494.69	—	5,536,030.36
Sub-total of cash inflows		—	437,179,664.86	—	7,466,030.36
Cash repayments of amounts borrowed		(106,350,000.00)	(430,081,200.00)	(216,940,000.00)	—
Dividends paid or cash payments relating to appropriation of profit		(41,464,978.76)	(25,911,988.27)	(281,185.93)	(1,746,809.34)
Cash paid to other financing activities		—	—	—	(4,826.00)
Sub-total of cash outflows		(147,814,978.76)	(455,993,188.27)	(217,221,185.93)	(1,751,635.34)
Net cash flows from financing activities		(147,814,978.76)	(18,813,523.41)	(217,221,185.93)	5,714,395.02
4. Effect of foreign exchange rate changes on cash		—	—	—	—
5. Net increase in cash and cash equivalents		(213,460,841.97)	15,985,602.48	(70,102,175.83)	3,810,761.46



## CASH FLOW STATEMENT (continued)

From 1 January 2002 to 30 June 2002

Note:

Unit: RMB

Supplementary Information	Note	Group		Company	
		Current Period	Previous Period	Current Period	Previous Period
1. Reconciliation of net profit to cash flows from operating activities:					
Net profit		37,938,962.01	(105,669,418.11)	37,938,962.01	(105,669,418.11)
Add: Minority interest		2,234,054.81	(424,441.98)	—	—
Provision for diminution in value		2,660,743.29	12,175,898.88	—	—
Depreciation of fixed assets		19,869,269.11	52,424,936.27	92,922.00	71,622.00
Amortisation of intangible assets		686,781.00	1,676,261.12	—	—
Increase in long term deferred expenditure		648,437.38	1,751,868.85	—	1,751,868.85
Decrease in deferred expenses		(839,303.39)	(1,390,022.37)	—	—
Decrease in accrued expenses		(2,226,950.60)	14,133,685.69	—	6,373,390.68
Loss on disposal of fixed assets, intangible assets and other long term assets		—	—	—	—
Fixed assets written off		—	—	—	—
Financial expenses		39,636,291.26	38,434,179.27	281,185.93	—
(Gain)/Loss arising from investments		(47,462,654.56)	(506,482.43)	8,203,808.24	101,699,024.77
Decrease/(Increase) in inventories		256,345,285.53	(6,530,557.04)	—	—
Decrease/(Increase) in operating receivable		943,045,245.75	11,336,779.27	7,128,764.66	(2,350,945.73)
Increase in operating payable (or deduct: decrease)		(1,359,517,665.69)	85,848,104.45	(56,505,332.74)	5,219.00
Others		—	(943,110.04)	—	(3,780,795.02)
Net cash flows from operating activities		<u>(106,981,504.10)</u>	<u>102,317,681.83</u>	<u>(2,859,689.90)</u>	<u>(1,900,033.56)</u>
2. Net increase in cash and cash equivalents:					
Cash and bank balances at the end of the period		101,012,280.69	414,996,996.16	2,124,570.63	182,116,497.19
Less: Cash and bank balances at the beginning of the period		<u>314,473,122.66</u>	<u>399,011,393.68</u>	<u>72,226,746.46</u>	<u>178,305,735.73</u>
Net increase in cash and cash equivalents		<u>(213,460,841.97)</u>	<u>15,985,602.48</u>	<u>(70,102,175.83)</u>	<u>3,810,761.46</u>

The notes form an integral part of these financial statements.

## NOTES TO THE ACCOUNTS

From 1 January 2002 to 30 June 2002

### 1. COMPANY HIGHLIGHTS

Northeast Electrical Transmission and Transformation Machinery Manufacturing Company Limited (the “Company”) is a joint stock limited company established through fixed capital raising with the approval of Shenyang Enterprise System Reform Commission (Shen Ti Gai Fa (1992) No. 81) and Northeast Electrical Transmission and Transformation Equipment Group Corporation being the lead promoter. The Company was established on 18 February 1993. The initial total share capital was 82,454,000 shares, which was adjusted to 585,420,000 shares in 1995. The Company issued 257,950,000 H shares in Hong Kong and the shares commenced trading on the Stock Exchange of Hong Kong Limited on 6 July 1995. In the same year, the Company issued 30,000,000 A shares to public in the People’s Republic of China and the shares commenced trading on the Shenzhen Stock Exchange on 13 December 1995. At present, the total share capital of the Company is 873,370,000 shares. Details of classification of shares and the amount are set out in note 34 “share capital”.

The principal operations of the Company are manufacturing of transmission and transformation machinery and the provision of relevant services.

As at 30 June 2002, the subsidiaries and their principal activities are contained in “Subsidiaries” as set out in note 6.

### 2. BASIS OF PREPARATION

The Company incurred substantial loss in previous years and was not able to repay a syndicated bank loan of US\$40,000,000 when it was due and as a result, the syndicated banks petitioned to the Court to wind up the Company during the period. The Company and the syndicated banks reached a debt restructuring agreement after negotiation and thereafter repaid loans amounting to US\$18,000,000. The remaining balance of US\$8,000,000 will be repaid on 28 November 2002. The syndicated banks forfeited the debt of the Company with principal and interest amounting to US\$17,890,000 and revoked the winding-up petition. In addition, the Company disposed Shenyang Transformers Ltd., the major source of loss, and was able to control costs effectively through strengthening of management. It was estimated that the financial position in 2002 will be greatly improved. Besides, the Company obtained a general banking facility of up to US\$35,000,000 from Bank of Communications and the management of the Company anticipated that there will not be repayment difficulties in near term, therefore the financial statements were prepared on going concern basis.

### 3. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATE AND BASIS OF CONSOLIDATION

#### Accounting regulations

In accordance with Accounting Standards for Enterprises and Accounting Regulations for Enterprises and their supplementary provisions.



**Accounting period**

The accounting period starts from 1 January to ends on 31 December.

**Reporting currency**

The Group uses the Renminbi (“RMB”) as its reporting currency.

**Principal of book-keeping and valuation**

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

**Foreign currencies**

Transactions in foreign currencies are translated into Renminbi at exchange rates stipulated by the People’s Bank of China prevailing at the mid-rate of the first day of that month (“market rate”). The foreign currency balances of foreign currency account at the end of period are translated into Renminbi at market rate at the end of period. Exchange gain or loss are included in finance costs for the current period except for gain or loss arising from construction which is taken to construction-in-progress.

**Basis of preparation for consolidation****(1) Recognition principles of consolidation**

The consolidated financial statements include the financial statements of the Company and all of its domestic and overseas subsidiaries made up to 30 June 2002. Subsidiaries are enterprises in which the Company directly or indirectly holds more than 50 percent of equity capital or has power to exercise control over operating activities through other methods.

Details of the consolidation of financial statements regarding disposal of Shenyang Transformers Ltd., the Company’s subsidiary, are set out in note 55.

**(2) Accounting method adopted**

The principal accounting policies adopted by the subsidiaries are consistent with the Company.

The operating results of the subsidiaries prior to disposal have been included in the consolidated income statement.

All intra-group balances and transactions have been eliminated on consolidation.

**Cash equivalents**

Cash equivalents are short-term (generally due within 3 months from the date of acquisition), highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

**Method for recognition of bad debts**

## (1) Basis of recognition of bad debts

A debtor is bankrupt and liquidated according to legal procedure. After that, the related account receivable is confirmed as unrecoverable.

A debtor is dead and there is no estate for repayment and no obligatory guarantor. The related account receivable is confirmed as unrecoverable.

A debtor does not make repayment as agreed and there is obvious indication that the related account receivable is unrecoverable.

## (2) Method for calculating loss arising from bad debts

Provision for bad debts is calculated by allowance method in accordance with ageing analysis.

Provision for bad debts is reasonably estimated based on the Company's past experience, the financial position and cash flow of the debtors together with other relevant information.

Except for specific provision, provision for trade debtors and other receivables was calculated according to the following percentages:

Age	Percentage
within 1 year	Nil
1 to 2 years	Nil
2 to 3 years	40%
3 to 4 years	60%
Over 4 years	100%

The Company made full provision for receivable which cannot be recovered based on clear evidence.

**Inventories**

Inventories are stated at historical cost at acquisition. Historical cost includes direct materials, direct labour and direct overheads that have incurred in production or provision of services plus a proportionate share of indirect expenses. The inventories of the Company include raw materials, work-in-progress and finished goods.

The cost of inventories sold is calculated on a weighted average basis. Consumables are charged to profit and loss account when they are requisitioned. Packaging materials for production is directly recognised into costs and expenses.

Perpetual stock system is adopted for calculation of stock volume.



## **Provision for diminution in value of inventories**

At the end of period, inventories are stated at the lower of cost and net realizable value. The provision is made at the amount equal to the shortfall of cost over the net realisable value of an inventory. Net realizable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling during the normal course of business operation.

## **Accounting Long term investments**

### **(1) Valuation and revenue recognition for long term equity investments:**

Long term equity investments are stated at cost of acquisition.

If the investee company to which the Company is not able to control, by itself or jointly with other parties or not able to exert significant influence, long term equity investment is accounted for using the cost method. If the investee company to which the Company is able to control, by itself or jointly with other parties, or to exert significant influence, the long term equity investments is accounted for using the equity method.

When the cost method is adopted, the amount of investment income recognised by the invested is limited to the amount received from the accumulated net profits which arise from the investee enterprise has accepted from the invested. The amount of profits or cash dividends declared to be distributed by the investee enterprise in excess of the above should be treated as recovery of investment cost, and reduce the carrying amount of investments accordingly.

When the equity method is adopted, the amount of investment income for the current period represent the share of the invested's net profit or loss.

When equity method is adopted for calculating long term equity investment, the investment difference of long term equity investment is the differences between initial investment cost and share of owner's equity of the invested, which is amortised by equal instalments over the investment period. Investment contract with no specific investment period is amortised by equal instalments over 10 years and recognised as profit or loss.

### **(2) Valuation and revenue recognition for long term investment in debt**

A long-term debt investment should be recorded at its actual cost on acquisition as the initial investment cost. The difference between the initial investment cost of a long-term bond investment (as reduced by any bond interest due but unpaid and accrued bond interest and any related taxes included therein) and the par value of the bond should be treated as investment premium or discount.

Interest income of long term investment in debts is calculated by instalment according to par value and par interest rate on the basis of actual accounting. The premium or discount of investment in debts is amortised by equal instalments over the deposit period of debts on a straight-line basis during the recognition of relevant interest income of debts. The amortised amount is accounted for in investment gain or loss.

**(3) Provision for diminution in value of investment**

Owing to continuous decline in market prices or change in the operation of investee company, the recoverable amounts of long term investment is lower than the book value of the long term investment. The difference between the recoverable amount and the book value of the long term investment is stated as provision for diminution in value of investment. The recoverable amount represents the highest of the net proceeds from sale of assets and the net present value of expected future cash flow arising from the holding and the disposal upon the end of useful life of the asset.

**Fixed assets and depreciation**

Fixed assets include buildings, plant and machinery, transportation equipment, other production and operating equipment, utensils and tools with useful lives of over one year, and non-production and operating equipment with unit price over RMB2,000 and useful lives of over two years.

Fixed assets are stated at historical cost acquisition. Depreciation is provided to write off the cost of fixed costs over their estimated useful lives from the following month after they have reached the estimated useable condition using the straight line method. The estimated residue value is 3% of its cost. The estimated useful lives and depreciation rates of the fixed assets are:-

<b>Type of fixed assets</b>	<b>Estimated useful lives</b>	<b>Annual rate</b>
Buildings	20-50 years	1.94%-4.85%
Machinery and equipment	8-20 years	4.85%-12.13%
Motor vehicles and others	6-17 years	5.71%-16.17%

**Provision for diminution in value of fixed assets**

Fixed assets are stated at the lower of the book value and the recoverable amount at the end of the period. The difference between the recoverable amount and the book value is stated as provision for diminution in value of fixed assets.

Full provision is made in the following circumstances:

- Fixed assets are idle and would not be used in the foreseeable future with no resaleable value;
- Non usable assets due to technology obsolete;
- Usable assets which would produce non-qualifying assets;
- Damaged assets with no usable value and resale value; and
- All other assets would not produce economic benefits to the Company.



### **Construction in progress**

Construction in progress is stated at cost of construction.

The cost of construction includes all construction, expenditure, borrowing costs of specific loans directly related to the construction and eligible for capitalisation and other relevant expenses attributable to such projects. The cost of construction in progress will be transferred to fixed assets when the construction in progress is capable of being put in use as planned. No depreciation is provided on construction in progress.

Provision for diminution in value of construction in progress is made when construction has been suspended for a long period of time and the works will not be recommence within next three years; the project is obsolete either in its physical conditions or technology and has great uncertainty in its economic benefit to the enterprise; or other evidence indicates that there is diminution in value.

### **Borrowing cost**

Borrowing costs, including interest, amortization of discounts or premiums, other expenses and exchange gain or loss arising from specific borrowings for the acquisition of fixed assets, are capitalized in accordance with capitalization principle before the assets are ready for its intended use. Borrowing costs, other than above, are expensed when incurred.

### **Intangible assets**

Intangible assets are stated at cost of acquisition.

Intangible assets are amortised by instalments over their estimated useful lives and recognised as gain or loss.

During the end of the period, intangible assets are stated at the lower of the book value and the recoverable amount. The difference between the recoverable amount and the book value is stated as provision for diminution in value of intangible assets.

### **Long term deferred expenses**

Long term deferred expenses are stated at actual cost incurred and are amortised by equal instalments over their useful lives on a straight line basis.

### **Revenue Recognition**

Sales of goods and sales income are recognised at the time when the substantial risks and rewards of ownership of the goods has been passed to the buyers and the Company no longer manages or physically controls the goods and the Company receives the payments or obtains the right to receive payment.

When the provision of services is started and completed within the same accounting year, revenue is recognized at the time of completion of the services. When the provision of services is started and completed in different accounting years and the total income of the labour contract and the degree of service completion can be estimated reliably when payment relating to the transaction will flow into the Company and cost incurred and cost to be incurred on completion of service can be measured reliably, the Company recognizes the service revenue by the use of the percentage of completion method.

**Income tax**

Income tax is accounted for using the tax liability method.

**4. CORRECTION OF SIGNIFICANT ACCOUNTING ERROR**

In the current period, we discovered significant accounting error made previously and made corrections. Impact on the financial position and such accounting errors and corrections are as follow:

Deposit placed with Liaoning Trust

In the previous year, unprovided interest arising from the deposit of US\$ 20 million placed by the Company in Liaoning Trust and Investment Company ("Liaoning Trust") amounted to RMB14,837,544.28. Since Liaoning Trust was liquidated in October of 2001, the Company reclassified such deposit as other accounts receivable from bank deposit and should not calculate interest income arising from this deposit. Opening balances of other accounts receivable and undistributed profits as set out in balance sheet were decreased by RMB14,837,544.28 as a result of this adjustment. However, in the previous period of last year, such deposit income was not provided, figures in the income statement were unaffected.

**5. TAXATION****Valued added tax**

Valued added tax is calculated based on 17% of sales revenue less import tax.

**Sales tax**

Sales tax is calculated based on 5 - 20% of income from provision of services

**Urban maintenance and construction tax**

Urban maintenance and construction tax is calculated based on 7% of value added tax and sales tax.

**Education additional tax**

Education additional tax is calculated based on 4% of value added tax and sales tax

**Income tax**

Income tax is calculated based on 33% of assessable profits.



## 6. CONTROLLING SUBSIDIARIES

All of the subsidiaries owned by the Company are as follows:

Name of subsidiaries	Registered capital (RMB'0000)	Amount of investment (RMB'0000) and share of equity interest	Operational activities	Consolidated in this interim report	Consolidated in 2002 annual report
Shenyang High-voltage Switchgears Ltd.	14,492	14,492 100%	Manufacture of switchgears, circuit breakers and disconnectors	Yes	Yes
Jinzhou Power Capacitors Ltd.	2,942	2,942 100%	Manufacture of lightening rods and capacitors	Yes	Yes
Fuxin Enclosed Busbars Ltd.	1,809	1,809 100%	Manufacture of enclosed busbars	Yes	Yes
Kingdom Hotel Shenyang	15,000	15,000 100%	Provision of hotel and catering services	Yes	Yes
Shenyang Hua Kang Restaurant & Entertainment Ltd.	2,520	1,512 60%	Provision of entertainment services	Yes	Yes
Jinzhou Jinrong Electrical Equipment Co. Ltd	300	153.75 51.25%	Manufacture of rod-type voltage capacitors	Yes	Yes
Shenyang Shengao Metal Antiseptis Ltd.	389	379.97 97.68%	Provision of anti-corrosive processing services of metallic accessories	Yes	Yes
Shenyang Transformers Ltd.	32,056.5	32,056.5 100%	Manufacture of transformers	No	Yes
Shenyang Shenbian ITU Manufacturing Ltd.	12,000	11,352 94.60%	Manufacture of transformers (ITU)	No	Yes
Shenyang Shenbian Special Electric Equipment Ltd.	1,000	800 80%	Manufacture of transformers and transmission equipment and accessories	No	Yes
Shenyang Shenbian Middle Transformer Ltd.	2,000	1,700 85%	Manufacture of transformers and reactors	No	Yes
Shenyang Shengbian Electric Equipment Ltd.	700	616 88%	Manufacture of transformers and transmission equipment and specialized tools	No	Yes
Shenyang Shenbian Switchgears Ltd	700	630 90%	Manufacture of Switchgears and provision of processing services	No	Yes

Changes in content from consolidated financial report and reasons:

On 4 June 2002, since the Company disposed of 100 % of equity interest in Shenyang Transformers Ltd ("Shenyang Transformers") to Northeast Construction & Installation Corporation, consolidated accounts of Shenyang Transformers and its subsidiaries were not contained in the Group balance sheet of this

interim report as contained in consolidated statement for 2001 annual report. However, operating loss of Shenyang Transformers and its subsidiaries from 1 January 2002 to the disposal date were contained in profit and profit appropriation of this interim report, details of which are as follows:

Unit: RMB

Items	Consolidated	Shenyang Transformers Ltd. and its subsidiaries (unaudited)	Other companies
1. Revenues from principal operations	585,374,156.33	208,075,141.18	377,299,015.15
Less: costs from principal operations	396,271,910.07	146,140,563.83	250,131,346.24
Tax and addition from principal operations	4,005,981.18	158,629.62	3,847,351.56
2. Profits from principal operations	185,096,265.08	61,775,947.73	123,320,317.35
add: other operating profits	10,033,747.25	740,078.52	9,293,668.73
less: operating expense	53,914,005.41	19,489,929.42	34,424,075.99
Administrative expense	104,335,205.01	37,752,676.35	66,582,528.66
Financial expense	40,251,173.12	15,487,599.43	24,763,573.69
3. Operating income	(3,370,371.21)	(10,214,178.95)	6,843,807.74
add: investment income	47,462,654.56	171,416.74	47,291,237.82
Subsidy income	480,016.03	—	480,016.03
Non-operating income	1,883,447.55	1,254,379.43	629,068.12
less: non-operating expense	1,740,921.05	1,094,913.99	646,007.06
4. Total profits	44,714,825.88	(9,883,296.77)	54,598,122.65
less: income tax	4,541,809.06	(1,146.24)	4,542,955.30
Minority interest	2,234,054.81	—	2,234,054.81
5. Nets profits	<u>37,938,962.01</u>	<u>(9,882,150.53)</u>	<u>47,821,112.54</u>

Note: Notes 7-48 are notes to consolidated financial report. Note 49 is a note to financial report for the Company.

## 7. CASH AND BANK BALANCES

	Foreign currency	Closing Exchange rate	RMB	Foreign currency	Opening Exchange rate	RMB
Cash						
RMB			219,672.39			325,467.15
US	2,862.34	8.2830	23,708.76	6,962.34	8.2766	57,624.50
Bank deposit						
RMB			71,518,298.15			207,186,517.25
US	100.68	8.2770	833.30	8,657,954.23	8.2766	71,658,423.98
HK	18,564.57	1.0050	18,654.09	18,554.53	1.0606	19,678.93
Other						
RMB			29,231,114.00			35,225,410.85
			<u>101,012,280.69</u>			<u>314,473,122.66</u>

At the end of period, cash and bank balances represented pledged bank deposit.





## 8. NOTES RECEIVABLE

Issue parties	Date of issue	Date of maturity RMB	Amount
Zhaowu Yong An Chemical Ltd. Fujian Province	4.2.2002	4.8.2002	200,000.00
Jiuquan Steel Group Corp. Ltd.	10.5.2002	21.11.2002	2,200,000.00
Yantai Tongshenglian Petrochemical Co., Ltd.	4.2.2002	9.7.2002	50,000.00
Anshen Rongxin Electric Power Co., Ltd.	4.1.2002	14.7.2002	710,000.00
Shanghai Fengxina Seashore Group Co., Ltd.	1.2.2002	15.7.2002	50,000.00
			3,210,000.00

## 9. ACCOUNTS RECEIVABLE

Ageing analysis of accounts receivable is as follows:

	Closing				Opening			
	Amount RMB	Percentage(%)	Provision for bad debt RMB	Book value RMB	Amount RMB	Percentage(%)	Provision for bad debt RMB	value RMB
With 1 year	316,996,318.36	61	—	316,996,318.36	550,386,645.56	52	—	550,386,645.56
1 to 2 years	86,673,446.18	17	—	86,673,446.18	240,790,172.17	23	—	240,790,172.17
2 to 3 years	38,661,934.22	7	(14,128,048.30)	24,533,885.92	100,234,298.30	9	(40,093,719.33)	60,140,578.97
3 to 4 years	22,063,362.63	4	(14,737,004.57)	7,326,358.06	69,268,138.14	7	(41,560,882.88)	27,707,255.26
over 4 years	59,347,807.54	11	(59,347,807.54)	—	100,807,778.45	9	(100,807,778.45)	—
	523,742,868.93	100	(88,212,860.41)	435,530,008.52	1,061,487,032.62	100	(182,462,380.66)	879,024,651.96

The five largest outstanding debts are as follows:

Total of the five largest outstanding debts RMB	Share of accounts receivable %
91,527,260.94	17.4

Amount due from shareholders holding more than 5% of shares of the Company:

Name of Shareholder	Closing RMB	Opening RMB
Shenyang Northeast Electrical Holding Company	10,820.74	—
NET and its subsidiaries	26,584,483.00	86,124,301.02

All of net current amount involved in NET and its subsidiaries were provided and changed to provision for bad debts. Please refer to note 50(6) for details.

**10. OTHERS RECEIVABLE**

Aging analysis of other receivable is as follows:

	Closing			Book value	Opening			
	Amount	Percentage(%)	Provision for bad loans		Amount	Percentage(%)	Provision for bad loans	
	RMB		RMB	RMB	RMB	RMB	RMB	
With 1 year	199,955,011.93	56	—	199,955,011.93	297,179,334.79	53	—	297,179,334.79
1 to 2 years	39,488,933.24	11	—	39,488,933.24	59,084,267.81	11	—	59,084,267.81
2 to 3 years	2,147,406.22	0.5	(1,366,019.85)	781,386.37	23,223,681.12	4	(9,289,472.45)	13,934,208.67
3 to 4 years	114,230,861.96	32	(70,045,044.28)	44,185,817.68	106,279,733.38	19	(70,919,360.02)	35,360,373.36
Over 4 years	2,348,552.00	0.5	(2,348,552.00)	—	69,988,431.38	13	(69,988,431.38)	—
	<u>358,170,765.35</u>	<u>100</u>	<u>(73,759,616.13)</u>	<u>284,411,149.22</u>	<u>555,755,448.48</u>	<u>100</u>	<u>(150,197,263.85)</u>	<u>405,558,184.63</u>

Others receivable due with one year included a deposit of US\$20 million placed with Liaoning Trust and Investing Company. Please refer to note 51(1) for details.

The five largest outstanding debts are as follows:

Total of the five largest outstanding debts	Share of others receivable
RMB	%
<u>318,170,765.35</u>	<u>89</u>

There were no debts due from shareholders holding more than 5% of shares of the Company.

**11. PROVISION FOR BAD DEBTS**

	RMB
Opening balance	(332,659,644.51)
Provision for the period	(1,023,484.62)
Write-back for the period	15,118,156.88
Other transfer for the period	<u>156,592,495.71</u>
Closing balance	<u>(161,972,476.54)</u>

Other transfer for the period was provision for bad debts related to Shenyang Transformers Ltd. and its subsidiaries in the opening balance.



## 12. ADVANCES TO SUPPLIERS

Aging analysis of advances to suppliers is as follows:

	Closing		Opening	
	RMB	%	RMB	%
Within one year	10,599,832.01	48	189,260,539.42	63
1 to 2 years	5,704,661.27	26	65,964,994.04	22
2 to 3 years	993,070.45	4	21,528,926.48	7
Over 3 years	4,917,837.33	22	25,320,206.88	8
	<u>22,215,401.06</u>	<u>100</u>	<u>302,074,666.82</u>	<u>100</u>

No amount due from shareholder with more than 5% shareholding is included in advances to suppliers.

## 13. INVENTORIES AND PROVISION FOR DIMINUTION IN VALUE ON INVENTORIES

	Closing			Opening		
	Amount	Provision	Book	Amount	Provision	Book
		for impairment	value		for impairment	value
RMB	RMB	RMB	RMB	RMB	RMB	
Consumable with low value	2,172,280.65	—	2,172,280.65	1,871,712.89	—	1,871,712.89
Raw materials	79,953,322.69	(25,749,576.49)	54,203,746.20	189,787,988.38	(36,085,111.80)	153,702,876.58
Work in progress	37,851,615.56	(2,036,961.74)	35,814,653.82	136,254,832.36	(19,402,517.91)	116,852,314.45
Finished goods	90,424,577.33	(17,585,784.04)	72,838,793.29	138,832,548.13	(33,004,822.26)	105,827,725.87
	<u>210,401,796.23</u>	<u>(45,372,322.27)</u>	<u>165,029,473.96</u>	<u>466,747,081.76</u>	<u>(88,492,451.97)</u>	<u>378,254,629.79</u>

Change in provision for impairment is as follows:

	RMB
Opening	88,492,451.97
Provision for the period	963,796.67
Other transfer	<u>(44,083,926.37)</u>
Closing	<u>45,372,322.27</u>

Other transfer for the period included amount related to Shenyang Transformers Ltd. and its Subsidiaries in the opening balance.

**14. DEFERRED EXPENSES**

Category	Closing RMB	Opening RMB
Heating expenses	104,301.08	730,365.99
Insurance	414,344.68	1,224,284.27
Others	2,531,748.45	256,440.56
	<u>3,050,394.21</u>	<u>2,211,090.82</u>

Closing balance was prepayment before the end of the reporting period.

**15. LONG TERM INVESTMENTS**

Category	Opening		Book value	Decrease in the current period	Closing		Book value
	Investment amount	Provision for impairment			Investment amount	Provision for impairment	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Long term equity							
investment	5,325,645.40	—	5,325,645.40	—	5,325,645.40	(37,500.00)	5,288,145.40
Difference on equity							
investment	(1,561,477.11)	—	(1,561,477.11)	26,922.02	(1,534,555.09)	—	(1,534,555.09)
Long term debentures							
investment	1,160,207.00	—	1,160,207.00	(1,158,200.00)	2,007.00	—	2,007.00
Other equity							
investment	19,841,538.08	(6,186,964.91)	13,654,573.17	(2,594,770.69)	11,059,802.48	(272,000.00)	10,787,802.48
Total	<u>24,765,913.37</u>	<u>(6,186,964.91)</u>	<u>18,578,948.46</u>	<u>(3,726,048.67)</u>	<u>14,852,899.79</u>	<u>(309,500.00)</u>	<u>14,543,399.79</u>



## 16. LONG TERM EQUITY INVESTMENT

(1) Changes in other equity investment in this period are as follows:

Name of invested companies	Investment amount RMB	Change in equity for the period RMB	Accumulated change RMB	Share of registered capital in invested company %	Provision for impairment RMB	Closing Nominal value RMB
Jinzhou City Co-operative Bank	10,000,000.00	—	—	8.61	—	10,000,000.00
Bank of Communications	1,000,000.00	(1,000,000.00)	(1,000,000.00)	0.84	—	—
Shenyang Risk & Credit Co., Ltd.	1,000,000.00	(1,000,000.00)	(1,000,000.00)	1.60	—	—
Others	1,654,573.17	(594,770.69)	(594,770.69)	—	(272,000.00)	787,802.48
<b>Total</b>	<b>13,654,573.17</b>	<b>(2,594,770.69)</b>	<b>(2,594,770.69)</b>		<b>(272,000.00)</b>	<b>10,787,802.48</b>

(2) Investments in associated companies

Name of invested companies	Investment amount RMB	Change in equity for the period RMB	Accumulated change RMB	Share of registered capital in invested companies %	Provision for impairment RMB	Closing nominal value RMB	Principal operations
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	4,070,234.00	—	351,451.40	49.00	—	4,421,685.40	Manufacture of transformers and transmission equipment
Lingrong Insulation Material Factory	700,000.00	—	—	32.00	—	700,000.00	Manufacture of insulated materials
Jinzhou Jinrong Reactor Manufacture Co., Ltd.	175,000.00	—	28,960.00	35.00	(37,500.00)	166,460.00	Manufacture of electrical equipment
<b>Total</b>	<b>4,945,234.00</b>	<b>—</b>	<b>380,411.40</b>		<b>(37,500.00)</b>	<b>5,288,145.40</b>	

(3) Difference in long term equity investment

Name of invested companies	Initial RMB	Opening RMB	Period of amortization	Amortization in this period RMB	Balance of amortization RMB	Reason
Shenyang Shengao Metal Antisepsis Ltd.	(1,615,321.15)	(1,561,477.11)	30 years	26,922.02	(1,534,555.09)	Difference in initial investment

**17. INVESTMENT IN LONG TERM DEBENTURES**

Type of debentures	Maturity date	Opening RMB	Decrease for the period RMB	Closing RMB
Electricity bonds	2001	350,130.00	(350,130.00)	—
Treasury bonds	2001	1,900.00	—	1,900.00
Housing bonds	2002	808,177.00	(808,070.00)	107.00
		<u>1,160,207.00</u>	<u>(1,158,200.00)</u>	<u>2,007.00</u>

**18. FIXED ASSETS, INVESTMENT ACCUMULATED DEPRECIATION AND PROVISION FOR IMPAIRMENT**

	Housing buildings RMB	Machinery and equipment RMB	Motor vehicles and others RMB	Total RMB
At cost				
Opening	1,122,854,919.98	654,930,859.60	326,613,491.18	2,104,399,270.76
Acquisition for this period	306,438.28	397,239.85	1,454,387.74	2,158,065.87
Other transfer in this period	(413,469,093.14)	(263,325,930.88)	(285,046,640.84)	(961,841,664.86)
Transfer to building in progress in this period	934,244.58	46,162,350.09	—	47,096,594.67
Decrease in this period	—	(1,486,029.00)	(550,000.00)	(2,036,029.00)
Closing	<u>710,626,509.70</u>	<u>436,678,489.66</u>	<u>42,471,238.08</u>	<u>1,189,776,237.44</u>
Accumulated depreciation				
Opening	244,729,637.68	311,909,485.05	205,287,425.29	761,926,548.02
Provision in this period	7,039,802.15	11,507,273.12	1,322,193.84	19,869,269.11
Other transfer in this period	(142,844,848.13)	(116,661,136.82)	(182,756,289.34)	(442,262,274.29)
Decrease for this period	—	(1,484,729.00)	(428,295.00)	(1,913,024.00)
Closing	<u>108,924,591.70</u>	<u>205,270,892.35</u>	<u>23,425,034.79</u>	<u>337,620,518.84</u>
Provision for impairment				
Opening	104,618,704.65	34,111,840.81	15,652,345.64	154,382,891.10
Provision in this period	—	673,462.00	—	673,462.00
Other transfer in this period	(24,153,904.65)	(23,594,880.21)	(15,652,345.64)	(63,401,130.50)
Cancellation in this period	—	(245,966.98)	—	(245,966.98)
Closing	<u>80,464,800.00</u>	<u>10,944,455.62</u>	<u>—</u>	<u>91,409,255.62</u>
Net				
Opening	<u>773,506,577.65</u>	<u>308,909,533.74</u>	<u>105,673,720.25</u>	<u>1,188,089,831.64</u>
Closing	<u>521,237,118.00</u>	<u>220,463,141.69</u>	<u>19,046,203.29</u>	<u>760,746,462.98</u>
including:				
Closing pledged assets, net	<u>180,584,142.00</u>	<u>152,145,499.00</u>	<u>10,219,847.16</u>	<u>342,949,488.16</u>

Other transfer in this period was book value of assets related to Shenyang Transformers Ltd and its Subsidiaries in the opening balance.



## 19. CONSTRUCTION IN PROGRESS

Items	Opening RMB	Increased for the period RMB	Transfer for the period RMB	Other decrease for the period RMB	Closing %	Source of funds	Completion
High voltage transformers	87,953,292.92	—	—	(87,953,292.92)	—	Internal and bank loans	
Including: Loan expense capitalized	—	—	—	—	—		
Hydroelectric project	38,903,867.90	1,236,268.21	(34,218,748.00)	—	5,921,388.11	Bank loans	95%
Including: Loan expense capitalized	7,565,261.64	—	—	—	7,565,261.64		
High voltage transmission project	24,014,472.94	1,652,223.79	(11,943,602.09)	(6,375,190.19)	7,347,904.45	Internal and bank loans	80%
Including: Loan expense capitalized	3,501,654.73	844,506.64	(3,062,643.89)	—	1,283,517.48		
Kingdom Hotel 24 & 25/F	934,244.58	—	(934,244.58)	—	—	Bank loans	
Including: Loan expense capitalized	246,333.33	—	(246,333.33)	—	—		
	<u>151,805,878.34</u>	<u>2,888,492.00</u>	<u>(47,096,594.67)</u>	<u>(94,328,483.11)</u>	<u>13,269,292.56</u>		

Other decrease for the period was amount related to Shenyang Transformers Ltd and its subsidiaries in the opening balance.

Change in provision for construction in progress is as follows:

	<i>RMB</i>
Opening and Closing balance	<u>(52,090.04)</u>

## 20. INTANGIBLE ASSETS

Items	Way of possession	Original RMB	Opening RMB	Transfer for the period RMB	Amortization for the period RMB	Closing RMB	Remaining period for amortization
Land use right	injection	169,955,235.00	146,898,665.32	(86,474,580.47)	(664,281.00)	59,759,803.85	44.5 years
Franchise	injection	450,000.00	405,000.00	—	(22,500.00)	382,500.00	9 years
		<u>170,405,235.00</u>	<u>147,303,665.32</u>	<u>(86,474,580.47)</u>	<u>(686,781.00)</u>	<u>60,142,303.85</u>	

Land use right owned by Fuxin Enclosed Busbars Ltd., with net value of RMB5,893,816.00, was pledged to a bank as a collateral for a loan.

Transfer for the period was amount related to Shenyang Transformers Ltd and its subsidiaries in the opening balance.

**21. LONG TERM DEFERRED EXPENDITURE/OTHER LONG TERM ASSETS**

Items	Opening RMB	Increase for the period RMB	Transfer for the period RMB	Amortization for the period RMB	Closing RMB	Remaining period of amortization
Long term deferred expenditure						
Improvement expenses	6,856,913.78	—	—	(648,437.38)	6,208,476.40	5 years
Accounts received from the Group and its subsidiaries	164,137,246.36	—	25,615,785.83	—	138,521,460.53	
Less: provision for impairment	(90,137,246.36)	—	(25,615,785.83)	—	(64,521,460.53)	
Net	74,000,000.00	—	—	—	74,000,000.00	
	<u>80,856,913.78</u>	<u>—</u>	<u>—</u>	<u>(648,437.38)</u>	<u>80,208,476.40</u>	

Accounts receivable from the Group and its subsidiaries were accounts receivable from original controlling shareholder of the Company, Northeast Electrical Transmission and Transformation Equipment Group Corporation Limited ("NET") and its subsidiaries, (please refer to "related parties and related transactions" as set out in note 50). The Company initiated legal procedure and froze equity interest held by NET in Shenyang Furukawa Cable Company Limited and State-owned legal person shares in the Company held by NET. It is expected to recover RMB74 million. Other current accounts with NET and its subsidiaries were represented in accounts receivable and others receivable respectively, all of which was provided and contained in note 50(6).

Transfer for the period was amount related to Shenyang Transformers Ltd and its subsidiaries in the opening balance.

**22. SHORT TERM LOANS**

Items	Closing RMB	Opening RMB
Pledged loans		
- RMB	710,000.00	87,900,000.00
Charged loans		
- RMB	240,920,000.00	624,890,000.00
Guaranteed loans		
- RMB	179,080,000.00	395,477,000.00
- RMB translated from US	—	165,486,040.04
Loans on credit		
- RMB	13,000,000.00	2,950,000.00
	<u>433,710,000.00</u>	<u>1,276,703,040.04</u>





## 23. BILLS PAYABLE

	<b>Closing</b> <i>RMB</i>	<b>Opening</b> <i>RMB</i>
Bills of exchange	<u>11,500,000.00</u>	<u>32,650,000.00</u>

## 24. ACCOUNTS PAYABLE

Aging analysis of accounts payable is as follows:

	<b>Closing</b>		<b>Opening</b>	
	<b>Amount</b> <i>RMB</i>	<b>Percentage</b> (%)	<b>Amount</b> <i>RMB</i>	<b>Percentage</b> (%)
Within 1 year	246,388,577.77	72	585,452,827.26	77
1-2 years	51,012,654.15	15	101,453,342.82	14
2-3 years	25,203,078.39	7	10,417,011.55	1
Over 3 years	<u>18,656,286.12</u>	<u>6</u>	<u>60,184,118.65</u>	<u>8</u>
	<u>341,260,596.43</u>	<u>100</u>	<u>757,507,300.28</u>	<u>100</u>

Outstanding loans due from shareholders holding more than 5% of shares of the Company is as follows:

<b>Name of shareholder</b>	<b>Closing</b> <i>RMB</i>	<b>Opening</b> <i>RMB</i>
NET and its subsidiaries	<u>17,584,194.19</u>	<u>12,663,760.42</u>

## 25. RECEIPTS IN ADVANCE

No amount due from shareholder with more than 5% shareholding in the Company was included in the receipts in advance.

**26. DIVIDEND PAYABLE**

	Closing <i>RMB</i>	Opening <i>RMB</i>	Reason
Dividend for employee shares	<u>2,366,556.44</u>	<u>4,195,243.94</u>	Unpaid dividend for employee share

The amount represents dividend payable for employee shares by a subsidiary, Jinzhou Jinrong Electrical Equipment Co., Ltd.

**27. TAXES PAYABLE**

	Closing <i>RMB</i>	Opening <i>RMB</i>
Income tax	2,435,374.78	(3,166,443.11)
Value added tax	5,015,624.78	(5,106,198.56)
Business tax	336,593.93	579,465.60
City construction tax	662,074.56	(1,555,564.19)
Others	<u>6,974,988.32</u>	<u>4,380,294.53</u>
	<u>15,424,656.37</u>	<u>(4,868,445.73)</u>

**28. SUNDRY PAYABLE**

Item	Closing <i>RMB</i>	Opening <i>RMB</i>
Education additional tax	282,674.43	430,066.94
Energy fund	3,926,725.12	4,532,475.62
Estimated adjustment fund	<u>3,657,733.33</u>	<u>3,047,808.37</u>
	<u>7,867,132.88</u>	<u>8,010,350.93</u>



## 29. OTHER PAYABLES

Aging analysis of other payable is as follows:

	Closing		Opening	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Within 1 year	63,069,814.22	57	148,592,269.24	47
1 to 2 years	20,430,387.05	19	88,980,213.73	28
2 to 3 years	11,592,727.37	10	19,969,915.77	6
Over 3 years	14,856,459.08	14	58,736,468.55	19
	<u>109,949,387.72</u>	<u>100</u>	<u>316,278,867.29</u>	<u>100</u>

The reason for no settlement of significant other payables with over 3 years of age was not yet reconciled with the suppliers.

No amount due from shareholder with more than 5% shareholding in the Company was included in the other payables.

## 30. ACCURED EXPENSES

	Closing RMB	Opening RMB	Reasons
Interest expenses	525,969.20	3,554,514.16	Unpaid
Service expense from intermediaries	2,000,000.00	2,000,000.00	Unpaid
Others	2,284,390.28	1,482,795.92	Unpaid
	<u>4,810,359.48</u>	<u>7,037,310.08</u>	

## 31. CURRENT PORTION OF LONG TERM LOANS

	Closing RMB	Opening RMB
Bank loans (guarantee)	<u>184,626,800.00</u>	<u>498,258,879.02</u>

**32. LONG TERM LOANS**

Creditors	Closing RMB	Opening RMB	Loan period Year	Annual Rate %	Provision of loans
Industrial & Commercial Bank of China	15,400,000.00	14,500,000.00	1-2	7.560	Guaranteed loans
Industrial & Commercial Bank of China	89,010,000.00	25,400,000.00	2-3	6.210	Guaranteed loans
Industrial & Commercial Bank of China	5,000,000.00	45,000,000.00	3-4	4.950	Guaranteed loans
Industrial & Commercial Bank of China	—	23,000,000.00	1-2	6.675	Guaranteed loans
Industrial & Commercial Bank of China	—	2,000,000.00	2-3	6.675	Guaranteed loans
Industrial & Commercial Bank of China	—	9,400,000.00	3-4	6.675	Guaranteed loans
China Development Bank	151,471,387.08	80,000,000.00	Over 4 years	6.216	Guaranteed loans
China Development Bank	—	10,000,000.00	1-2	6.210	Guaranteed loans
China Development Bank	—	20,000,000.00	2-3	6.210	Guaranteed loans
China Development Bank	—	30,000,000.00	3-4	6.210	Guaranteed loans
China Development Bank	—	3,308,951.01			Guaranteed loans
Jinzhou Business Bank Lingyun Subbranch	5,800,000.00	3,110,000.00	1-2	7.605	Guaranteed loans
Jinzhou Business Bank Yixian Subbranch	5,000,000.00	5,000,000.00	1-2	4.122	Guaranteed loans
Jinzhou Business Bank Yongfeng Subbranch	17,600,000.00	17,600,000.00	1-2	7.722	Guaranteed loans
Industrial & Commercial Bank of China	5,900,000.00	—	1-2	7.488	Guaranteed loans
Industrial & Commercial Bank of China	3,700,000.00	—	1-2	8.074	Guaranteed loans
Industrial & Commercial Bank of China	16,000,000.00	—	1-2	7.722	Guaranteed loans
Industrial & Commercial Bank of China	16,000,000.00	—	1-2	6.436	Guaranteed loans
China Bank Jinzhou Branch	13,000,000.00	—	1-2	6.904	Guaranteed loans
Communication Bank Jinzhou Branch	150,000.00	—			Guaranteed loans
Industrial & Commercial Bank of China	—	30,600,000.00	1-2	7.722	Guaranteed loans
Industrial & Commercial Bank of China	—	7,000,000.00	2-3	7.722	Guaranteed loans
Jinzhou Business Bank	1,620,000.00	—			Guaranteed loans
CCIC Finance Limited	66,216,800.00	361,148,879.02	2-3	Libor+1.475%	Guaranteed loans
Farm Bank of China	4,600,000.00	4,600,000.00	2-3	6.300	Guaranteed loans
Trust & Investment Company	1,400,000.00	1,400,000.00	2-3		Guaranteed loans
Subtotal	417,868,187.08	693,067,830.03			
Loan from Shen Bian department:					
ICBC Shifu Road Subbranch	—	109,500,000.00	Over 4 years	6.210	Guaranteed loans
ICBC Shifu Road Subbranch	—	39,250,000.00	Over 4 years	6.210	Guaranteed loans
ICBC Xinchengzi Subbranch	—	5,000,000.00	1-2	7.614	Guaranteed loans
National Machine Light Industrial Weave Investment Company	—	8,850,000.00	Over 4 years		Guaranteed loans
Subtotal:	—	162,600,000.00			
Less: current portion of Long term loans	(184,626,800.00)	(498,258,879.02)			
Loan repaid after one year	233,241,387.08	357,408,951.01			
Loans due within one year are as follows:					
Guaranteed loans	184,626,800.00	498,258,879.02			
	184,626,800.00	498,258,879.02			

**33. SPECIFIC PAYABLE**

	Closing RMB	Opening RMB
95 Technology improvement interest reimbursement	—	21,880,487.85
Three items of Technology fund	1,751,071.80	1,501,071.80
	1,751,071.80	23,381,559.65



### 34. SHARE CAPITAL

Movement of shares of the Company is as follows:

	Closing (Shares)	Opening (Shares)
1. Non-listed shares		
1. Promoter's shares		
– State held shares	380,520,000.00	380,520,000.00
– Domestic Legal person held shares	91,300,000.00	91,300,000.00
Total of non-listed shares	471,820,000.00	471,820,000.00
2. Listed shares		
1. Domestic RMB ordinary shares	143,600,000.00	143,600,000.00
2. Overseas listed foreign investment shares	257,950,000.00	257,950,000.00
Total of listed shares	401,550,000.00	401,550,000.00
3. Total number of shares	<u>873,370,000.00</u>	<u>873,370,000.00</u>

The above-shares have nominal value of RMB 1 for each share.

1. Listed Domestic Rmb ordinary shares represent shares listed on the Shenzhen Stock Exchange.
2. Overseas listed foreign investment shares (“H shares”) represent share listed on the Stock Exchange of Hong Kong Limited.
3. All the Domestic and ‘H’ shares rank pari passu in all respects.
4. NET, promoter, holds 450,520,000 state-owned legal person shares. The movement of the share capital during the period is as follows:
  - (1) On 25 February 2002, 230 million State-owned legal person shares in the Company held by NET were auctioned and bought by Shenyang Shengang Industrial Company Limited (currently named as “Shenyang Northeast-Electrical Holding Company”). At the end of the reporting period, Shenyang Northeast-Electrical Holding Company held 230,000,000 shares (26.33% of the total share capital) of the Company and has become the single largest shareholder of the Company.
  - (2) At the end of the reporting period, all of 114 million shares of the Company held by NET were frozen.

**35. CAPITAL SURPLUS**

	Opening <i>RMB</i>	Increase in this period <i>RMB</i>	Closing <i>RMB</i>
Share premium	115,547,484.00	—	115,547,484.00
Difference on related parties transactions	7,609,544.18	—	7,609,544.18
Other capital reserve	491,617,902.05	148,115,279.70	639,733,181.75
	<u>614,774,930.23</u>	<u>148,115,279.70</u>	<u>762,890,209.93</u>

According to the repayment agreement entered into by the Company and the syndicate, led by CCIC Finance Limited (香港中芝興業財務公司), the syndicate exempted the Company from repayment of total US\$14 million of the principal and interest thereto (amounting to RMB30,085,000) and withheld tax payable (RMB148,115,279.70). All of the above amounts were recognized in capital surplus for this period.

**36. SURPLUS RESERVE**

	Statutory surplus reserve <i>RMB</i>	Discretionary surplus reserve <i>RMB</i>	Statutory public welfare fund <i>RMB</i>	Total <i>RMB</i>
Opening & closing	<u>48,091,633.34</u>	<u>28,284,687.96</u>	<u>32,210,803.10</u>	<u>108,587,124.40</u>

Statutory surplus reserve can be utilized to offset loss of the Company, expand operation of the Company and increase the share capital of the Company. Statutory public welfare fund can be utilized to provide welfare for workers of the Company as a whole.

**37. UNDISTRIBUTED PROFIT**

	Amount <i>RMB</i>
Opening undistributed profit before adjustment	(1,263,594,274.99)
Add: adjustment for opening undistributed profit (Note 4)	(14,837,544.28)
Opening undistributed profit	(1,278,431,819.27)
Add: net profits for this period	<u>37,938,962.01</u>
Closing undistributed profit	<u>(1,240,492,857.26)</u>



### 38. INCOME FROM PRINCIPAL OPERATIONS

	Six months ended 30.6.2002 (Accumulated) <i>RMB</i>	Six months ended 30.6.2001 (Accumulated) <i>RMB</i>
Ancilliary products of transformer	208,075,141.18	292,016,735.00
High voltage switch	236,621,573.00	203,629,125.00
Voltage and current transformer	–	16,875,228.00
Power capacitor	73,457,179.64	62,997,171.00
Close bus bar	45,131,471.00	8,810,017.00
Food, beverage and accomodation	17,229,023.55	21,660,687.00
Others	4,859,767.96	5,263,865.76
	<u>585,374,156.33</u>	<u>611,252,828.76</u>

Sales income from the top 5 largest customers for the period amounted to RMB126,183,373.00, representing 22% of the total sales income of the Company for the period.

Income from ancilliary products of transformer was the income of Shenyang Transformers and its subsidiaries for the period from 1 January 2002 to the date of disposal.

### 39. COSTS FROM PRINCIPAL OPERATIONS

	Six months ended 30.6.2002 (Accumulated) <i>RMB</i>	Six months ended 30.6.2001 (Accumulated) <i>RMB</i>
Ancilliary products of transformer	146,140,563.83	230,808,573.00
High voltage switch	173,716,565.00	183,988,228.00
Voltage and current transformer	–	17,333,474.00
Power capacitor	38,922,479.33	49,244,681.00
Close bus bar	23,556,412.00	6,867,244.00
Food, beverage and accomodation	11,652,939.74	3,724,440.00
Others	2,282,950.17	4,473,380.39
	<u>396,271,910.07</u>	<u>496,440,020.39</u>

**40. TAX AND ADDITION OF PRINCIPAL OPERATIONS**

<b>Item</b>	<b>Basis of charges</b>
Urban maintenance and construction surcharge	7%
Educational surcharge	4%
Business tax	5% - 20%

**41. PROFIT FROM OTHER OPERATIONS**

	Six months ended 30.6.2002 (Accumulated) <i>RMB</i>	Six months ended 30.6.2001 (Accumulated) <i>RMB</i>
Sales of material		
– Revenue	9,223,049.61	16,590,000.00
– Costs	(7,210,590.46)	(13,445,466.65)
	<u>2,012,459.15</u>	<u>3,144,533.35</u>
Technical service and transportation		
– Revenue	16,185,768.10	22,440,000.00
– Costs	(8,164,480.00)	(16,095,176.69)
	<u>8,021,288.10</u>	<u>6,344,823.31</u>
Total	<u><u>10,033,747.25</u></u>	<u><u>9,489,356.66</u></u>

**42. FINANCE COSTS**

	Six months ended 30.6.2002 (Accumulated) <i>RMB</i>	Six months ended 30.6.2001 (Accumulated) <i>RMB</i>
Interest expenses	39,636,291.26	39,488,970.59
less: interest income	296,430.79	1,611,494.69
Exchange loss	163,268.80	–
Others	748,043.85	556,703.37
	<u><u>40,251,173.12</u></u>	<u><u>38,434,179.27</u></u>





#### 43. INVESTMENT GAIN

	Six months ended 30.6.2002 (Accumulated) <i>RMB</i>	Six months ended 30.6.2001 (Accumulated) <i>RMB</i>
Gain from long-term investment		
Gain on disposal equity interest in a subsidiary	47,495,680.59	–
Profit from distribution of non-controlling companies	–	506,482.43
Amortisation of difference in equity investment	26,922.02	–
Other income	(59,948.05)	–
	<u>47,462,654.56</u>	<u>506,482.43</u>

Gain on disposal of a subsidiary represented the disposal of 100% equity interest in Shenyang Transformer to Northeast Construction and Installation Corporation. The gain represents the difference between the consideration for the disposal and the net asset value of Shenyang Transformers as at the date of disposal of such equity interest. The net asset value of Shenyang Transformers as at the date of disposal of such equity interest was determined based on the net asset value of Shenyang Transformers as at 31 December 2001 less the loss of Shenyang Transformers from 1 January 2002 to the date of disposal. Please refer to note 55 for details.

#### 44. SUBSIDY INCOME

Item	Amount incurred during the period <i>RMB</i>	Source and basis
Tax refund	<u>480,016.03</u>	Tax refund for foreign- invested enterprise

#### 45. NON-OPERATING INCOME

Item	Six months ended 30.6.2002 (Accumulated) <i>RMB</i>	Six months ended 30.6.2001 (Accumulated) <i>RMB</i>
Gain from disposal of fixed assets	346,454.00	4,157.00
Penalty income	–	64,459.19
Others	1,536,993.55	317,951.26
	<u>1,883,447.55</u>	<u>386,567.45</u>

**46. NON-OPERATING EXPENSES**

Item	Six months ended 30.6.2002 (Accumulated) RMB	Six months ended 30.6.2001 (Accumulated) RMB
Technical school expenses	-	84,746.80
Net loss from disposal of fixed assets	-	126,554.06
Others	1,740,921.05	1,533,946.76
	<u>1,740,921.05</u>	<u>1,745,247.62</u>

**47. INCOME TAX**

Item	Six months ended 30.6.2002 (Accumulated) RMB	Six months ended 30.6.2001 (Accumulated) RMB
Income tax payable by the Company	-	-
Income tax payable by subsidiaries/associated companies	4,541,809.06	230,366.75
	<u>4,541,809.06</u>	<u>230,366.75</u>

**48. CASH RECEIVED FROM DISPOSAL OF SUBSIDIARY**

	Accumulated amount from previous period RMB
Cash received from disposal of subsidiary	150,000,000.00
Less: cash assets of subsidiary	<u>(105,308,563.99)</u>
Net cash inflow	<u>44,691,436.01</u>

Cash assets of subsidiary represent cash balances of Shenyang Transformers as at 31 December 2001.



## 49. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

### (1) Others receivable

Aging analysis of others receivable is as follows:

	Closing				Opening			
	Amount RMB	Percentage (%)	Provision for bad debts RMB	Book value RMB	Amount RMB	Percentage %	Provision for bad debts RMB	Book value RMB
Within 1 year	179,897,786.35	66	-	179,897,786.35	166,787,222.82	64	-	166,787,222.82
1 to 2 years	-	-	-	-	3,280,784.32	1	-	3,280,784.32
2 to 3 years	-	-	-	-	-	-	-	-
3 to 4 years	90,757,800.00	34	(62,878,800.00)	27,879,000.00	92,878,800.00	35	(62,878,800.00)	30,000,000.00
Over 4 years	-	-	-	-	-	-	-	-
	<u>270,655,586.35</u>	<u>100</u>	<u>(62,878,800.00)</u>	<u>207,776,786.35</u>	<u>262,946,807.14</u>	<u>100</u>	<u>(62,878,800.00)</u>	<u>200,068,007.14</u>

### (2) Long term investments

Items	Investment amount RMB	Provision for impairment RMB	Closing			Opening		Book value RMB
			Book value RMB	in current period RMB	in current period RMB	Investment amount RMB	diminution in value RMB	
Long term equity investment	388,773,416.27	-	388,773,416.27	18,503,901.26	(127,624,225.73)	279,653,091.80	-	279,653,091.80
of which:								
Investment in subsidiaries	384,351,730.87	-	384,351,730.87	18,503,901.26	(127,624,225.73)	275,231,406.40	-	275,231,406.40
Investment in joint ventures	-	-	-	-	-	-	-	-
Investment in associated companies	4,421,685.40	-	4,421,685.40	-	-	4,421,685.40	-	4,421,685.40
Investment in other equity	10,000,000.00	-	10,000,000.00	-	-	10,000,000.00	-	10,000,000.00
Total	<u>398,773,416.27</u>	<u>-</u>	<u>398,773,416.27</u>	<u>18,503,901.26</u>	<u>(127,624,225.73)</u>	<u>289,653,091.80</u>	<u>-</u>	<u>289,653,091.80</u>

Decrease in current period includes write-back of investment amounting to RMB102,504,319.41 and current account amounting to RMB25,125,906.32.

The movements in other equity investments are as follows:

Name of invested Company	Investment period	Investment amount RMB	Changes in interest for current period RMB	Accumulated changes RMB	Percentage to registered capital of investee %	Provision for diminution in value RMB	Book value at the end of the reporting period RMB	Remarks
Jinzhou City Co-operative Bank		<u>10,000,000.00</u>	<u>-</u>	<u>-</u>	8.61	<u>-</u>	<u>10,000,000.00</u>	-

The movements in associated companies investments are as follows:

Name of invested Company	Investment period	Investment amount RMB	Changes in accumulated interest RMB	Percentage to registered capital of investee %	Provision for diminution in value RMB	Book value at end of the reporting period RMB	Principal operations
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.		4,070,234.00	351,451.40	49.00	-	4,421,685.40	Manufacture of transmission and transformation machinery

The movements in subsidiary investments are as follows:

Items	Opening RMB	Increase for the period RMB	Decrease for the period RMB	Closing RMB
Investment cost	1,388,383,500.00	17,658,585.00	(648,907,197.84)	757,134,887.16
Amount due from subsidiaries	140,110,913.04	-	(25,125,906.32)	114,985,006.72
Share of results of subsidiaries	(1,151,613,691.40)	845,316.26	553,879,887.66	(596,888,487.48)
Increase in recognized capital surplus of subsidiary	7,471,009.23	-	(7,471,009.23)	-
<b>Total</b>	<b>384,351,730.87</b>	<b>18,503,901.26</b>	<b>(127,624,225.73)</b>	<b>275,231,406.40</b>

### (3) Long term deferred expenditure/other long term assets

Type	Opening RMB	Transfer in this period RMB	Amortization in this period RMB	Closing RMB	Remaining period for amortization
Long term deferred expenditure					
Housing improvement expenditure	264,999.99	-	(14,999.99)	250,000.00	5 years
Amount due from Group and its subsidiaries	82,620,899.00	-	-	82,620,899.00	
	<b>82,885,898.99</b>	<b>-</b>	<b>(14,999.99)</b>	<b>82,870,899.00</b>	

RMB8,620,899.00 of the amount due from Group and its subsidiaries was reclassified as others receivable.



(4) Long term liabilities due within one year

	<b>Closing</b> <i>RMB</i>	<b>Opening</b> <i>RMB</i>
Bank loans (guaranteed)	<u>66,216,800.00</u>	<u>361,148,879.02</u>

(5) Investment gain

	<b>Accumulated amount for the current period</b> <i>RMB</i>	<b>Accumulated amount from previous period</b> <i>RMB</i>
Long term investment gain		
Gain from disposal of equity of subsidiary	47,495,680.59	–
Results of subsidiaries by equity accounting method	(8,236,834.27)	(102,205,507.20)
Profit appropriated from non-controlling company	<u>–</u>	<u>506,482.43</u>
	<u>39,258,846.32</u>	<u>(101,699,024.77)</u>

Details of gain from disposal of subsidiaries' interest are set out in note 43.

**50. RELATED PARTIES AND RELATED TRANSACTIONS**

## (1) Related party with controlling relationship

Name of related parties	Registered place	Principal operations	Relationship with the Company	Nature or type	Legal representative
Shenyang Northeast-Electrical Holding Company	Shenyang, Liaoning	Equity investment	Sale largest shareholder	limited liability	Tian Li
NET	Shenyang, Liaoning	Equity investment	Original controlling shareholder	limited liability	Wo Dianjun
Shenyang High-voltage Switchgears Ltd.	Shenyang, Liaoning	Manufacture of switchgears, circuit breakers and disconnectors	Subsidiary	limited liability	Zhang Deben
Jinzhou Power Capacitors Ltd.	Shenyang, Liaoning	Manufacture of lightening rods and capacitors	Subsidiary	limited liability	Cai Qi
Fuxin Enclosed Busbars Ltd.	Shenyang, Liaoning	Manufacture of enclosed busbars	Subsidiary	limited liability	Zhou Renlao
Kingdom Hotel Shenyang	Shenyang, Liaoning	Provision of hotel and catering services	Subsidiary	limited liability	Qu Lin
Shenyang Hua Kang Restaurant & Entertainment Co. Ltd.	Shenyang, Liaoning	Provision of entertainment services	Subsidiary	limited liability	Xiang Yongchun
Jinzhou Jinrong Electrical Equipment Co. Ltd.	Shenyang, Liaoning	Manufacture of rod-type high voltage capacitors	Subsidiary liability	limited	Cai Qi
Shenyang Shengao Metal Antisepsis Ltd.	Shenyang, Liaoning	processing anti-corrosive processing services of metallic accessories	Subsidiary	limited liability	Zhang Deben



(2) Related party with controlling relationship-registered capital and its changes

Name of related parties	Opening RMB	Increase in this period RMB	Decrease in this period RMB	Closing RMB
Shenyang Northeast-Electrical Holding Company	76,000,000.00	—	—	76,000,000.00
NET	1,320,000,000.00	—	—	1,320,000,000.00
Shenyang High-voltage Switchgears Ltd.	144,920,000.00	—	—	144,920,000.00
Jinzhou Power Capacitors Ltd.	29,420,000.00	—	—	29,420,000.00
Fuxin Enclosed Busbars Ltd.	18,090,000.00	—	—	18,090,000.00
Kingdom Hotel Shenyang	150,000,000.00	—	—	150,000,000.00
Shenyang Hua Kang Restaurant & Entertainment Co. Ltd.	25,200,000.00	—	—	25,200,000.00
Jinzhou Jinrong Electrical Equipment Co. Ltd.	3,000,000.00	—	—	3,000,000.00
Shenyang Shengao Metal Antisepsis Ltd.	3,890,000.00	—	—	3,890,000.00

(3) Related party with controlling relationship-change of shareholding

Name of related party	Opening balance		Increase		Decrease		Closing balance	
	RMB	%	RMB	%	RMB	%	RMB	%
Shenyang Northeast- Electrical Holding Company	—	—	230,000,000.00	26.34	—	—	230,000,000.00	26.34
Northeast Electrical Transmission and Transformation Equipment Group Corporation	380,520,000.00	43.56	—	—	(266,520,000.00)	(30.51)	114,000,000.00	13.05

On 25 February 2002, Shenyang Northeast-Electrical Holding Company (originally named as "Shenyang Industrial Company Limited") acquired 230,000,000 State-owned legal person shares of the Company, representing 26.33% of the total issued capital and completed transfer of shares on 5 March 2002, becoming the sole largest shareholder of the Company.

NET, original controlling shareholder of the Company, currently holds 114,000,000 State-owned legal person shares (frozen) of the Company, representing 13.05% of the total issued capital and become the second largest shareholder of the Company.

## (4) Related party without controlling relationship

<b>Name of related party</b>	<b>Relationship with our relationship</b>
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	Associate
NET Sales Co.	Subsidiary of original Controlling Shareholder
NET Import and Export Co.	Subsidiary of original Controlling Shareholder
NET Xiamen Co.	Subsidiary of original Controlling Shareholder
NET Equipment Co.	Subsidiary of original Controlling Shareholder
NET Property Development Company	Subsidiary of original Controlling Shareholder
NET Finance Co.	Subsidiary of original Controlling Shareholder
Fushun Porelain Factory	Subsidiary of original Controlling Shareholder
Dandong Power Capacitors Ltd.	Subsidiary of original Controlling Shareholder

## (5) Significant related transactions between the Company and the above-related parties in this period are as follows:

Sales and purchase

Details of sales and purchase of goods by the company with related parties are as follows:

	<b>Accumulated amount in this period RMB</b>	<b>Accumulated amount from the previous period RMB</b>
<b>Sales</b>		
NET Import & Export Co.	1,103,592.00	28,811,985.00
NET Sales Co.	—	3,820,840.00
	<u>1,103,592.00</u>	<u>32,632,825.00</u>
<b>Purchase</b>		
NET Import & Export Co.	—	18,147,386.00
Fushun Porcelain Factory	13,796,363.00	6,275,406.00
	<u>13,796,363.00</u>	<u>24,422,792.00</u>

Transaction prices for related transactions are determined in the same way as non-related transactions





(6) Credit and debts

Items	Related parties	Closing RMB	Opening RMB
Accounts receivable	NET Sales Co.	2,982,036.00	16,793,977.81
	NET	18,190,709.72	—
	NET Import & Export Co.	3,160,679.25	57,151,207.05
	Others	2,251,058.03	12,179,116.16
		<u>26,584,483.00</u>	<u>86,124,301.02</u>
Other long term assets	NET	40,212,389.71	65,828,175.54
	NET Finance Co.	98,260,831.32	98,260,831.32
	Others	48,239.50	48,239.50
		<u>138,521,460.53</u>	<u>164,137,246.36</u>
Accounts payable	Fushan Porcelain Factory	16,557,031.00	7,506,942.60
	NET Finance Co.	—	118,830.00
	Others	1,027,163.19	5,037,987.82
		<u>17,584,194.19</u>	<u>12,663,760.42</u>
		<u>147,521,749.34</u>	<u>237,597,786.96</u>

Account due from NET and its subsidiaries amounted to RMB147,521,749.34 at the end of the period. The Company initiated lawsuit in respect with part of accounts receivable and froze interest in Shenyang Furukawa Cable Company Limited and legal person shares in the Company held by NET respectively. It is expected to recover RMB74 million. All of the remaining balance was provided and charged to provision for impairment, including RMB64,521,460.53 represented in provision for bad debts as set out in Other long term assets and RMB9,000,280.87 represented in provision for bad debts as set out in Accounts receivable.

## 51. CONTINGENT LIABILITIES

As at the balance sheet date, the Company had the following contingent liabilities:

1. The deposit of US\$20,000,000 (equivalent to RMB165,532,000) placed with Liaoning Trust and Investment Corporation (“Liaoning Trust”) is irrecoverable as its Financial Institution Legal Person Licence (金融機構法人許可證) and Financial Institution Business Licence (金融機構營業許可證) had been withdrawn pending liquidation process. The Company had submitted the relevant evidence of debt in respect of its deposit of US\$20,000,000 to the liquidation team which were confirmed by the team. At present, the relevant liquidation procedures are in progress. Following the review on the latest financial position of Liaoning Trust by the directors and the lawyer of the Company, the Company believed that Liaoning Trust has the ability to repay the principal of the loan to the Company. Accordingly, no allowance has been made.

2. Northeast Electrical Transmission and Transformation Group Corporation Limited, the original controlling shareholder of the Company, and China Everbright Bank signed a loan agreement in respect of a loan in the sum of RMB30,000,000 and the Company acted as guarantor and undertook joint guarantee liability. In December 2001, China Everbright Bank instituted legal proceedings against the Company for repayment of the principal of the loan amounting to RMB26,400,000 and interest thereon. The lawyer of the Company was of opinion that the guarantee shall be invalid and it is unlikely that the Company will pay compensation to China Everbright Bank. Accordingly, no provision has to be made with respect thereto. The Company is striving to release the guarantee liability.
3. The Company acts as the guarantor of the loan agreement entered into between Shenyang Cable Company Limited (“Shenyang Cable”), a subsidiary of NET, and Bank of China, Shenyang Branch in respect of a loan of RMB20,000,000 under which the Company is jointly and severally liable. In July 2001, Bank of China, Shenyang Branch instituted legal proceedings against Shenyang Cable and the Company for repayment of the loan. On 2 July 2001, the Immediate People’s Court in Shenyang ruled that as Shenyang Cable had already declared a bankruptcy procedure as evidenced by the Notice of (2000) Shen Jing Chu Zi No. 422, the litigation initiated by Bank of China, Shenyang Branch was overruled in accordance with the relevant requirements of laws. As at the date of this report, the Company has not received the writ. The directors and the lawyer of the Company believe that it is unlikely that the Company has to perform its obligations as the guarantor in the near future.
4. The Company acts as the guarantor for Shenyang Transformers Ltd. under the loan agreements signed with China Merchant Bank, China Construction Bank, Bank of Communications, Bank of China, CITIC Industrial Bank and Shenyang Trust and Investment Company and Shenyang International Trust and Investment Company in respect of a loan in an aggregate amount of RMB462,590,000 and is jointly and severally liable. The Company has signed an agreement with Shenyang National Industrial Assets Management Company pursuant to which Shenyang National Industrial Assets Management Company will seek another company to act as guarantor after completion of the transfer of the equity interest in Shenyang. Currently, the relevant procedures are in progress.
5. The Company had commenced legal proceedings for repayment of an outstanding loan amounting to RMB96,000,000 (which comprised of two loans in the amount of RMB46,000,000 and RMB50,000,000 respectively) due from an unconnected company. According to the arbitration judgement (2001) Shen Jing Chu Zi No. 392, (2001) Shen Jing Chu Zi No. 393 from the Intermediate People’s Court of Shenyang, Liaoning Province. As at 30 June 2002, the Company had only recovered RMB5,240,000 from the borrower who was in default to make repayment of the outstanding balance of RMB90,760,000. The Company had applied for specific performance thereof. Such performance is in progress. Please refer to note 53 for details. The Company has made provision of RMB 62,880,000 for diminution in value for the aforesaid outstanding amount. Currently, the bank balance amounted to RMB27,880,000.

## 52. COMMITMENTS

The Company has no commitment required to be explained as at the balance sheet date.



### **53. NON-ADJUSTED EVENTS OF POST BALANCE SHEET EVENTS**

The Company had the following post balance sheet events:

#### **Recovery of debt due from Group Company**

Other long-term assets, separated amount from Group Company and its subsidiaries, amounting RMB74,000,000. After the balance sheet date, the Company had recovered RMB66,900,000, of which RMB52,000,000 was repaid by way of set off by 33% equity interest held by Group Company in Furukawa Cable Company Limited (“Furukawa Cable”). The Ministry of Foreign Economic and Trade issued a new approval on 20 July 2002, upon which the change of the 33% equity interest was completed. On 29 July 2002, the Company and Group Company entered into the Assignment Agreement, pursuant to which Group Company agreed to use of remaining 9.5% equity interest of Furukawa Cable to set off RMB14,900,000 of the debt owing to the Company. Such change in shareholding had been approved by the relevant department of the Company, and the procedures for such change of shareholding had been completed. Up to date, the Company has become one of the largest shareholders of Furukawa Cable holding 42.5% equity interest therein.

#### **Recovery of loan to a third party**

In respect of the litigation regarding an amount of RMB46,000,000 payable by an unconnected company, the controlling shareholder of such unconnected company agreed to set off the amount by asset held by it. On 24 July 2002, the controlling shareholder of such company agreed to transfer the 97.68% equity interest (valued at RMB49,100,000) held by it therein to Northeast Electrical Investment Ltd. as designated by the Company without consideration. It is also agreed that the controlling shareholder of such unconnected company may repurchase such shares at a price of RMB46,000,000 within twelve months.

### **54. DEBT REORGANIZATION**

On 29 May 2002, the Company entered into the Repayment Agreement with, the syndicated represented by CCIC Finance Limited, pursuant to which the Company would repay 65% of the principal amount of the loan of US\$40,000,000, i.e. US\$26,000,000 by 3 instalments within six months from the date of signing of the agreement. In accordance with the Repayment Agreement, the Company settled the first instalment amounting to US\$18,000,000 to the syndicated represented by CCIC Finance Limited on 30 May 2002. The outstanding balance of US\$8,000,000 will be fully settled on 28 November, 2002.

According to the Repayment Agreement, the syndicate had forfeited repayment of US\$14,000,000 of the principal and interest accrued totalling US\$148,115,279.70, which will be transferred to the capital reserve.

### **55. DISPOSAL OF MATERIAL ASSET**

A Board of Directors’ meeting of the Company was held on 24 April 2002 at which it was resolved to dispose of its entire interest in Shenyang. Its registered capital amounted to RMB320,565,000 with Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited and Shenyang High-Voltage Switchgears Ltd. as its shareholders. Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited and Shenyang High-Voltage Switchgears

Limited contributed RMB320,564,999 and RMB1 respectively. The purchaser of this disposal was Northeast Construction and Installation Company and the consideration for the disposal of RMB150,000,000 was determined with reference to the audited net asset value of RMB112,386,469.94 as at 31 December 2001. The agreement was signed on 24 April 2002.

As Shenyang was disposed of and the consideration payable by the acquirer will not be affected by the results of Shenyang from 1 January 2002 to the date of disposal, the operating results of Shenyang from 1 January 2002 to the date of disposal and whether the classification of the gain on the disposal of such equity interest is correct or not will not affect the net profit of the Company for the period. Accordingly, the gain on the disposal of the subsidiary is calculated based on the consideration for the disposal less net asset value of Shenyang as at 31 December 2001 and loss of Shenyang from 1 January 2002 to the date of disposal. Net cash inflow from the disposal of Shenyang is generated based on the consideration for the disposal less cash balance of Shenyang at the beginning of the period. The calculations are detailed as follows:

	<b>Amount</b> <i>RMB'000</i>
Consideration received from disposal of Shenyang	150,000,000.00
less: Net asset of Shenyang as at 31 December 2001	112,386,469.94
Loss of Shenyang from 1 January 2002 to the date of disposal	(9,882,150.53)
Gain on disposal of Shenyang	47,495,680.59
Consideration received from disposal of Shenyang	150,000,000.00
less: Cash balance of Shenyang as at 31 December 2001	105,308,563.99
Net cash inflow from disposal of Shenyang	<u>44,691,436.01</u>

According to the agreement entered into among the Company, Northeast Construction and Installation Company and Shenyang National Company and Shenyang National Industrial Assets Management Company, the transfer price of RMB150,000,000 was paid by Shenyang National Industrial Assets Management Company on behalf of Northeast Construction and Installation Company. After completion of this transfer, Shenyang National Industrial Assets Management Company will be the shareholder of Shenyang. The formalities in respect of the transfer of equity interest had been completed on 4 June 2002.

## 56. OTHER MATERIAL EVENT

Shenyang High-Voltage Switchgears Ltd., a subsidiary of the Company, entered into an agreement with Mr. Cai Weihe in 1998 with respect to the establishment of Beijing Sales Company of Shenyang High-Voltage Switchgears Ltd. ("Sales Company") (瀋陽高壓開關有限責任公司北京銷售分公司), the profit or loss of which will be solely yielded or borne by Mr. Cai Weihe. The Company had stated that the assets, liabilities and relevant interests of Shenyang High-Voltage Switchgears Ltd. shall be independent of and not connected with the Company. In accordance with such agreement, any loss incurred to the Company arising from the Sales Company shall be borne by Mr. Cai Weihe. Accordingly, the financial statements do not contain any financial data which is related to the Sales Company.



**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2002**

**1. CALCULATION OF PROFIT INDICATORS:**

*Unit: RMB*

<b>Profit for the reporting period</b>	<b>Return on net assets (%)</b>		<b>Earnings per share (Rmb/share)</b>	
	<b>Fully diluted</b>	<b>Weighed average</b>	<b>Fully diluted</b>	<b>Weighed average</b>
Profit from principal operations	36.70	51.14	0.21	0.21
Operating profit	(0.67)	(0.93)	(0.004)	(0.004)
Net profit	7.52	10.48	0.04	0.04
Net profit after extraordinary profit and loss	(2.02)	(2.81)	(0.01)	(0.01)

Net Profit Adjustment Statement:

*Unit: RMB*

<b>Item</b>	<b>Amount</b>
Net profit:	37,938,962.01
Segments of non-operating profit and loss:	
Profit on disposal of a subsidiary	47,495,680.59
Tax refund	480,016.03
Non-operating income	1,883,447.55
Non-operating expenses	(1,740,921.05)
Sub-total	48,118,223.12
Balance after extraordinary profit and loss	(10,179,261.11)

**2. DETAILS OF PROVISION FOR IMPAIRMENT LOSS ON ASSETS***Unit: RMB*

Items	Opening	Increase during this period	Transfer in for the period	Other transfer out for the period	Closing
1 Provision for doubtful debt	422,796,890.87	1,023,484.62	(15,118,156.88)	(182,208,281.54)	226,493,937.07
Including: Account receivables	182,462,380.66	89,464.62	(3,986,951.15)	(90,352,033.72)	88,212,860.41
Other debtor	150,197,263.85	934,020.00	(11,131,205.73)	(66,240,461.99)	73,759,616.13
Other long term assets (Non trade debt from a major shareholder	90,137,246.36	-	-	(25,615,785.83)	64,521,460.53
2 Provision for diminution in value of short term investments	-	-	-	-	-
Including: Equity investments	-	-	-	-	-
Debenture investments	-	-	-	-	-
3 Provision for diminution in value of inventories	88,492,451.97	963,796.67	-	(44,083,926.37)	45,372,322.27
Including: Goods in stock	33,004,822.26	-	-	(15,419,038.22)	17,585,784.04
Raw materials	36,085,111.80	963,796.67	-	(11,299,331.98)	25,749,576.49
Work-in-progress	19,402,517.91	-	-	(17,365,556.17)	2,036,961.74
4 Provision for diminution in value of long term investments	6,186,964.91	-	-	(5,877,464.91)	309,500.00
Including: Long term equity investments	6,186,964.91	-	-	(5,877,464.91)	309,500.00
Long term debt investments	-	-	-	-	-
5 Impairment on fixed assets	154,382,891.10	673,462.00	(245,966.98)	(63,401,130.50)	91,409,255.62
Including: Buildings	104,618,704.65	-	-	(24,153,904.65)	80,464,800.00
Machinery and equipment	34,111,840.81	673,462.00	(245,966.98)	(23,594,880.21)	10,944,455.62
Motor vehicles and others	15,652,345.64	-	-	(15,652,345.64)	-
6 Provision for impairment on intangible assets	-	-	-	-	-
Including: Franchise	-	-	-	-	-
Trademark	-	-	-	-	-
7 Provision for impairment on construction in progress	52,090.04	-	-	-	52,090.04
8 Provision for impairment of trust loans	-	-	-	-	-

Other transfer out for the period represent the amounts of Shenyang and its subsidiaries included in the balance at the beginning of the period.



### 3. DIFFERENCES BETWEEN THE ACCOUNTING POLICIES GENERALLY ACCEPTED IN HONG KONG AND PRC ACCOUNTING REGULATIONS

These financial statements are prepared in accordance with the PRC accounting regulations, which are different from those prepared under the accounting policies generally accepted in Hong Kong.

As at 30 June 2002, net profit and net asset value for the period as stated in the statutory financial report amounted to RMB37,938,000 and RMB504,354,000 respectively. Reconciliation of differences in net profit and net asset value in accordance with the accounting principles generally accepted in Hong Kong are summarised below:

	<b>Net profit for the six months ended 30 June 2002</b>	<b>Net asset value as at 30 June 2002</b>
	<i>RMB</i>	<i>RMB</i>
Amount per financial statement prepared in accordance with the PRC accounting principles	37,938,962.01	504,354,477.07
Adjustments under the Hong Kong accounting principles		
Gain from disposal of interest in subsidiaries	(6,300,000.00)	–
Partial forfeiture of a syndicated loan	148,115,279.70	–
Welfare fund payable	5,862,800.58	11,848,128.78
	<hr/>	<hr/>
Amount per financial statement prepared in accordance with the HK accounting principles	<u>185,617,042.29</u>	<u>516,202,605.85</u>

## VII. FINANCIAL REPORT

### 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

### INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF NORTHEAST ELECTRICAL TRANSMISSION &  
TRANSFORMATION MACHINERY MANUFACTURING COMPANY LIMITED

東北輸變電機械制造股份有限公司

(A joint stock company established in the People's Republic of China with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 65 to 83.

#### Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

#### Review work performed

We conducted our review in accordance with Statements of Auditing Standards SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of the Group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of our review was limited in respect of the Group's former subsidiary, Shenyang Transformers Ltd. ("Shenyang"), which was disposed of during the period. The loss incurred by Shenyang during the period from 1st January, 2002 up to the date of disposal ("Loss Incurred by Shenyang for the Period") was RMB9,882,000 which was included in the condensed consolidated income statement based on unreviewed management accounts. As disclosed in note 19, the gain on disposal of Shenyang is calculated based on the sales proceeds less net asset value of Shenyang at 31st December, 2001 and Loss Incurred by Shenyang for the Period. Accordingly, for the purpose of our review, we were unable to conclude as to whether Loss





Incurring by Shenyang for the Period and the related gain on disposal of Shenyang amounting to RMB41,196,000 were free from material misstatement. In addition, other financial information of Shenyang for the period from 1st January, 2002 up to the date of disposal required for the preparation of interim financial report are not available, the related assets and liabilities at 31st December, 2001 of Shenyang were used to prepared the relevant disclosures included in the notes to the interim financial report and the condensed consolidated cash flow statement. Accordingly, for the purpose of our review, we were unable to conclude as to whether the movements disclosed in the condensed consolidated cash flow statement, note 9 and the net cash inflow from disposal of Shenyang stated in note 19 were free from material misstatement. Any adjustment to these figures would affect the classification of the condensed consolidated income statement and cash flow statement and the related amounts disclosed in notes 9 and 19 in respect of Shenyang.

**Modified review conclusion arising from limitation of review scope**

On the basis of our review which does not constitute an audit, with the exception of the possible adjustments that might have been determined to be necessary had the above limitation not existed, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2002.

**DELOITTE TOUCHE TOHMATSU**

Certified Public Accountants

Hong Kong, 27th August, 2002

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	NOTES	Six months ended	
		30.6.2002 RMB'000 (unaudited)	30.6.2001 RMB'000 (unaudited)
Turnover	4	581,368	608,650
Cost of sales		(396,272)	(496,440)
Gross profit		185,096	112,210
Other income		12,721	13,460
Distribution costs		(53,914)	(76,781)
Administrative expenses		(98,472)	(112,961)
Other operating expenses		(2,712)	(2,302)
Profit (loss) from operations	5	42,719	(66,374)
Interests on bank borrowings		(39,636)	(39,489)
Profit on disposal of a subsidiary	19	41,196	—
Partial forfeiture of a syndicated loan	15	148,115	—
Profit (loss) before taxation		192,394	(105,863)
Taxation	6	(4,542)	(230)
Profit (loss) after taxation		187,852	(106,093)
Minority interests		(2,234)	424
Net profit (loss) attributable to shareholders		<u>185,618</u>	<u>(105,669)</u>
Earnings(loss) per share - basic	8	<u>21.3 cents</u>	<u>(12.1) cents</u>

There were no recognised gains or losses other than the net profit (loss) attributable to shareholders.



## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2002

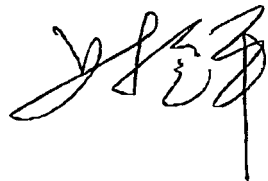
	<i>NOTES</i>	<b>30.6.2002</b> <b>RMB'000</b> <i>(unaudited)</i>	<b>31.12.2001</b> <b>RMB'000</b> <i>(audited and restated, see note 3)</i>
<b>Non-current assets</b>			
Property, plant and equipment	9	826,715	1,341,845
Construction in progress		13,217	151,754
Interests in associates		5,288	5,326
Investments in securities		9,255	13,253
Amounts due from a shareholder and other related companies	10	74,000	74,000
Restricted-use bank deposit		—	17,495
		<u>928,475</u>	<u>1,603,673</u>
<b>Current assets</b>			
Inventories		165,029	378,255
Trade debtors	11	438,740	892,861
Other debtors, deposits and prepayments		116,649	519,035
Loans to a third party	12	27,879	30,000
Amount due from a non-bank financial institution	13	165,532	165,532
Pledged bank deposits		29,231	91,116
Bank balances and cash		71,781	205,862
		<u>1,014,841</u>	<u>2,282,661</u>
<b>Current liabilities</b>			
Trade creditors	14	352,761	802,821
Other creditors, advances from customers and accruals		210,128	605,761
Tax payable		2,435	—
Bank borrowings - due within one year	15	618,337	1,774,962
		<u>1,183,661</u>	<u>3,183,544</u>
<b>Net current liabilities</b>		<u>(168,820)</u>	<u>(900,883)</u>
<b>Total assets less current liabilities</b>		<u><u>759,655</u></u>	<u><u>702,790</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUE)**

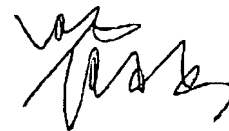
AT 30TH JUNE, 2002

	<i>NOTES</i>	<b>30.6.2002</b> <b>RMB'000</b> <i>(unaudited)</i>	<b>31.12.2001</b> <b>RMB'000</b> <i>(audited and restated, see note 3)</i>
<b>Capital and reserves</b>			
Share capital	16	873,370	873,370
Reserves		(357,167)	(542,785)
		<u>516,203</u>	<u>330,585</u>
<b>Minority interests</b>			
		<u>10,211</u>	<u>14,796</u>
<b>Non-current liability</b>			
Bank borrowings - due after one year	15	233,241	357,409
		<u>759,655</u>	<u>702,790</u>

The condensed financial statements on pages 65 to 83 were approved and authorised for issue by the board of directors on 27th August, 2002 and are signed on its behalf by:



Shi Yanping  
DIRECTOR



Qu Lin  
DIRECTOR



**CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30TH JUNE, 2002**

	Share capital <i>RMB'000</i>	Capital surplus <i>RMB'000</i>	Statutory common reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Discretionary common reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
						(restated)	
At 1st January, 2001	873,370	603,394	47,285	31,809	32,424	(462,719)	1,125,563
Loss for the period	—	—	—	—	—	(105,669)	(105,669)
At 1st July, 2001	873,370	603,394	47,285	31,809	32,424	(568,388)	1,019,894
Loss for the period	—	—	—	—	—	(689,309)	(689,309)
Transfers	—	—	806	403	—	(1,209)	—
At 31st December, 2001	873,370	603,394	48,091	32,212	32,424	(1,258,906)	330,585
Profit for the period	—	—	—	—	—	185,618	185,618
At 30th June, 2002	<u>873,370</u>	<u>603,394</u>	<u>48,091</u>	<u>32,212</u>	<u>32,424</u>	<u>(1,073,288)</u>	<u>516,203</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	<b>Six months ended 30.6.2002 RMB'000 (unaudited)</b>	<b>Six months ended 30.6.2001 RMB'000 (unaudited)</b>
Net cash (outflow) inflow from operating activities	(106,982)	76,406
Net cash inflow (outflow) from investing activities	129,947	(67,519)
Net cash (outflow) inflow from financing activities	<u>(147,815)</u>	<u>7,098</u>
(Decrease) increase in cash and cash equivalents	(124,850)	15,985
Cash and cash equivalents at beginning of the period	225,862	399,011
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u><u>101,012</u></u>	<u><u>414,996</u></u>



## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

### **1. BASIS OF PREPARATION**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The Group incurred significant losses of RMB794,978,000 (note 3) for the year ended 31st December, 2001 and the Group had net current liabilities of RMB900,883,000 (note 3) as at 31st December, 2001. In addition, the Company was unable to comply with the financial covenants of a syndicated bank loan amounting to US\$40,000,000 (equivalent to RMB331,064,000) in 2001. Accordingly, the syndicated banks petitioned to the High Court of Hong Kong on 27th December, 2001 to wind up the Company pursuant to the Hong Kong Companies Ordinance.

Against this background, the directors have adopted the following measures to strengthen the capital base of the Group and to improve the financial position, liquidity, profitability and operations:

(i) Debt restructuring

In order to duly settle the litigation in respect of the syndicated loan and to eliminate the risk of being subject to winding-up, the Company entered into a repayment agreement with the syndicated banks represented by CCIC Finance Limited on 29th May, 2002, pursuant to which the Company will repay 65% of the principal amount of the loan of US\$40,000,000, i.e. US\$26,000,000 by 3 instalments. The Company will repay US\$6,000,000, US\$10,000,000 and US\$10,000,000 within 15 working days, 3 months and 6 months respectively from the date of signing of the agreement.

On 10th June, 2002, the Judge of the High Court of Hong Kong approved the application by the syndicated banks to revoke the winding-up petition against the Company. As at 30th June, 2002, the Company has already repaid US\$18,000,000 to the syndicated banks.

(ii) Disposal of a subsidiary

On 24th April, 2002, the Company entered into a conditional disposal agreement with Northeast Construction & Installation Company (“Northeast Construction”) (東北建築安裝工程總公司) for the disposal of 100% of the registered capital in Shenyang Transformers Ltd., at a consideration of RMB150,000,000. Immediately following the transaction, Northeast Construction disposed of Shenyang Transformers Ltd. to Shenyang National Industrial Assets Management Company (“SNIAMC”) in May, 2002. Accordingly, the title of Shenyang Transformers Ltd. was transferred directly to and the considerations are received from SNIAMC.

Shenyang Transformers Ltd. was established in the People’s Republic of China (“PRC”) on 23rd May, 1995, with a registered capital of RMB320,565,001, which principal activities was engaged in the research, development and manufacture of high-voltage transformers, instrument transformers, reactors and other types of transformers. For the year ended 31st December, 2001, the audited net loss of Shenyang Transformers Ltd. before taxation and after taxation excluding minority interest prepared in accordance with accounting principles generally accepted in Hong Kong amounted to approximately RMB346,870,000 and RMB340,336,000 respectively.

The directors consider that such disposal will substantially reduce the Group’s liabilities and accordingly improve the gearing and capital structure of the Group and reduce the Group’s interest burden.

Although Shenyang Transformers Ltd. was formally a major subsidiary of the Group, the directors do not consider that the disposal will have any significant adverse impact on the business of the Group.

Proceeds of about RMB122,200,000 has been utilised to repay the loan mentioned in note (i) above.

(iii) Arrangement for new banking facility

On 31st July, 2002, the Company entered into a letter of intent with Bank of Communication for a general banking facility of up to US\$35,000,000 (equivalent to RMB289,700,000). In the opinion of the director, this facility will be utilised by the Company and certain assets of the Group will be pledged to the bank. The facility will be finalised upon the completion of conditions set out in the letter of intent.

(iv) Term loan facilities

The Group meets its day to day working capital requirements through the term loan facilities of RMB785,361,000, details of which are disclosed in note 15(ii). The directors are satisfied that the Group will be able to operate within the current facilities and those expected to be renewed.

On the above basis, the directors have amply prepared the condensed financial statements on a going concern basis.





## **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### **Cash Flow Statements**

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

### **Discontinuing Operations**

SSAP 33 "Discontinuing Operations" is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previous included in SSAP 2 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Under SSAP 33, financial statement amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of SSAP 33 has resulted in the identification of the Group's manufacture of transmission and transformation machinery activities as a discontinuing operation in the current period, details of which are disclosed at note 4.

### 3. CORRECTION OF AN ERROR

Subsequent to the issuance of the Company's 2001 financial statements, the Company's management determined that there was an error relating to the revenue recognition for the interest on amount due from Liaoning Trust and Investment Corporation ("Liaoning Trust") for the year ended 31st December, 2001. As Liaoning Trust was under the process of liquidation since October 2001 and the Company has since registered and submitted proof of debt to the liquidation division only for the deposit of US\$20,000,000 (equivalent to RMB165,543,000), the recognition of interest income was considered as inappropriate. Accordingly, the balances of, amount due from a non-bank financial institution, current assets, net current liabilities, accumulated losses and total shareholders' equity at 31st December, 2001 and finance costs and net loss for the year then ended 31st December, 2001 have been restated from amounts previously reported to correct the error.

The effects of correcting such error (excluding the effects of certain reclassifications) are as follow:

	<b>Previously stated</b>	<b>As restated</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>
<b>At 31st December, 2001:</b>		
Amount due from a non-bank financial institution	180,370	165,532
Current assets	2,298,049	2,283,211
Net current liabilities	886,045	900,883
Accumulated losses	1,244,068	1,258,906
Total shareholders' equity	345,423	330,585
<b>For the year ended 31st December, 2001:</b>		
Finance costs	117,363	132,201
Net loss	<u>780,140</u>	<u>794,978</u>



#### 4. SEGMENT INFORMATION

The Group's turnover and gross profit from operations for the six months ended 30th June, 2002 and 2001, analysed by business segments and by geographical segments, are as follows:

##### Business segments

Six months ended 30th June, 2002	Continuing operations		Discontinued operations	Consolidated RMB'000
	Manufacture of transmission and transformation machinery RMB'000	Provision of hotel, catering and entertainment services RMB'000	Manufacturing of transformer equipment RMB'000	
TURNOVER	<u>355,720</u>	<u>17,732</u>	<u>207,916</u>	<u>581,368</u>
SEGMENT RESULTS	<u>37,687</u>	<u>607</u>	<u>5,587</u>	43,881
Unallocated corporate expenses				(1,162)
Profit from operations				42,719
Interests on bank borrowings				(39,636)
Profit on disposal of a subsidiary				41,196
Partial forfeiture of a syndicated bank loan				148,115
Profit before taxation				192,394
Taxation				(4,542)
Profit after taxation and before minority interests				<u>187,852</u>

Six months ended 30th June, 2001	Continuing operations		Discontinued operations	Consolidated RMB'000
	Manufacture of transmission and transformation machinery RMB'000	Provision of hotel, catering and entertainment services RMB'000	Manufacturing of transformer equipment RMB'000	
TURNOVER	<u>586,989</u>	<u>21,661</u>	<u>—</u>	<u>608,650</u>
SEGMENT RESULTS	<u>(57,204)</u>	<u>(5,200)</u>	<u>—</u>	(62,404)
Unallocated corporate expenses				(3,970)
Loss from operations				(66,374)
Interests on bank borrowings				(39,489)
Loss before taxation				(105,863)
Taxation				(230)
Loss after taxation and before minority interests				<u>(106,093)</u>

Most of the Group's income are derived from the PRC and the income earned outside the PRC is insignificant.

**5. PROFIT (LOSS) FROM OPERATIONS**

	<b>Six months ended</b>	
	<b>30.6.2002</b>	<b>30.6.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
<hr/>		
Profit (loss) from operations has been arrived at after charging (crediting):		
Depreciation and amortisation	21,182	55,853
(Gain) loss on disposal of property, plant and equipment	(345)	122
Interest income	(296)	(1,611)
	<u>          </u>	<u>          </u>

**6. TAXATION**

The Company and its subsidiaries are subject to income tax at the statutory rate of 33% (2001: 33%). However, in respect of income taxes after 1st January, 1996, the relevant PRC authorities approved on 8th March, 1995 that any income taxes payable by the Company and its subsidiaries in excess of 15% of their respective taxable profits would be refunded to the Company and the respective subsidiaries. According to the latest rulings issued by the State Council, the Company and its subsidiaries are subject to preferential rate of 15% until the end of 2001.

The Company had no taxable profit for the period (2001: Nil). The charged for the period mainly represents provision for income tax calculated at 33% of the assessable income of certain PRC subsidiaries. The associates were still in their tax exemption period and therefore had no taxable profit (2001: Nil).

No Hong Kong Profits Tax has been provided as the Company and its subsidiaries had no taxable profit in Hong Kong (2001: Nil).

As at 30th June, 2002, the Company and the Group had no significant deferred tax (2001: Nil).

**7. INTERIM DIVIDEND**

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend.

**8. EARNINGS (LOSS) PER SHARE**

The calculation of earnings (loss) per share is based on the net profit attributable to shareholders of RMB185,618,000 (30.6.2001: a loss of RMB105,669,000) and the total number of shares of 873,370,000 (2001: 873,370,000) in issue as at the end of the period.



## 9. PROPERTY, PLANT AND EQUIPMENT

	<b>Property, plant and equipment</b>
	<i>RMB'000</i>
<b>COST</b>	
At 1st January, 2002	2,282,514
Additions	2,158
Transfer from construction in progress	47,097
Disposal of a subsidiary	(1,061,638)
Disposals	(2,037)
At 30th June, 2002	<u>1,268,094</u>
<b>DEPRECIATION</b>	
At 1st January, 2002	940,669
Provided for the period	21,182
Impairment losses recognised	427
Eliminated on disposal of a subsidiary	(518,985)
Eliminated on disposals	(1,914)
At 30th June, 2002	<u>441,379</u>
<b>NET BOOK VALUES</b>	
At 30th June, 2002	<u>826,715</u>
At 31st December, 2001	<u>1,341,845</u>

The Group has pledged property, plant and equipment having a net book value of approximately RMB349,000,000 (2001: RMB630,000,000) to secure general banking facilities granted to the Group.

## 10. AMOUNTS DUE FROM A SHAREHOLDER AND OTHER RELATED COMPANIES

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from a shareholder and other related companies	138,521	164,137
Less: Allowance for doubtful debts	(64,521)	(90,137)
	<u>74,000</u>	<u>74,000</u>

The directors are of the opinion that, the balance after the allowance could be recovered through the charge on frozen assets. Those frozen assets included 42.5% equity interest of Shenyang Furukawa Cable Co., Ltd. (see note 18(i)) and 20,000,000 ordinary "Domestic" shares of the Company.

**11. TRADE DEBTORS**

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically. The following is the aged analysis of trade debtors:

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Related companies:		
Within 1 year	4,357	27,029
1 to 2 years	8,294	41,721
2 to 3 years	6,319	6,530
3 to 4 years	7,614	10,844
	<u>26,584</u>	<u>86,124</u>
Allowance for doubtful debts	(9,000)	(10,997)
	<u>17,584</u>	<u>75,127</u>
Third parties:		
Within 1 year	315,849	534,726
1 to 2 years	78,380	200,663
2 to 3 years	32,343	94,025
3 to 4 years	14,449	159,786
Over 4 years	59,348	—
	<u>500,369</u>	<u>989,200</u>
Allowance for doubtful debts	(79,213)	(171,466)
	<u>421,156</u>	<u>817,734</u>
	<u><u>438,740</u></u>	<u><u>892,861</u></u>



## **12. LOANS TO A THIRD PARTY**

The loans amounting to RMB27,879,000 which comprised of the principal amount of RMB96,000,000 (representing the sum of two loans of RMB46,000,000 and RMB50,000,000 respectively) less allowance of RMB62,879,000 and accumulated repayment of RMB5,242,000 up to 30th June, 2002, the amounts were secured, bore interest at 15% per annum and were originally due on 15th September, 1999. However, the borrower failed to repay the loans and accrued interest on the specified repayment date. Subsequently, both parties agreed to extend the date of repayment to 31st December, 2000 and certain properties and 97.68% equity interests of Guangzhou Laureland Group Corporation, which were owned by the common shareholder with the borrower, had been pledged as securities for the loans. In November 2001, the Company initiated writs of summons to the court and notices were received from the Intermediate People's Court in Shenyang, Liaoning Province that the borrower agreed to enter into a repayment agreement. Subsequent to 30th June, 2002, the 97.68% equity interests of Guangzhou Laureland Group Corporation was transferred to the Group to satisfy the loan of RMB46,000,000, details are set out in note 18(ii). The litigation regarding the loan balance of RMB50,000,000 is in progress.

## **13. AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION**

The amount was originally a long-term deposit of US\$20,000,000 (equivalent to RMB165,532,000), placed with Liaoning Trust as a condition for Liaoning Trust granting a guarantee for the syndicated bank loan as mentioned in note 15.

Liaoning Trust was a third party non-bank financial institution registered in the PRC. In November 2001, the People's Bank of China approved in withdrawing Liaoning Trust's Financial Institution Legal Person Licence (金融機構私人許可證) and Financial Institution Business Licence (金融機構營業許可證). Its entire financial activities were suspended with effect from the date of notice for a liquidation process. The Company registered with the Liaoning Trust Liquidation Team (遼寧信託投資公司清算組) its deposits of US\$20,000,000 previously placed with Liaoning Trust with the relevant proof of debt. Up to the date of this report the liquidation is still in progress.

Following the review on the financial position of Liaoning Trust, both the directors and the Company's PRC lawyer believed that Liaoning Trust has the financial ability to repay those US\$20,000,000 to the Company, accordingly no allowance has been made in the financial statements.

**14. TRADE CREDITORS**

The following is an aged analysis of trade creditors:

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Related companies:</b>		
Within 1 year	13,796	10,196
1 to 2 years	3,788	1,594
2 to 3 years	—	321
Over 3 years	—	553
	<u>17,584</u>	<u>12,664</u>
<b>Third parties:</b>		
Within 1 year	244,093	618,103
1 to 2 years	47,225	101,453
2 to 3 years	25,203	10,417
Over 3 years	18,656	60,184
	<u>335,177</u>	<u>790,157</u>
	<u><u>352,761</u></u>	<u><u>802,821</u></u>





## 15. BANK BORROWINGS

	<b>30.6.2002</b> <i>RMB'000</i>	<b>31.12.2001</b> <i>RMB'000</i>
US\$ bank loans (note i)	66,217	496,550
RMB bank loans (note ii)	<u>785,361</u>	<u>1,602,427</u>
	851,578	2,098,977
Interest payable	<u>—</u>	<u>33,394</u>
	851,578	2,132,371
Less: Amounts due within one year shown under current liabilities	<u>(618,337)</u>	<u>(1,774,962)</u>
	<u><u>233,241</u></u>	<u><u>357,409</u></u>

### Notes:

- (i) US\$ bank loans of RMB66,217,000 (2001: RMB331,124,000) represented the outstanding balance of a syndicated bank loan of US\$8,000,000 (2001: US\$40,000,000) which will be settled on or before 28th November, 2002. The 35% of the principal amount of the loan, i.e. US\$14,000,000 (equivalent to RMB115,872,000), accrued interest of RMB30,085,000 and its withholding tax of RMB2,158,000, in aggregate of RMB148,115,000 were forfeited and recognised in the condensed consolidated income statement for the period. Pursuant to the Deed of Settlement with CCIC Finance Ltd., the Company has repaid the principal amount of US\$18,000,000 (equivalent to RMB148,975,000) on 30th May, 2002.
- (ii) RMB bank loans represent term loans and most of which have to be renewed within twelve months from the balance sheet date.

## 16. SHARE CAPITAL

	<b>30.06.2002 &amp; 31.12.2001</b> <i>RMB'000</i>
Registered, issued and fully paid-up capital: 615,420,000 ordinary 'Domestic' shares of RMB1 each, of which:	
– Non-listed	471,820
– Listed "A" shares	<u>143,600</u>
	615,420
257,950,000 "H" shares of RMB1 each	<u>257,950</u>
	<u><u>873,370</u></u>

There were no movements in the share capital of the Company for the period.

**17. CONTINGENT LIABILITIES**

	<b>30.6.2002</b>	<b>31.12.2001</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees given to banks, in respect of banking facilities utilised by other entities:		
Northeast Electrical Transmission and Transformation Equipment Group Corporation (“NET”) (note i)	30,000	30,000
Shenyang Cable Company Ltd. (note ii)	20,000	20,000
Shenyang Transformers Ltd. (note iii)	462,590	—
Bills of exchange discounted with recourse	18,547	—
	<u>531,137</u>	<u>50,000</u>

## Notes:

- (i) The Company acted as the guarantor for a 10-months loan amounting to RMB30,000,000 which was entered into by NET and the China Everbright Bank in June 1998 and this guarantee was not approved by the Company's Board of Directors and shareholders. In December 2001, the China Everbright Bank commenced litigation against the Company and NET for the repayment of loan principal of RMB26,400,000 and the related interest. In the opinion of the directors and the Company's PRC lawyer, the case has no merit and accordingly no provision has been made in the financial statements.
- (ii) In April 1999, Shenyang Cable Company Ltd., a subsidiary of NET, entered into a bank loan agreement amounting to RMB20,000,000 with the Bank of China, Shenyang Branch, in respect of which the Company acted as the guarantor and is jointly and severally liable. In July 2001, the Bank of China, Shenyang Branch commenced litigation against the Company and that subsidiary of NET for the repayment of the loan but it was overruled by the Intermediate Peoples Court in Shenyang Liaoning Province because Shenyang Cable Company Ltd. had already declared a bankruptcy progress in August 2000. No further action has been taken by Bank of China up to the date of this report. In the opinion of the directors and the Company's PRC lawyer, no provision has to be provided in the financial statements.
- (iii) The Company and its subsidiary acted as guarantor for general banking facilities granted to Shenyang Transformers Ltd. The extent of such facilities utilised by Shenyang Transformers Ltd. at 30th June, 2002 amounted to approximately RMB462,590,000. Upon the disposal of Shenyang Transformers Ltd. in May 2002, the Company entered into an agreement with SNIAMC to transfer such guarantees to SNIAMC. However, the procedures for the transfer of guarantees has not been completed up to the date of this report.
- (iv) Beijing Sales Company of Shenyang High Voltage Switchgears Ltd. (沈陽高壓開關有限責任公司北京銷售分公司) was a branch of the Company's subsidiary established in 1998. Pursuant to the agreement entered into between the subsidiary and Mr. Cai Wei He, the branch is operated and controlled by Mr. Cai Wei He and all the assets, liabilities, rights and contingent liabilities relating to the branch are undertaken by Mr. Cai Wei He, accordingly, the assets, liabilities and results of the branch were not included in condensed consolidated financial statements.

**18. POST BALANCE SHEET EVENTS**

## (1) Amounts due from a shareholder and other related companies

On 29th July, 2002, the Company entered into an assignment agreement with NET for the assignment of 42.5% equity interest of Shenyang Furukawa Cable Co., Ltd. for a consideration of RMB66.9 million, which will be used to set off part of the debt owing to the Company by NET. The transaction will be completed subject to the approval by independent shareholders in the extraordinary general meeting to be held on 13th September, 2002. Details of the acquisition are set out in the Company's circular dated 14th August, 2002.



(2) Loan to a third party

On 24th July, 2002, 97.68% equity interest in Guangzhou Laureland Group Corporation was transferred to the Group pursuant to the agreement entered into with the third party, to satisfy the amount due from the third party of RMB46,000,000. The third party has the right to repurchase those interest within twelve months from the date of agreement at a consideration of RMB46,000,000. The directors are of the opinion that the investment was temporarily held for resale.

## 19. DISPOSAL OF A SUBSIDIARY

### Discontinued operation

On 24th May, 2002, the Group entered into a sale agreement to dispose of Shenyang Transformers Ltd., which engaged in manufacturing of transformer equipment. The disposal was effected in order to generate cash flow for the repayment of the syndicated loan. The disposal has completed on 4th June, 2002, on which date control of Shenyang Transformers Ltd. was passed to the acquirers.

The results of the manufacturing operation of Shenyang Transformers Ltd. for the interim reporting period were as follows:

	<b>1.1.2002 to 4.6.2002 RMB'000</b>	<b>1.1.2001 to 30.6.2001 RMB'000</b>
Turnover	207,916	229,041
Cost of sales	(146,140)	(169,843)
Other income	2,166	5,775
Distribution costs	(19,490)	(23,845)
Administrative expenses	(37,752)	(39,952)
Other operating expenses	(1,095)	(1,149)
Interest expenses	<u>(15,488)</u>	<u>(15,451)</u>
Loss before taxation	(9,883)	(15,424)
Taxation	<u>1</u>	<u>(29)</u>
Loss after taxation	<u><u>(9,882)</u></u>	<u><u>(15,453)</u></u>

A gain of RMB41.2 million was recorded on the disposal of Shenyang Transformers Ltd.

The consideration for the disposal of Shenyang Transformers Ltd. was determined with reference to its net asset value at 31st December, 2001. In addition, based on the disposal agreement entered into with Northeast Construction, the consideration will not be affected by the results of Shenyang Transformers Ltd. from 1st January, 2002 up to the date of disposal.

In this respect, the effect of the disposal of a subsidiary is calculated on the following basis:

	<i>RMB'000</i>
Net assets of Shenyang Transformers Ltd. at 31st December, 2001	118,686
Loss of Shenyang Transformers Ltd. for the period from 1st January, 2002 to 4th June, 2002	<u>(9,882)</u>
Gain on disposal of a subsidiary	<u>108,804</u> 41,196
Cash consideration	<u>150,000</u>
Net cash inflow arising on disposal of a subsidiary	
Cash consideration	150,000
Bank balances and cash disposed of	<u>(105,309)</u>
	<u>44,691</u>

In the opinion of the directors, the above figures are not adjusted as any adjustment would affect the classification of the condensed consolidated income statement.

There is no sufficient information in respect of the contribution by the disposed subsidiary to the net cash flows or results of the Group for the period ended 30th June, 2002.

## 20. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

	<b>30.6.2002</b> <i>RMB'000</i>	<b>30.6.2001</b> <i>RMB'000</i>
Sales of finished products to related parties	<u>1,104</u>	<u>32,633</u>
Purchases of raw materials and spare parts from related parties	<u>13,796</u>	<u>24,423</u>

The above transactions were carried out on terms agreed by both parties.



## SUPPLEMENTARY INFORMATION

These financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong, which differ in certain significant respects from those in the PRC Accounting Regulations. The significant differences relate principally to the following items and the adjustments considered necessary to restate net profit attributable to shareholders and net assets in accordance with PRC Accounting Regulations are shown in the tables set out below.

	<b>Net assets</b> <i>RMB'000</i>	<b>Net profit</b> <i>RMB'000</i>
Under accounting principles generally accepted in Hong Kong	516,203	185,618
Gain on disposal of a subsidiary	—	6,300
Partial forfeiture of a syndicated loan	—	(148,115)
Accrued staff welfare expenses	<u>(11,849)</u>	<u>(5,864)</u>
Under the PRC Accounting Regulations	<u><u>504,354</u></u>	<u><u>37,939</u></u>